

A close-up, low-angle shot of a hand holding a clapperboard. The clapperboard is white with black text and markings. The text on the clapperboard includes 'Intermedia Films', 'BASIC INSTINCT', 'INT', '15/12', and '15/12'. The background is a dark, textured surface, possibly a wall or a backdrop, with a grid pattern visible in the upper right corner.

Annual Report 2005

Intermedia
Films

BASIC INSTINCT

INT

15/12

15/12

INTERNATIONAL MEDIA
THE MOVIE PARTNER

Financial Calendar

March 31, 2006

Publication of financial information
for the business year January 1 to December 31, 2005

May 15, 2006

Publication of the interim report
for the period January 1 to March 31, 2006

July 12, 2006

Annual General Meeting/Munich

August 14, 2006

Publication of the interim report
for the period January 1 to June 30, 2006

November 14, 2006

Publication of the interim report
for the period January 1 to September 30, 2006

March 30, 2007

Publication of financial information
for the business year January 1 to December 31, 2006

May 15, 2007

Publication of the interim report
for the period January 1 to March 31, 2007

Juli 2007

Annual General Meeting/Munich

August 14, 2007

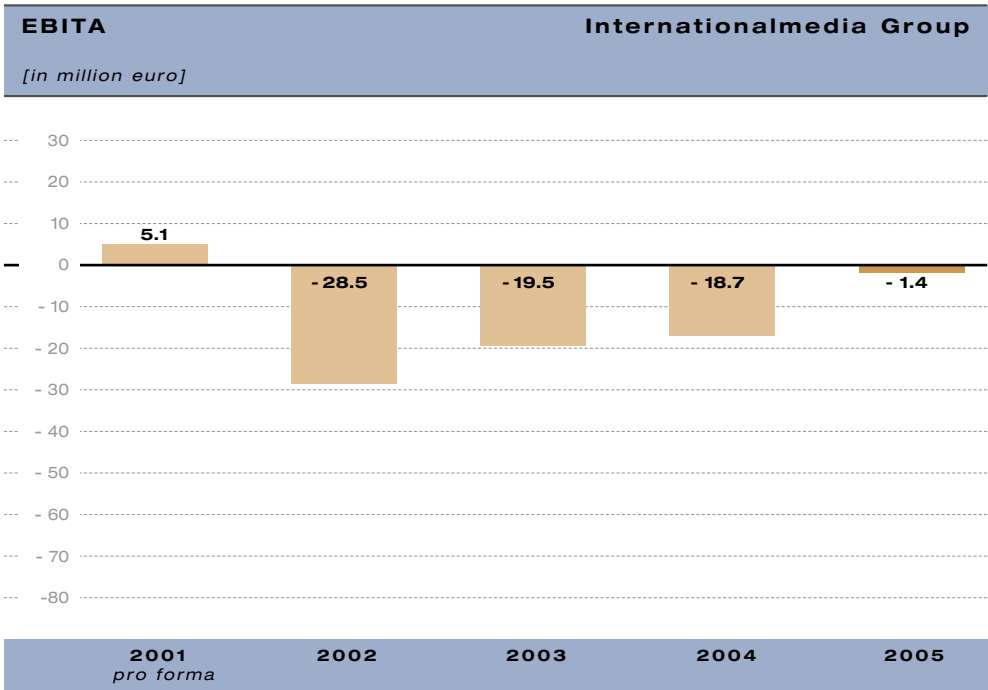
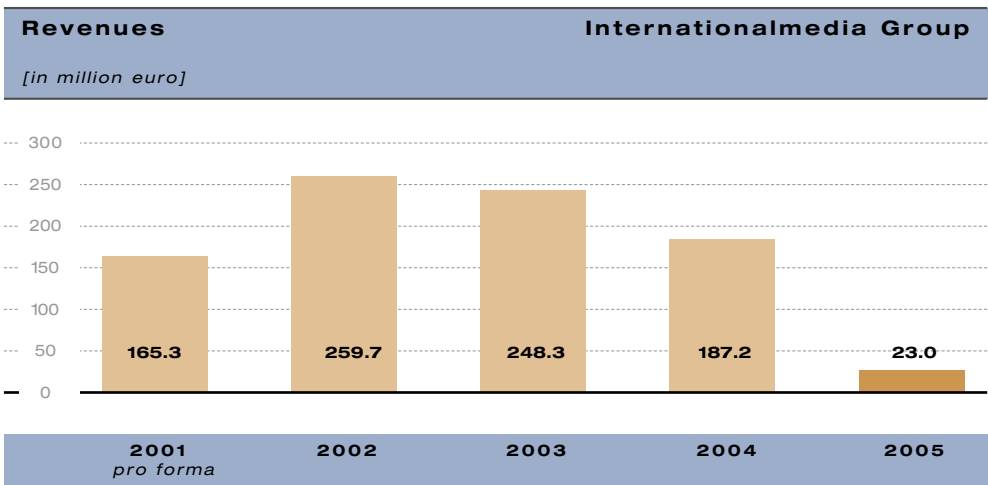
Publication of the interim report
for the period January 1 to June 30, 2007

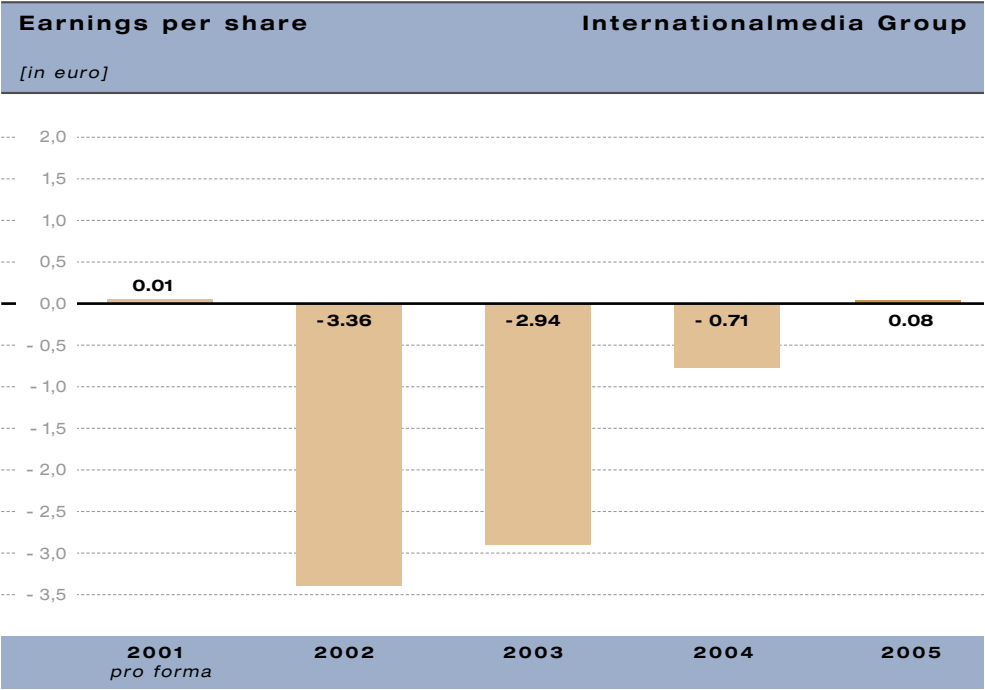
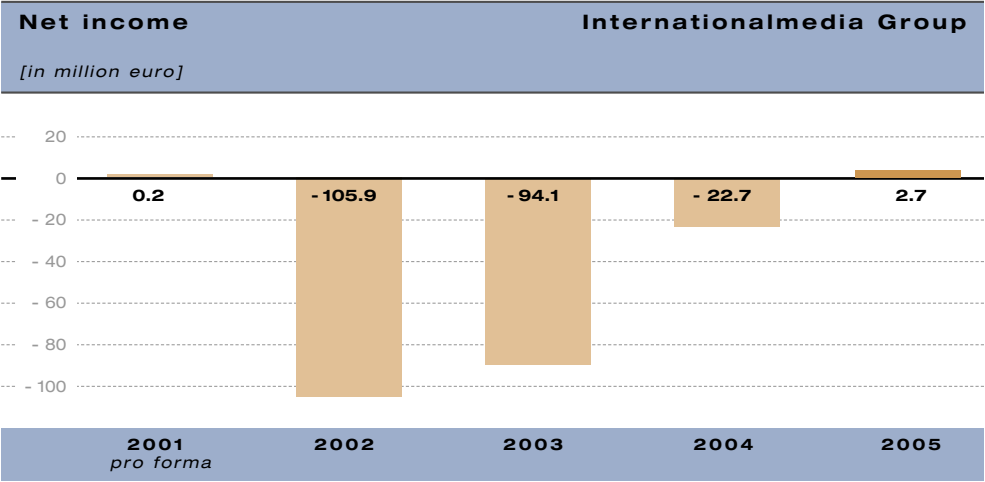
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Contents



Multi-year Overview	U 1
Contents	3
Letter to the Shareholders	4
Annual Review	8
Review of 2005	10
Management Report	14
Economic Situation	16
Group Turnover and Income	21
Group Balance Sheet Structure and Investments	25
Group Cash Flow	28
Turnover and Income Position in Statutory Accounts	29
Business Activities	30
Productions	33
Legal Company Structure	34
Corporate Communications	35
Risk Management	37
Outlook	41
IM Internationalmedia AG Shares	44
Significant Improvement of the Share Price	46
Consolidated Financial Statements	50
Consolidated Income Statement	53
Consolidated Balance Sheet	54
Consolidated Cash Flow Statement	56
Consolidated Statement of Shareholders' Equity	57
Notes to the Consolidated Financial Statements	58
Schedule of non-current Asset Movements	58
Auditors' Opinion	96
Report of the Supervisory Board	98
Group Data	100
Locations	102
Group Structure	103
IM Internationalmedia AG Financial Statements	104
IM Internationalmedia AG Balance Sheet	106
IM Internationalmedia AG Income Statement	109
IM Internationalmedia AG Schedule of Fixed Assets Movements	110
IM Internationalmedia AG Notes to the Financial Statements	113
IM Internationalmedia AG Auditors' Opinion	126
Credits	U 3
Glossary	U 4

Important Note: This report was originally prepared in German language.
In case of ambiguities the German version shall prevail.





Letter to the Shareholders

Dear Shareholders, Business Partners and Friends of IM Internationalmedia AG,

Another year went by with the film industry facing some challenges and changes worldwide. The decrease of box-office revenues is just one factor among many others. Another important issue is the restriction of German media funds, which has a definite impact on the operations of the Internationalmedia group. After the legal amendments this financing form won't provide a significant source of production funds for our company anymore. According to our evaluation, the market environment won't be significantly more stable in the year 2006.

These uncertainties were the reason for the company's decision to significantly expand the basis of the existing business model. This leads to a less dependence by the company on distribution partners and third party financings. In addition to the traditional business area *Intermedia Films*, the company's new business areas of *Intermedia Cinema* and *Intermedia TV* are expected to significantly increase the predictability of our business activities and thus lead to less volatility regarding the financial statements in the medium-term.

The last business year was defined by the company's strategic restructuring and the capital restructuring that was conducted in December. We analyzed each of our business areas in order to identify necessary and useful changes within the new strategy. Furthermore, analysis was conducted with regards to further increases of efficiency as well as savings potentials. However, the capital restructuring required much greater time and personnel resources than expected due to legal amendments in the middle of last year, which caused significant extra work on the prospectus and higher issuance costs.

Especially in the new business areas crucial steps could be taken. With Kadokawa International and Action Concept two important strategic partnerships were formed for the realization of genre films. Furthermore, we started production on the movies BASIC INSTINCT 2 – RISK ADDICTION and BREACH. With the new strategic reorganisation and the expansion of the company's business into two new areas, we believe that the Internationalmedia group will be able to significantly increase its production activities, especially with regards to the genre films.



SALES, EARNINGS AND FINANCIAL SITUATION

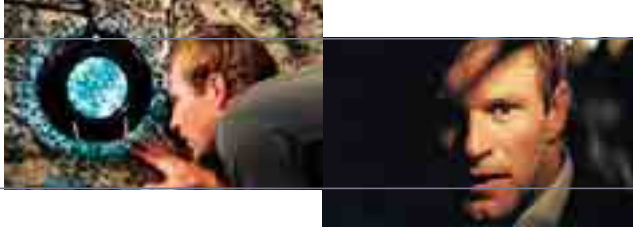
Sales revenues in 2005 have significantly declined by 87.7 percent to 23.0 million euros compared to the previous year. The main reason for this is the fact that production activity in the years 2004 and 2005 was decreased and therefore less revenue from production and distribution was generated. However, the overall result shows that revenues are not a decisive benchmark for the company. The respective margins of revenue components are too variable to draw conclusions regarding profitability simply from the level of revenue generated.

The Internationalmedia group's library generated significant revenues from licensing activities. Project development expenses were significantly reduced by 15.4 million euros to 5.0 million euros. This also reflects the company's implementation of measures to reduce capitalized film development costs in the past years, which had resulted in lower depreciation of film development costs over time. Another positive development is the further decrease of overhead costs, which reflects the continuing efforts to achieve savings.

The positive financial result was also decisively impacted by the tax result, which nonrecurrently benefited from extraordinary items.

STANDING OF THE GROUP

The company's strategic reorganisation also induces a new positioning of the Internationalmedia group within the film industry. With the business area *Intermedia Films* we will continue to produce and distribute capital intense high-quality motion pictures. This business area will further enhance the brand name and the image of the company and we will continue to be one of Hollywood's most important independent film companies. However, our efforts will increasingly focus on the business areas *Intermedia Cinema* and *Intermedia TV*. Our goal in these areas is to catch up with prominent production companies and establish a sustainable position within the industry. Due to the partnerships with respected production companies in the US, in Europe and Asia an essential basis has already been established.



OUTLOOK

Apart from the reinforcement of the company's liquidity, which primarily can be achieved through new productions, the first and foremost priority of the current fiscal year will be to ensure the company's profitability. As far as we are concerned, the conditions never have been better. The business model of the company is much more predictable than before and the risk of loss, especially in the field of project development and overhead costs, has been significantly reduced. Moreover, we also expect a clear increase of revenues for the business year 2006.

Munich in March 2006

Martin Schürmann
Chairman



Martin Schürmann

studied business administration and achieved his MBA, until 1995 worked as Executive Vice President for Don Johnson Productions, producing several studio released feature films as well as a one hour drama series. Between 1995 and 2000 Managing Director of Bertelsmann's film and TV arm (CLT-UFA) in Los Angeles, responsible for international acquisitions and co-productions. From 2000 till 2005, focus on strategic transactions between German and US media and entertainment companies. Since 2005 chairman and worldwide Chief Executive Officer of IM Internationalmedia AG, responsible for the overall operations of the company group.



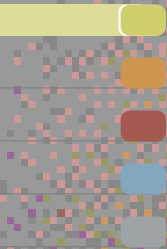
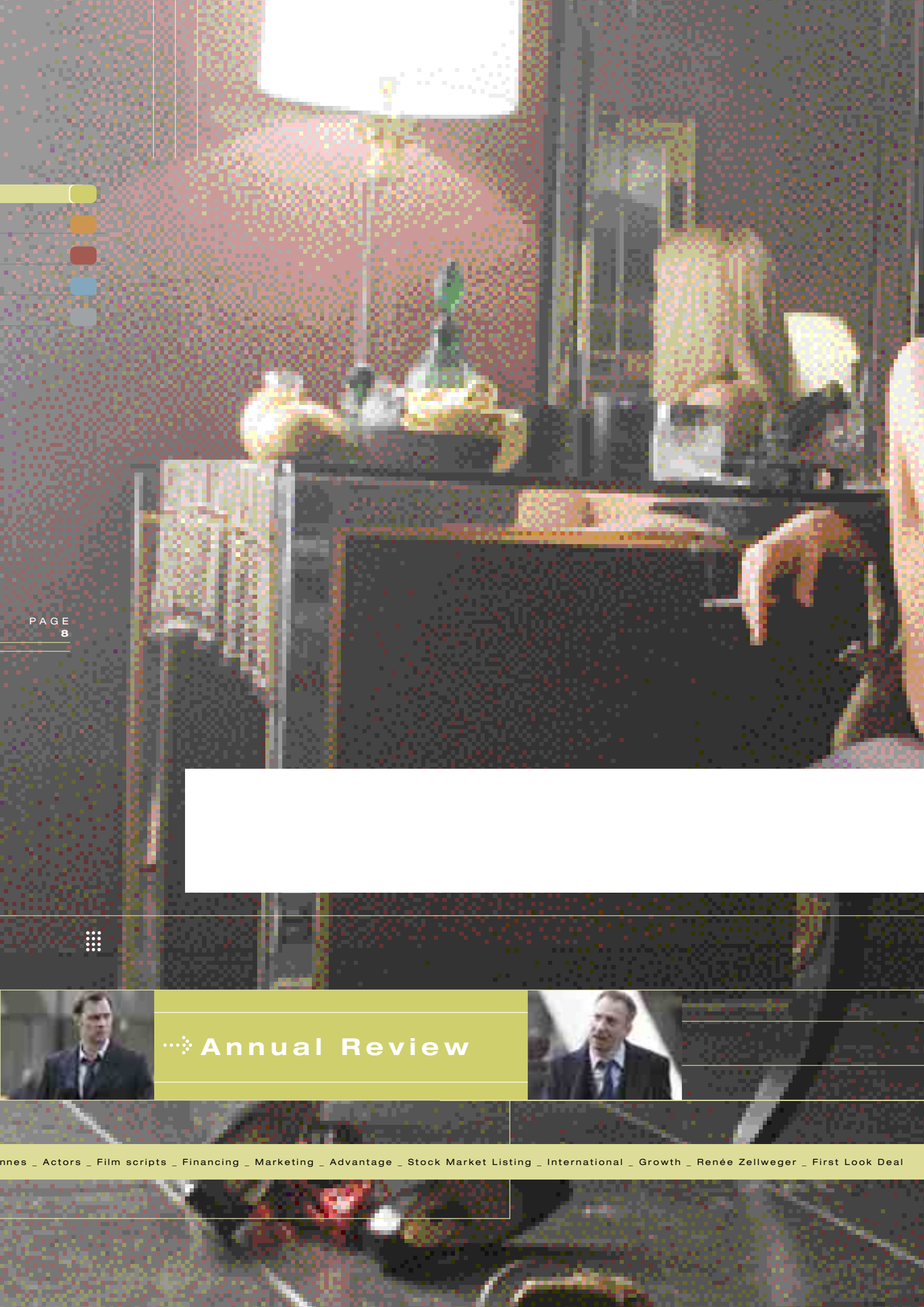
Andreas Konle

studied business administration, 1998 Certified Public Accountant (CPA), until 2000 worked with accountants KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, specialist areas: auditing individual accounts and Consolidated Financial Statements in conformity with the German Commercial Code (HGB) and US GAAP, issues relating to group strategy, auditing and consulting in conjunction with stock market listings, company valuations and due diligence, since 2000 member of the management board of IM Internationalmedia AG. Areas of responsibility: finance, investor relations, corporate communications, management, personnel.



Christian Böhmer

studied law, until 1989 worked as lawyer, until 1991 COO at fib & partner, since 1991 project manager of sports marketing agency Marc Biver Development, since 1992 at Quaker Oats, at last marketing manager of Gatorade Northern Europe, since 1997 CEO of weather and travel television, since end of 1998 CEO of tv.münchen and TV.Berlin, additionally CEO of Hamburg 1 since 2000, since 2003 independent media consultant and interimmanager at NBC Europe, Questico AG, TV NRW, Web.de, Extracom AG as well as VC- and Private Equity companies.



PAGE
8



❖ Annual Review



...nes _ Actors _ Film scripts _ Financing _ Marketing _ Advantage _ Stock Market Listing _ International _ Growth _ Renée Zellweger _ First Look Deal





Review of 2005

In the business year 2005 the company focused on the restructuring of the Internationalmedia group. With Martin Schürmann as the new chairman taking on the strategic and operative responsibilities in May 2005, the hitherto business model was expanded by two further business areas in the first half of the year. In the second half of the year, the company's efforts centered on implementing this strategy. Thereby the Management Board, together with the Supervisory Board, secured important deals, which are crucial steps for both new business areas. All in all, the business year 2005 was influenced by the following key events:

JANUARY

BASIC INSTINCT 2 WITH MALE LEAD

British actor David Morrissey is cast to star opposite Sharon Stone in BASIC INSTINCT 2 – RISK ADDITION. After the theatrical success of TERMINATOR 3: RISE OF THE MACHINES, the thriller BASIC INSTINCT 2 again is a co-operation of the Internationalmedia group with the German media fund IMF 3 and C2 Pictures.

ALEXANDER SURPASSES 100 MILLION US-DOLLARS AT INTERNATIONAL BOX-OFFICE

After strong performances in numerous countries, ALEXANDER, which was realized by the Internationalmedia group in co-operation with the German media fund IMF 3, surpasses 100 million US-dollars at the international box-office. The Oliver Stone directed event movie starring Angelina Jolie and Colin Farrell thus achieves a worldwide box-office of approximately 138 million US-dollars.

FEBRUARY

ALEXANDER STRONG IN JAPAN

After a successful opening weekend in Japan and continuing strong performance in Italy, Spain, France and Brazil, the box-office of ALEXANDER totals at 155 million US-dollars worldwide.

MARCH

INTERNATIONALMEDIA GROUP AND IMF ANNOUNCE PRODUCTION OF "RV"

The Internationalmedia group announces the brokerage of a financing and distribution contract between IMF 3 and Columbia Pictures for the comedy with the working title "RV".



APRIL

SUPERVISORY BOARD AND MANAGEMENT BOARD AGREE ON THE RESTRUCTURING OF THE MANAGEMENT

The Management Board of IM Internationalmedia AG changes with Martin Schürmann joining the board of IM Internationalmedia AG and becoming new chief executive officer of its Los Angeles-based subsidiary and chairman of the board of IM Internationalmedia AG on May 1, 2005. Moritz Borman, who exits the management board of IM Internationalmedia AG and resigns from his post as chief executive officer of its Los Angeles-based subsidiary, will be responsible for the production of film projects for the Internationalmedia group. Objective of this restructuring is to further streamline the group's organization.

BASIC INSTINCT 2 STARTS PRINCIPAL PHOTOGRAPHY

The sequel of the successful thriller BASIC INSTINCT from 1992, BASIC INSTINCT 2 – RISK ADDICTION, starts principal photography in London.

JUNE

PRESENTATION OF THE NEW STRATEGY AT ANALYST CONFERENCE

In the course of an analyst conference in Frankfurt the chairman Martin Schürmann presents the new strategy of IM Internationalmedia AG. The adjusted business model includes three business areas. In addition to the hitherto business area *Intermedia Films*, thus the development, financing, production and distribution of international event movies, *Intermedia Cinema* concentrates on developing, financing, producing and distributing genre films. Moreover, the company will develop, finance, produce and distribute TV movies, TV mini-series and TV series via its third business area *Intermedia TV*.

NEW COOPERATIONS FOR THE INTERNATIONALMEDIA GROUP

Focused on the new strategy the Internationalmedia group closes significant contractual deals with Action Concept, Fire Development and Kadokawa. These crucial steps within both of the new strategic business areas will solidify the group's development, production and distribution operations.

JULY

CONTRACTS REGARDING WORKING CAPITAL LINE CLOSED

IM Internationalmedia AG closes a new deal increasing its working capital line with Octave 1-Fund, Ltd., amounting to 5.5 million US-dollars. The transaction also includes the issuance of convertible bonds for 3,190,000 shares, excluding existing shareholders from subscription rights.

AUGUST

PRODUCTION FOR UNIVERSAL PICTURES

The Internationalmedia group and Outlaw Pictures will produce the spy thriller BREACH for Universal Pictures. The project was previously known by its working titles HANSEN and 11TH HOUR. This project was developed by the Internationalmedia group.

MAJORITY IN FAVOUR OF NEW SUPERVISORY BOARD

At the Annual General Meeting of IM Internationalmedia AG the gentlemen Christian Böhmer, Oliver Kächele and Konstantin Thoeren are voted by a large majority as new members of the Supervisory Board. All of them possess a substantial knowledge in the field of theatrical as well as television business. The aimed composition of the new Supervisory Board reflects the equality of theatrical film and television in the new business model.

SEPTEMBER

FUNDAMENTAL DEAL CLOSED WITH KADOKAWA

The Internationalmedia group has expanded and extended its agreement with Kadokawa Pictures USA, Inc. in a deal that calls for the two companies to develop, finance and produce up to six films to be made in 2006 and 2007. This is in addition to the original co-development, co-production and co-financing deal for the English language remake of the Japanese film ONE MISSED CALL. The new deal is a crucial step in the group's announced move into genre films.

OCTOBER

CHAIRMAN ACQUIRES MAJOR STAKE IN IM INTERNATIONALMEDIA AG

The chairman of IM Internationalmedia AG, Mr. Martin Schürmann, acquires 2 million shares of IM Internationalmedia AG. Mr. Moritz Borman sells half of his shareholding to MS Vermögens-



verwaltungs GmbH (MS GmbH). MS GmbH is a wholly owned investment company of Mr. Schürmann. With this transaction MS GmbH holds a significant stake of 6.3 percent and is largest shareholder on the same level as Mr. Borman.

NOVEMBER

DECISION ON CAPITAL RESTRUCTURING

The Management Board of IM Internationalmedia AG, together with the Supervisory Board, approves a capital increase of up to 10,650,123 no par value ordinary bearer shares, as well as the issuance of a zero coupon convertible bond with a total nominal amount of up to 10,650,120.00 euros. The subscription price for the new no par value ordinary bearer shares is 1.00 euro per share. The zero coupon convertible bond is divided in up to 532,506 bearer notes in the nominal amount of 20.00 euros per note. The bearer notes are offered at a price of 22.00 euros per note.

DECEMBER

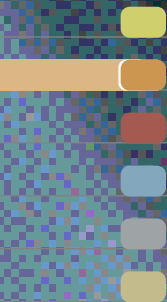
PLACEMENT OF CAPITAL RESTRUCTURING SUCCESSFULLY FINALIZED

Shareholders and investors subscribed for a total of 10,650,123 new bearer shares for 1.00 euro each. The demand for new bearer shares exceeded the amount offered. Thus the stock capital of IM Internationalmedia AG increases from 31,950,370.00 euros by 10,650,123.00 euros to 42,600,493.00 euros. At the same time, shareholders and investors have subscribed for a total of 83,965 bearer notes of the zero coupon convertible bond for a price of 22.00 euros each. Thus the company raises a total of approximately 12.5 million euros before issuance costs. The net cash inflow from the capital restructuring will be used to repay debt and strengthen the financial structure of the company. In addition, it will also support the strategic reorganization of IM Internationalmedia AG.

SALE OF MINORITY STAKE OF BOX TV

The Internationalmedia group is focused on developing the three main business areas *Intermedia Films*, *Intermedia Cinema* and *Intermedia TV*. Because of the limited operational influence on Box TV Ltd, London, a successful integration into the business segment *Intermedia TV* is not possible in the view of the Internationalmedia group. In line with this strategy, the Internationalmedia group sold its 12.5 percent interest in Box TV Ltd. to a strategic investor, Digital Classics plc.





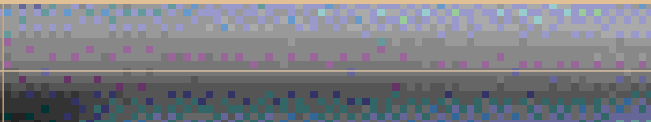
PAGE
14





Management Report



Interview _ DVD _ Increase _ Visitor Number _ Cinema Density _ Cinema Screen _ Movies _ Producer _ Major Studios _ Film Distributors _ Film Titles _





			
New Technology _		Market _	
Trend _		Turnover _	
Growth _		Position _	
Sales Trend _		High Quality _	
Internationalmedia _		North America _	
Share _			



Market Overview

During the past fiscal year the development of the worldwide economic environment was still restrained. Accordingly, the performance of some of the exploitation windows was rather disappointing. The latter include the theatrical exhibition markets that showed decreasing revenues in Germany as well as in the US. Furthermore, the European as well as the US home entertainment market were slightly declining. However, some of the market areas did show positive developments.

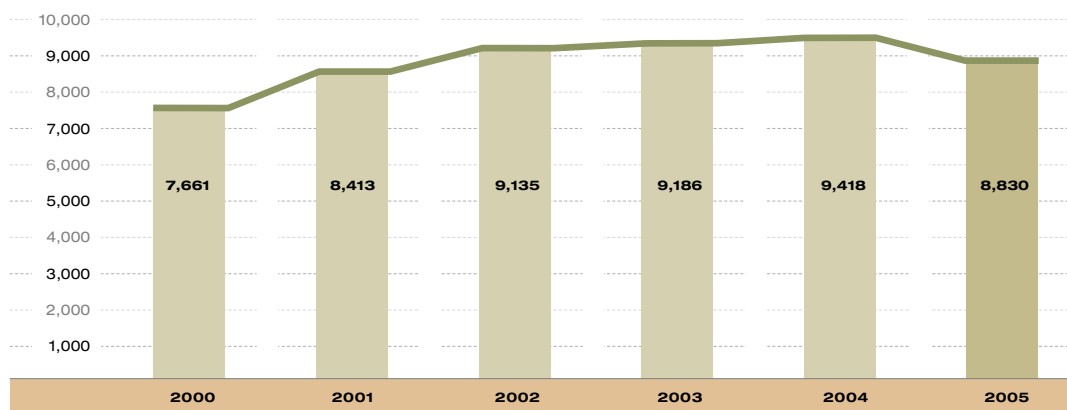
OVERVIEW CINEMA

For the first time since the year 2002 total US box-office revenues decreased to under 9 billion US-dollars and amounted to 8.8 billion US-dollars at the end of the past business year. The number of tickets sold in the US has decreased in the past fiscal year, which is mainly due to the lower number of moviegoers in spring and summer.

US Box-office

[in million USD]

Source: Boxofficemojo.com, Nielsen EDI

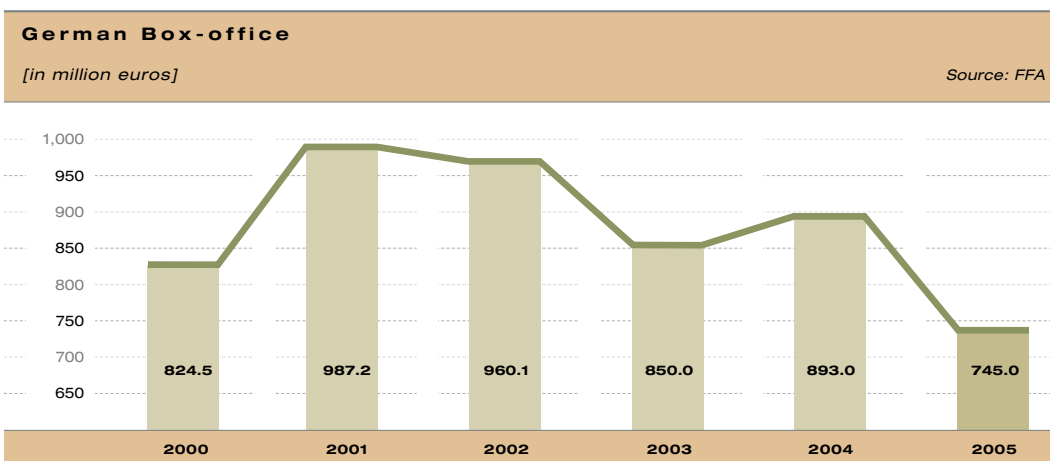




The most successful movie in 2005 in the US was REVENGE OF THE SITH, the last episode of the Star-Wars-Saga, with US box-office results having amounted to 380 million US-dollars. Fox and Warner Bros. were the only US-studios that could improve their results compared to the year before. Warner Bros. was the most successful US-studio and surpassed the revenue mark of one billion US-dollars at the box-office for the fifth year in a row.

The German theatrical market in 2005 showed a decrease in box-office revenues as well. The number of moviegoers decreased by 19 percent compared to the year before and amounted to around 127 million. With a relatively constant average ticket price, the revenues totalled 745 million euros. In terms of revenues the year 2005 was thus the weakest year since 1996. Regarding revenues and the number of moviegoers, German productions did not reach the same share as in 2004, but still played a prominent role. The five most successful movies in Germany were HARRY POTTER AND THE GOBLET OF FIRE, STAR WARS: EPISODE III – REVENGE OF THE SITH, MADAGASCAR, HITCH – THE DATE DOCTOR and MR. AND MRS. SMITH.

According to the latest media research report of PricewaterhouseCoopers, the German theatrical market should rebound only slowly in the years to come. It is expected that the number of moviegoers will only slightly increase within the next years due to a relatively constant number of screens. Analysis estimates a yearly box-office growth rate of an average 3.7 percent.



OVERVIEW HOME ENTERTAINMENT

For the first time in years, the US home entertainment market showed a slight decrease in revenues in the past business year. Overall revenues in the US amounted to 24.3 billion US-dollars. DVD sales generated a slight increase in revenues from 16.1 billion US-dollars to 16.3 billion US-dollars. The sale of TV-DVDs showed a strong increase and generated revenues amounting to over 3 billion US-dollars for the first time. In contrast, the DVD rental market only generated revenues in the amount of 6.5 billion US-dollars in the past business year.

The decline in the VHS video cassette market continues. In the year 2005 revenues from both the rental and the sell-through market combined amounted to only 1.5 billion US-dollars. It is very likely that the market for VHS video cassettes will continue to decline. In the past fiscal year 37 million households purchased a DVD player in the US and the number of households that own DVD players is now approximately 80 million. About half of these households own more than one DVD player.

To a large extent last year's decrease of the DVD market is due to the increasing drop in prices caused by mass marketing through supermarkets and drugstores. Nevertheless, research indicates continuing growth of the home entertainment market with declining VHS and increasing DVD numbers.

As in the US the German video industry experienced a decline of revenues in the past fiscal year. After the steadily strong growth of the past years, revenues from the sell-through and the rental market combined totalled nearly 1.7 billion euros, a decrease of 3.5 percent. This is mainly due to the declining revenues from the sell-through window, which decreased by 5.1 percent to nearly 1.4 billion euros. The prime reason for this decline can be seen in the continuing significant drop in prices. In contrast, revenues from the rental market have increased by over 4 percent to 320 million euros. The main reasons for this positive development are the customer oriented offer ranges like online rental or rental vending machines.

The growth rate of the German rental market is forecasted to be below an average of one percent. However, research also indicates that DVD sales in Germany will increase within the next years. According to PriceWaterhouseCoopers the German sell-through market should



grow by an annual average rate of around 6.8 percent until 2009, despite the significantly decreasing sales of VHS cassettes. Furthermore, despite illegal copying and film piracy, a further growth can be expected due to new formats. According to market research analysis, video downloads will generate significant revenues within the next years. Other formats and devices that simplify digital distribution also will have an increased impact on the media industry's growth in the years to come.

OVERVIEW PAY TV AND FREE TV

It can be noted that the worldwide TV market still is a weak part of the exploitation chain due to low advertising income resulting from slow worldwide economic recovery. Accordingly, the international presales markets are still problematic albeit gross advertising revenues have continued to slightly increase in Germany.

In Europe pay TV is still limited to a small number of countries. Great Britain, France and Denmark are the only markets where pay TV providers compete with each other. In other countries there is only one single provider that dominates the market.

The German market had only one major pay TV provider that was able to significantly gain new customers due to massive price concessions. Pay TV generally faces a difficult market environment in continental Europe. Due to the supply of high quality free TV, the continental European user is less inclined to pay a premium for TV content. However, it is highly likely that TV cable network providers will increasingly start to enter the market with their own packages of pay TV content.

Gross advertising revenues increased to around 19.1 billion euros in the German market. In total, approximately 8 billion euros of TV advertisement was sold last year, a growth rate of around 4 percent. After the significant decline of the German TV stations' net income until 2003 the development proved to be less problematic in the years 2004 and 2005. With an improvement of economic activity advertising revenues should further increase in the foreseeable future. Special events, like the Soccer World Cup 2006 in Germany and the Olympic Games 2006 in Torino, will also increase advertising revenues.



STRATEGIC ALIGNMENTS

Generally, the Internationalmedia group concentrates on three main business areas. With *Intermedia Films* the traditional business of the development, financing, production and distribution of high-quality motion pictures remains. For the company's event films, the combination of star power, special effects, and intensive advertising proved especially effective. In this business area, the project development investments of recent years are proving very valuable for the Internationalmedia group. This pipeline makes the group attractive for distribution partners all over the world. Also, due to the large number of currently active projects, which require few additional costs, there is an opportunity to further limit upcoming project development costs. Projects can be produced by the group for its own library or as work-for-hire productions for studios.

With *Intermedia Cinema*, the company develops, finances, produces and distributes genre films, particularly action and horror movies with budgets between 10 and 20 million US-dollars. These motion pictures depend much less on the cast and director for their success than event motion pictures do, which makes them easier to progress to production. Furthermore, the development and the production of genre films require less capital than the production and development of event motion pictures.

The third business area is *Intermedia TV*, in which the Internationalmedia group intends to develop, finance, produce and distribute TV movies, TV mini-series and TV series for the international market.

Thus the company's operations are much more diversified now than in the past, which should have a positive effect on the financial statements as from the years 2006/2007 on. Against the background of the ongoing difficult market environment, especially the significant cost consciousness of all market participants which leads to enormous pressure on independent producers and distributors, this diversification is of essential importance for the future. Furthermore, depreciation on film development will continue to be kept below 10 million euros. Overhead costs also will be maintained on the reduced level. In the past fiscal year we continued to keep expenditures low in all areas, however, even new savings potential could be exploited.

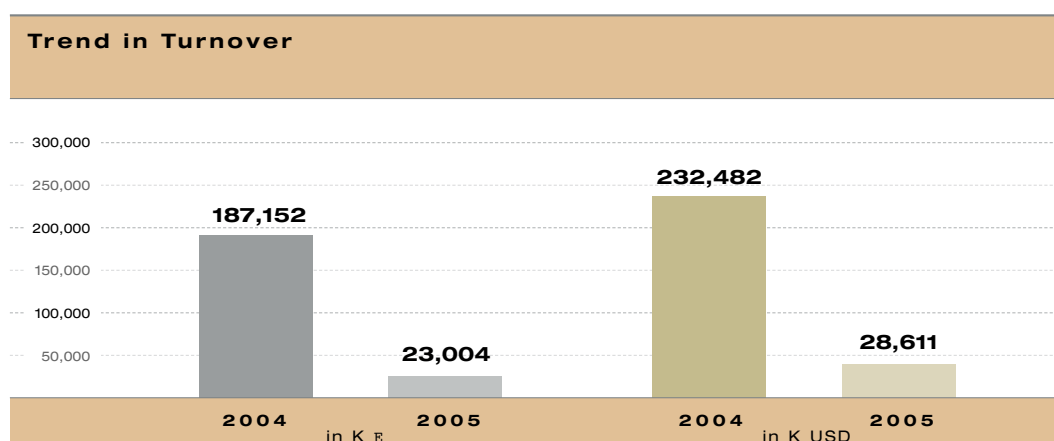


Group Turnover and Income



REVENUES

With the focus of the first six months of the business year resting on the restructuring of the Internationalmedia group, the company's efforts in the second half of 2005 centered on implementing this strategy. As a result there were no theatrical releases of Internationalmedia films in the business year 2005. The absence of the corresponding minimum guarantees was only partially compensated by other sources of income and led to a decrease of revenue by 164.1 million euros to 23.0 million euros.



TURNOVER BY REGION

Shift in relative turnover for individual regions can be explained by several factors. It must be noted that regional revenues are recognized solely according to the country, where the licensee holder resides. In the fiscal year 2005 licensing of Internationalmedia group movies mainly took place with major studios in North America, producer and financing fees were mainly realized in Europe.

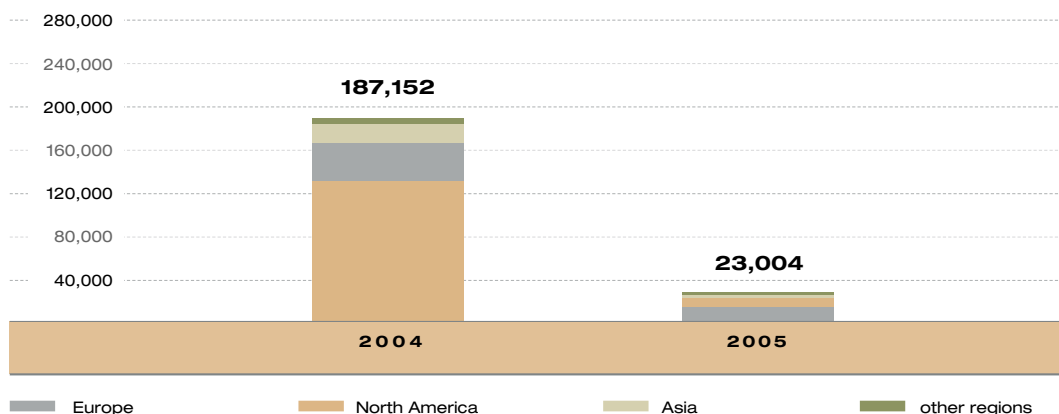


Management Report

Turnover by regions	2004	2005	Change		Share 2005
	[in K \$]	[in K \$]	[in K \$]	[in %]	[in %]
North America	113,339	6,549	- 106,790	- 94.2	28.5
Europe	40,998	11,576	- 29,422	- 71.8	50.3
Asia	24,342	2,449	- 21,893	- 89.9	10.6
other regions	8,473	2,430	- 6,043	- 71.3	10.6
Total	187,152	23,004	- 164,148	- 87.7	100.0

Turnover by regions

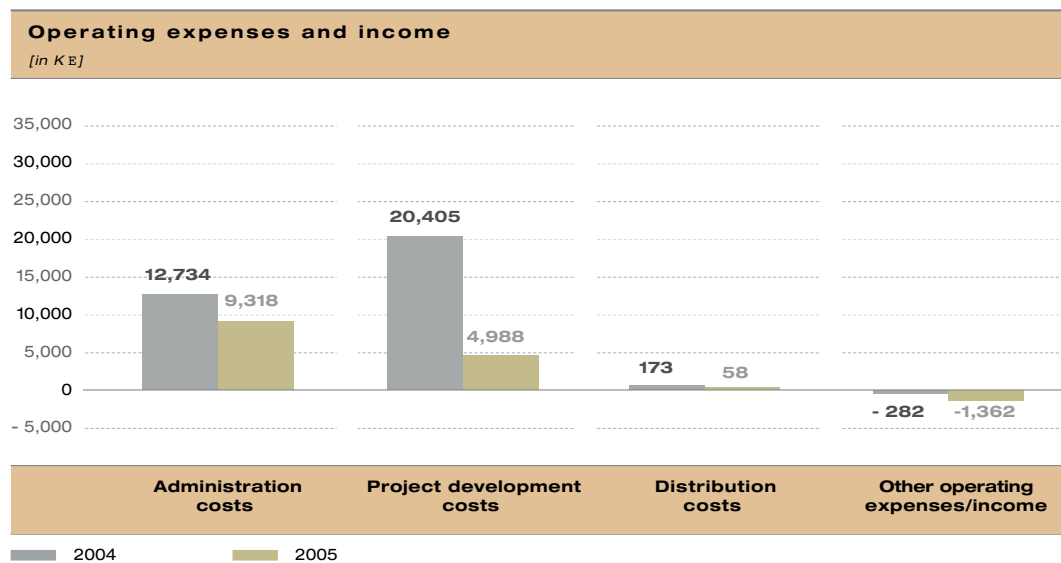
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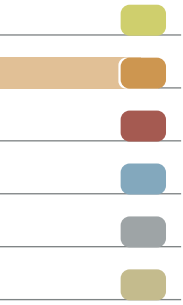
RESTRUCTURING PROGRAM WITH ONGOING POSITIVE IMPACT

The consequent restructuring of the Internationalmedia group in prior years, the formation of the distribution and marketing joint venture I.S. Film Distribution LLC and the realization of further cost savings potential in connection with the implementation of the new strategy in 2005 again results in a significant reduction of operating expenses. Aggregate overhead and distribution costs were reduced by 3.5 million euros to 9.4 million euros, which is a decrease of 27.4 percent compared to the previous year.



Compared to the year before, project development costs decreased by 15.4 million euros to 5.0 million euros, due to widespread preventive measures in prior years and more careful focus on new investments. Based on the 3-year-depreciation rule the project development costs negatively influenced the result: however, there was no impact on liquidity.





Other operating expenses and other operating income show a positive net effect of 1.4 million euros, which is mainly due to the sale of an associated company.

EARNINGS BEFORE INTEREST AND TAXES

Being exposed to a continuously difficult situation on the presales market and challenges in connection with the implementation of the new strategy, earnings before interest and taxes (EBIT) showed an improvement of 17.3 million euros to - 1.4 million euros.

POSITIVE EARNINGS AFTER TAXES

Earnings before taxes were - 4.7 million euros and are characterized by a better financial result of - 2.8 million euros compared to the previous year and the negative result at equity. Earnings after taxes were 2.7 million euros due to the positive impact of the reverse of accruals for deferred taxes based on planned changes of the group structure. The Internationalmedia group has turned the previous year's loss into a gain of 2.7 million euros, which is an improvement of 25.4 million euros.

Earnings per Share

Undiluted earnings per share were at 0.08 euros (diluted 0.08 euros). Undiluted earnings per share for the year before were - 0.71 euros (diluted - 0.71 euros).



Group Balance Sheet Structure and Investments



DECREASE IN TOTAL ASSETS

The total assets of the Internationalmedia group decreased by 0.7 million euros to 212.2 million euros since 2004.

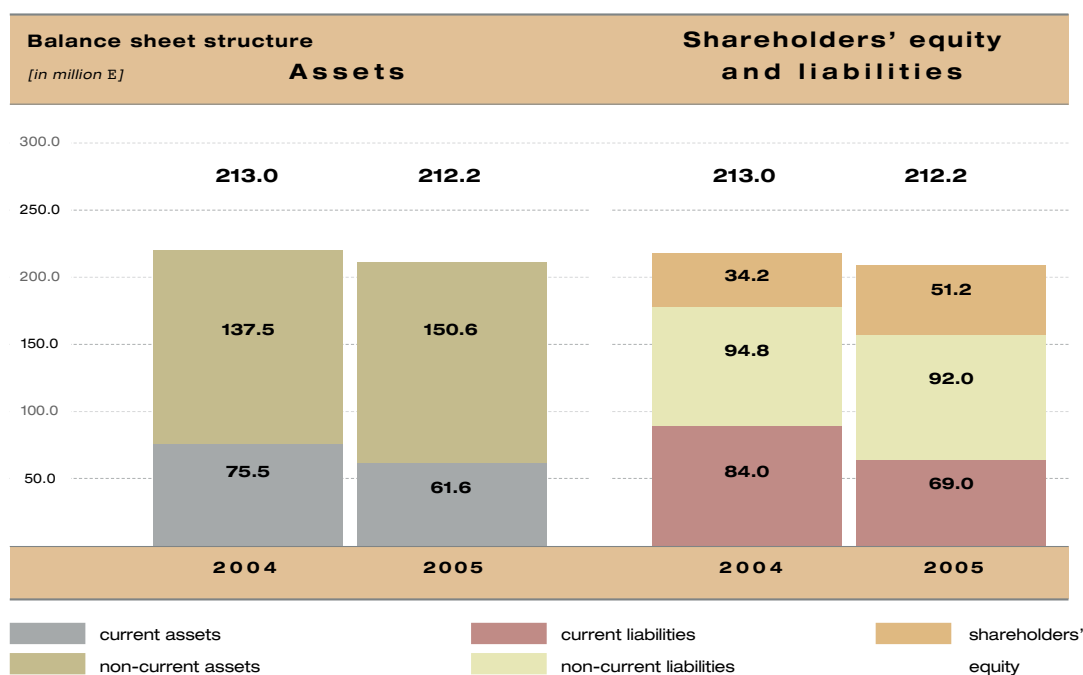
CURRENT ASSETS

Current assets decreased by 13.8 million euros to 61.6 million euros. This can be attributed to a decrease in trade receivables, which fell by 11.7 million euros to 4.1 million euros. This was due to the fact that there were no theatrical releases in 2005. In contrast, liquidity shows an increase of 7.5 million euros to 40.1 million euros. This is mainly a result of the issuance of new shares and bonds. However, a large part of liquidity is intended for new film productions. Capitalized development and pre-production costs decreased by 2.4 million euros to 9.4 million euros (e.g. rights, screenplay development, location scouting).

NON - CURRENT ASSETS

Non-current assets show an increase of 13.1 million euros to about 150.6 million euros. Basically this is a result of the development of film assets, which increased by 14.3 million euros, due to foreign exchange rate effects being only partially compensated by amortization. The fixed assets decreased by 0.3 million euros to 0.4 million euros. The financial assets only show slight changes (+ 0.7 million euros) mainly due to exchange rate differences and interest effects.





CURRENT LIABILITIES

Total current liabilities show a decline of 15.0 million euros to 69.0 million euros. On the one hand, the overall reduction is attributable to the decrease of bank liabilities of 11.7 million euros to 38.9 million euros. On the other hand, it is also due to the reduction of other accrued liabilities by 4.2 million euros to 22.7 million euros based on equity repatriation to producers. In contrast, trade accounts payable and advanced payments received show an increase by 1.0 million euros to 7.4 million euros.



NON - CURRENT LIABILITIES

Non-current liabilities decreased by 2.8 million euros to 92.0 million euros. This is mainly due to the decrease of accruals for deferred taxes by 7.5 million euros to 4.9 million euros. This reduction is partially compensated by an increase of other accrued liabilities by 2.4 million euros to 66.4 million euros and the accounting for liabilities from the issuance of equity instruments.

Shareholders' Equity

The shareholders' equity shows an increase of 17.0 million euros to 51.2 million euros. This is due to the net income of 2.7 million euros and the positive currency translation adjustments (CTA) of 5.2 million euros. The capital restructuring in the fiscal year 2005 increased shareholders' equity by additional 9.1 million euros. Thus, the equity ratio shows an increase from 16.1 percent to 24.1 percent.

Ratios		Dec 31, 2005	Dec 31, 2004
Equity ratio	Equity	24.1 %	16.1 %
	Total assets		
Equity-to-fixed asset ratio	Equity	34.0 %	24.9 %
	Fixed assets		
Debt structure	Current debt	42.9 %	47.0 %
	Total liabilities		





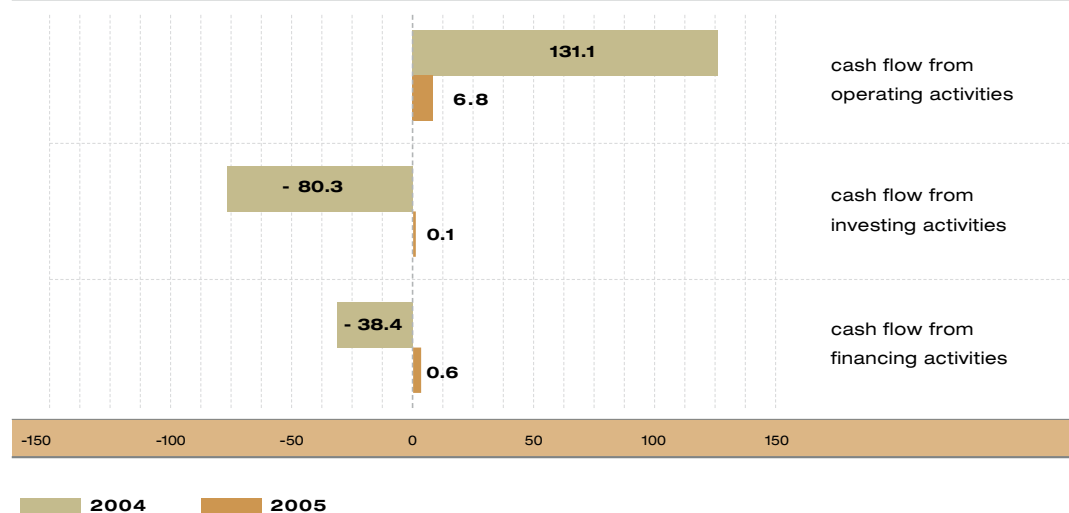
Group Cash Flow

Compared to the year before, free cash flow decreased by 43.9 million euros to 6.9 million euros. This is the third consecutive business year of the Internationalmedia group that shows a positive free cash flow. A similar trend can be seen regarding the net cash flow (7.5 million euros), which is positive for the second consecutive business year.

The cash flow from operating activities decreased to 6.8 million euros based on the lower business volume and the related lower inflow of minimum guarantee payments during the reporting year. The cash flow from investing activities increased to 0.1 million euros. As a consequence of the reduction of current and mid-term liabilities and the inflow from the issuance of new shares and bonds, the cash flow from financing activities amounts to 0.6 million euros. As a result, the Internationalmedia group shows positive cash flows for all activities.

Cash flow analysis

[in million €]





Turnover and Income Position in the Statutory Accounts of IM Internationalmedia AG according to the German Commercial Code (HGB)



INCOME POSITION

The turnover of 0.1 million euros in the fiscal year 2005 consists mainly of management charges to subsidiary companies of IM Internationalmedia AG.

Compared to the previous year earnings before interest and taxes increased to - 2.7 million euros. This is mainly due to higher exchange rate gains. This positive effect is compensated by increased other operating expenses as a result of the capital restructuring completed in the fiscal year 2005.

Compared to the year before the result from ordinary business activities, which increased to - 3.9 million euros, includes a lower financial income of - 1.2 million euros as a result of higher average liabilities against affiliated companies.

Earnings after tax amount to - 4.0 million euros.

BALANCE SHEET STRUCTURE

Total assets of IM Internationalmedia AG amount to 119.0 million euros, approximately 6.7 million euros above last year's level. Thereby fixed assets do not show any major changes whereas current assets increased by 6.7 million euros mainly due to cash flows from the capital restructuring.

Equity has increased to 63.3 million euros as compared to last year. Within the shareholders' equity, retained earnings decreased to - 190.6 million euros because of the net loss for 2005. The subscribed capital was increased by the issuance of new shares against contribution in cash to 42.6 million euros. Thus IM Internationalmedia AG shows an equity ratio of 53.2 percent. Because of partial repayments close to year-end, intercompany liabilities decreased by 2.9 million euros. As a result of the issuance of a regular and a zero coupon convertible bond the company shows bond liabilities in amount of 2.7 million euros for the first time.



CAPITAL REORGANIZATION 2005

In the fiscal year 2005 the company increased its subscribed capital by 10,650,123 euros in the course of a capital increase for cash and issued a bond with warrant as well as a zero coupon convertible bond. The bond with warrant with a nominal value of 1,000,000 US-dollars was issued on September 6, 2005 and is due on June 30, 2009. The attached option right was not exercised in 2005. The zero coupon convertible bond was issued on December 12, 2005 and is due on October 31, 2010. The issue price of a partial bearer note was 22.00 euros with a nominal value of 20.00 euros. It entitles the owner to convert into shares of IM Internationalmedia AG at a ratio of 1:20 (number of shares, in which a partial note may be converted). None of such conversion rights were exercised in fiscal year 2005. With the issuance of the zero coupon convertible bond gross proceeds of 1,847,230 euros have been realized.



Business Activities of the Internationalmedia Group

IM Internationalmedia AG is the Munich based parent company of the Internationalmedia group, a global, independent film company with additional offices in London and Los Angeles. The company went public on May 18, 2000. On January 15, 2003, the worldwide operating company was included in the Prime Standard Segment of the Frankfurt stock exchange (WKN 548 880). To date, movies of the Internationalmedia group have received about 350 nominations and awards from the film industry and have been highly acclaimed at leading film festivals such as in Cannes, Berlin, Salt Lake City, San Sebastian, Toronto and Venice. Films of the Internationalmedia group include Oliver Stone's ALEXANDER starring Colin Farrell, Angelina Jolie and Sir Anthony Hopkins, TERMINATOR 3: RISE OF THE MACHINES starring Arnold Schwarzenegger, LIFE OF DAVID GALE starring Kate Winslet and Kevin Spacey, BASIC starring John Travolta and Samuel L. Jackson as well as THE WEDDING PLANNER starring Jennifer Lopez and Matthew McConaughey, amongst others.



BUSINESS MODEL

The core business of the Internationalmedia group consists of three main business areas. The first, *Intermedia Films*, is the company's traditional business, in which the group develops, finances, produces and distributes high-quality motion pictures. In the year 2005, the business model was expanded by two further business areas. With *Intermedia Cinema*, the company develops, finances, produces and distributes genre films primarily with budgets between 10 and 20 million US-dollars. The third business area is *Intermedia TV*, in which the Internationalmedia group intends to develop, finance, produce and distribute TV movies, TV mini-series and TV series for the international market.

Accordingly, the main focus of the core business areas can be described as follows:

DEVELOPMENT

The creation of motion picture assets starts with the conception of films and TV series and extends to the search for material and the screenplay development phase and finally to the selection of producers, directors and actors.

FINANCING

Before a project goes into the production phase, the Internationalmedia group ensures the highest possible percentage of the budget through the presale of the rights to international (or local) sales partners. The minimum guarantees achieved this way and the overages that are expected offset the production costs of the films or TV series and provide the collateral for potential investors such as banks, film funds or rights dealers. The actual production of the film is comprised of pre-production, principal photography and post-production.

DISTRIBUTION

Distribution consists of the worldwide licensing of the films and TV series produced by the Internationalmedia group for exploitation. The licenses for motion pictures are generally granted for individual territories (countries) and for all customary exploitation stages (including cinema, home entertainment, Pay TV, and Free TV).

Furthermore, the Internationalmedia group has accumulated its own film library with more than 75 films.

The various business activities of the Internationalmedia group result in the following sources of income:


- Refunding of project development costs plus a fee from the budget of the respective film and TV series,
- Fees for service in film development, financing and production,
- Distribution fees on global sales revenue,
- Profit-sharing in successful films and TV series,
- Proceeds from licensing rights that return to the Internationalmedia group after the end of the first license cycle and can be re-licensed,
- Sales revenues from merchandising rights such as video games.



Productions



FILMS THAT WERE PRODUCED IN THE YEAR 2005

Title	Key Creative Collaborators	Summary
BASIC INSTINCT 2 	Production: Intermedia Films IMF 3 C2 Pictures Cast: Sharon Stone David Morrissey Charlotte Rampling Director: Michael Caton-Jones	Having re-located from San Francisco to London, best-selling crime novelist Catherine Tramell once again is found on the wrong side of the law. Dr. Michael Glass, a respected criminal psychiatrist, is approached by Scotland Yard to perform a psychiatric evaluation of Tramell. Physically and mentally intrigued by Tramell, Glass is quickly sucked into her dangerous world. Maneuvering through an exciting web of murder, sex, obsession and lies, Catherine Trammell is back and better than ever before – only this time she may have found her match.
BREACH (AKA HANSSEN PROJECT) 	Production: Intermedia Films Outlaw Pictures Cast: Ryan Phillippe Chris Cooper Director: Billy Ray	Based on the true story of Robert Hanssen, the infamous FBI spy who sold secret documents to the Soviet Union over the course of 15 years, the film centers on the relationship between Hanssen and Eric O'Neill, the young FBI agent assigned to work for Hanssen just weeks before he was arrested.





Legal Company Structure

The Internationalmedia group consists of the parent company IM Internationalmedia AG and the five fully-owned subsidiaries: IM Filmproduktions- und Vertriebs GmbH & Co. KG (Grünwald), Pacifica Film Distribution LLC (Los Angeles), Pacifica Film Development, Inc. (Los Angeles), Intermedia Film Equities Limited (London) and Intermedia Film Equities USA, Inc. (Los Angeles). The group also includes several smaller companies in which IM Internationalmedia AG has an indirect stake via its subsidiaries.

Employees

The comprehensive implementation of a corporate restructuring program at the end of 2002 led to a restructuring of the Internationalmedia group's cost structure that is more in line with the general market environment. With the realization of further cost optimisations the number of employees was again reduced last business year. Thus the total number of employees has declined from a total of 51 at the beginning of the year to 32 persons by the end of 2005.



Corporate Communications



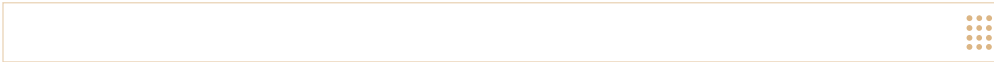
Most notably, the company based its corporate communication of the past fiscal year on two pillars: the company group's strategic restructuring on the one hand and the capital market on the other hand.

In particular last year's communication was focused on the strategic restructuring of the Internationalmedia group. The business model's expansion by two business areas was equally approved by the press, investors and analysts. Furthermore, the company succeeded in closing essential deals in the course of the new strategy under the chairmanship of Martin Schürmann. With the company group's strategic restructuring the attention of institutional investors and the press to the company as well as to its shares has increased.

The shareholder structure still is affected by a great number of private investors. This induces an immense effort for replying to individual inquiries, which we like to comply with considerably.

Towards the end of the business year 2005 the company approved a capital restructuring and successfully finalized the placement. Shareholders and investors subscribed for a total of 10,650,123 new bearer shares for 1.00 euro each. At the same time, shareholders and investors have subscribed for a total of 83,965 bearer notes of the zero coupon convertible bond for a price of 22.00 euros each. Last but not least this was a result of an extensive and open corporate communication.

Due to the concentration of efforts on the company's strategic restructuring, film production was slightly marginalized in the past fiscal year. However, principal photography of BASIC INSTINCT 2 – RISK ADDICTION, the sequel of the successful thriller BASIC INSTINCT from the year 1992, was completed. Moreover, the Internationalmedia group commenced principal photography on the spy-thriller BREACH starring Ryan Phillippe and Academy Award winner Chris Cooper, which is produced by the Internationalmedia group and Outlaw Pictures. This project was developed by the Internationalmedia group and is being produced for Universal Pictures. Thus the strategy of the division *Intermedia Films*, to realize projects of the company's existing development slate as fast as possible, has been implemented.



Apart from a very close communication with investors, the contact to research analysts continues to be very close due to the fact that many investors' final decisions are based on their studies. Communication with institutional investors was performed both indirect, in co-operation with analysts, and direct through contact at road shows in Munich, Frankfurt, London and Paris. Although the number of analysts has significantly declined within the last years due to the changes in the bank sector, the number of analyst reports about IM Internationalmedia AG in the last business year has significantly increased. Amongst others, the accepted SES Research started to cover IM Internationalmedia AG. Thus, the company is actively analyzed by another leading German research company. As in previous years, estimates of analysts can be downloaded on the company's website www.internationalmedia.de.

In the past fiscal year public relations were handled in a familiar manner. Through close contacts to editors we could strengthen the company's largely positive image as an important producer of international film projects, not only in the business press. Thus, the company underlines its commitment to an active and open communication policy directed at all interested constituents.

With the objective of transparency, press and ad hoc releases were being utilized to the extent suggested by the BAFin (Federal Financial Supervisory Authority). In addition, we retained our shortened intervals for informing the capital markets of our periodic reporting. This is in line with the recommendations of the German Corporate Governance Code.



Risk Management



The Internationalmedia group is exposed to a number of risks that may influence the financials, assets and income position of the group. The company has therefore implemented a risk management system for the entire group, which provides the management with early indicators and benchmarks in order to take the appropriate measures to avoid and to reduce the negative consequences stemming from those risks. The following examples show some of the typical risks of the Internationalmedia group.

Monetary Risks

The Internationalmedia group's cash and cash equivalents are mainly invested in the money market. This balances the need to safeguard the group's immediate ability to pay with finding the best possible return.

Investments are also made in time deposits with maturities of between one and six months. Such investments are always based on the LIBOR (London Interbank Offered Rate) and, because of their much smaller risk factor, are preferred to higher-risk securities offering a higher return.

In general, liabilities connected with film productions are generally secured by the film itself and also by the completion bond. This is a completion guarantee granted by an insurance company. There is usually no recourse to the company under such arrangements.

The production of feature films is in its essence a project related business and therefore prone to postponements and cancellations of planned projects. The cash forecast of the Internationalmedia group builds upon the premises of a certain number of production starts as well as re-licensing of library titles in the upcoming 18 months. If some or all of these planned projects or re-licensing were not realized, this could result in cash shortages within the Internationalmedia group, threatening its existence in the worst case.



Exchange Rate Risks

The main transaction currency of the Internationalmedia group is the US-dollar as sales revenues and expenses are mainly executed in US-dollars. Therefore, Internationalmedia group's exposure to a possible exchange rate risk is minimal and only affects reporting. To the external reader the reported financials appear either better or worse depending on the euro-dollar exchange rate. For IM Internationalmedia AG an exchange rate risk exists due to the requirements of the statutory accounts according to the German Commercial Code (HGB) to follow the strict lower of cost or market principle. An indirect influence on the Internationalmedia group can result from the fact that regional buyers might be affected by exchange rate fluctuations.

Risks Inherent in the Industry

INCREASING ACQUISITION AND PRODUCTION COSTS

Overall, the costs of producing, marketing and distributing films have generally risen considerably in the last decade. As part of its business strategy, the Internationalmedia group also intends to acquire, develop, finance and produce films, which – often because of a higher budget – have higher production values and therefore a greater potential to reach a broader public. An experienced management team, defined corporate communication and decision making channels along with strict cost control take these factors into account. In addition, the artistic value and the public acceptance of the films are secured by the use of well-known independent production companies.

FIERCE COMPETITION

The development, production, financing and licensing of films is highly competitive. Since the Internationalmedia group is one of the few groups with worldwide distribution, the company has established a significant position in the market. The expansion strategy includes broadening this position by consistently developing high-quality films and television products.



LIQUIDITY AND GOING CONCERN RISK

The net liquidity of the Internationalmedia group has stabilized over recent quarters. This is a result of a structurally induced lowered investment volume and reduced overhead costs due to the restructuring program. Also the Internationalmedia group's efficient distribution strategy, especially the utilization of its joint venture with Summit Entertainment, as well as the successfully performed capital restructuring in 2005 had a positive effect. Nevertheless, going concern still depends on management's ability to finance the continued operations of the group through reinvestments of revenues from operations and/or through incurring loans or raising equity. The going concern of the company ultimately depends on the success of its business activities, i.e. to what extent can library income and financing and producer fees, which are a result from the production of motion pictures and TV series, cover the overhead, film development costs, and interest and principal repayment for the company's debt financing. Should this be impossible due to external (market environment) or internal (management) reasons the going concern of the company would be endangered.

FILM PIRACY

Film piracy causes enormous damage to the entire film industry, from production companies via film licence dealers to the Major Studios and national distributors. Nevertheless this industry has the advantage to benefit and learn from the negative experiences of the related music industry. While the music industry did not reach a consensus on a pricing model that had given all implicated parties a balanced incentive to collaboration, the film industry starts from a lower price level as compared to the music industry, which raises the inhibition threshold for illegal copying as the legal purchase now supposes an appealing alternative and reduces the margins for illegal sales at the same time. In spite of these effects, increased film piracy poses a serious threat to the earnings models of the film industry.



Management of Opportunities

Besides the risks, the Internationalmedia group also faces a number of opportunities which can substantially influence the group's earnings, financial condition and prospects.

STRATEGIC ADJUSTMENTS

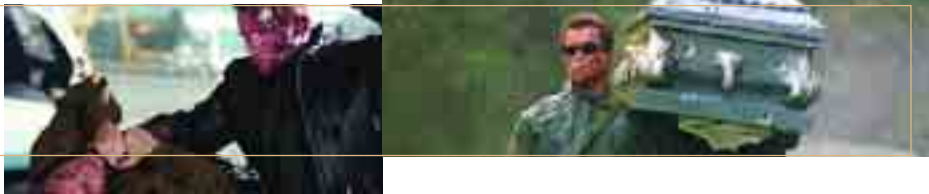
Last year the management of the Internationalmedia group has consequently implemented changes to the group's business strategy. Besides the existing focus on art house and event films, the company now will also engage in the development, financing, production and distribution of genre movies and TV productions. Management believes that this diversified strategy will result in an increase of flexibility as well as an increased ability to forecast the business model. In addition, the adjusted strategy will reduce the dependence on individual partners in areas like production and distribution.

The segment *Intermedia TV* shall gain a higher share of the production volume, amounting to approximately one third in two to three years time.

Management seeks to successfully implement the new business segments also by forming strategic partnerships with other companies. Therefore, agreements were entered into with Kadokawa International, Action Concept and QED International.

DEVELOPMENT PROJECTS

Numerous opportunities for the Internationalmedia group result out of its extensive slate of active development projects. They provide a basis for future productions. Already existing projects will be actively pursued to be realized as own productions for the group's library or as projects made for third parties. Various existing development projects are already in such an advanced stage that only small investments are necessary to complete the development stage. In addition, the bulk of those projects are already written off because of applied depreciation rules so production and sales offer additional earning potential.



Outlook



MARKET ENVIRONMENT

Forecasts of filmed entertainment revenues still imply substantial growth potential, which is significantly due to technological innovations and marketing techniques. Technological innovations within the movie industry include the expected development of UMTS or the break-through for on-demand-content.

Box-office revenues in the US and in Germany are expected to increase moderately. The expected growth rate for Germany amounts to an average annual rate of 3.7 percent within the next four years. The trend of significant growth of the home entertainment market should continue although the progression is expected to further slow down. Due to the continuing decrease in the demand for VHS-cassettes, home entertainment revenues continue to be generated mainly by DVD-households. The increase in sales revenues in Germany is expected to amount to an average of 6.8 percent. In contrast, the growth rate of the German rental market is forecasted to be below an average of one percent.

Due to increasing advertising revenues as well as new sources of income for TV stations, the situation for the TV markets could continue to improve. Events like the Olympic Winter Games 2006 in Torino and the Soccer World Cup 2006 in Germany should have a positive impact on advertising revenues. Furthermore, the still quite small pay-per-view market is expected to grow significantly due to increasing capacities in the digital cable market.



THE COMPANY

The past business year was significantly affected by the restructuring of IM Internationalmedia AG. In addition to the traditional business area *Intermedia Films* the areas *Intermedia Cinema* and *Intermedia TV* should improve the ability to forecast the business.

Due to the capital increase and the placement of a convertible bond the capital basis of the company has been clearly improved. However, efforts on optimizing the film production processes and the cost structures will continue. One of the crucial factors for the company's future will be whether the company continues to succeed in finding financing and production partners in order to mutually participate in the potentials of new productions.

Due to the consistent film development of the past years there is no shortage of potential projects. Because of the three-year-rule, this consistently led to depreciations. However, the Internationalmedia group is now able to benefit from this pool of projects and to work on their completion.



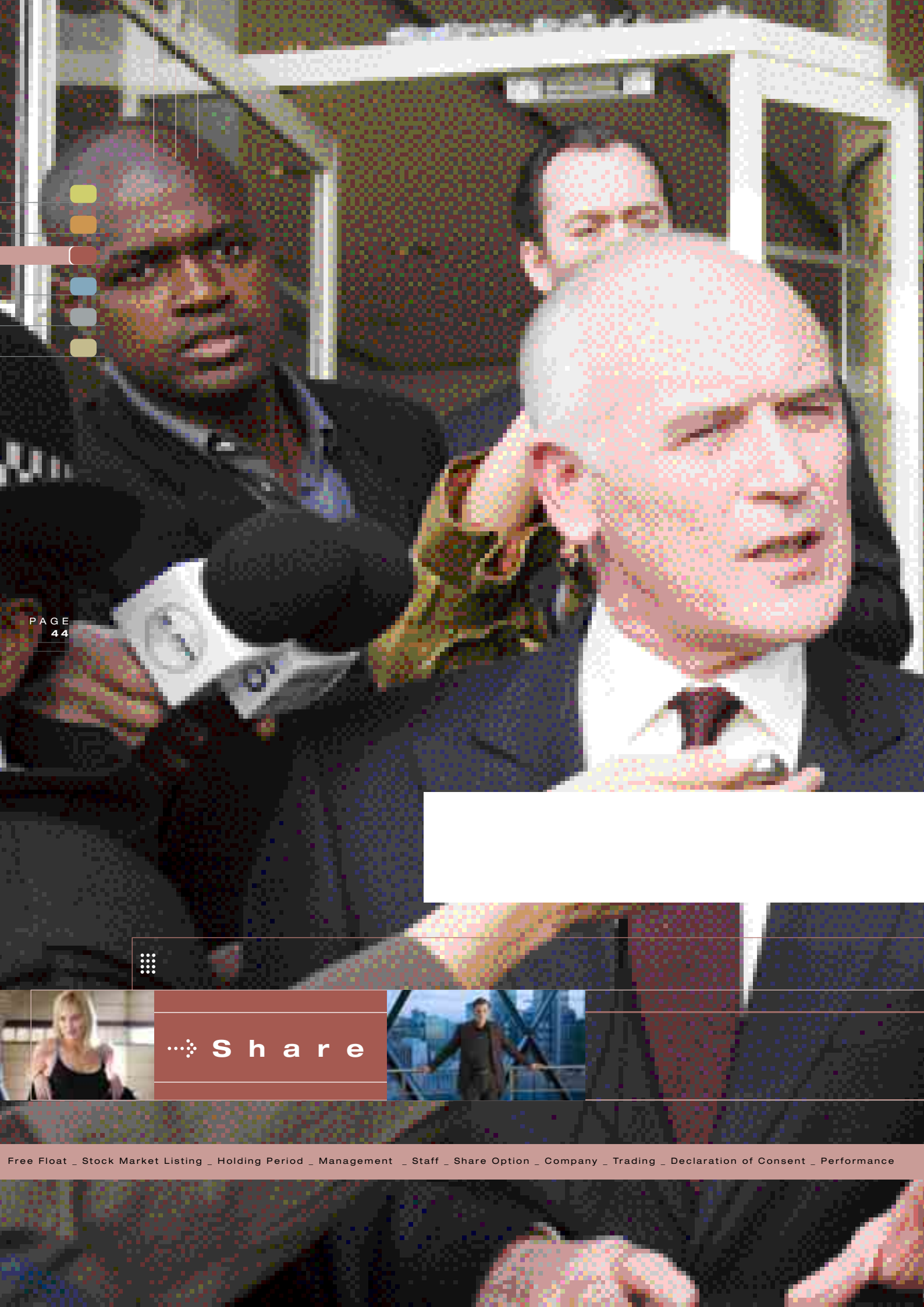
FILMS AND FORECAST 2006

With regards to revenues, a significant growth is to be expected in the year 2006, which is particularly due to the release of films that are currently in production.

Having implemented the most important steps regarding the new strategy, management's expectations for the current business year are positive. Despite existing uncertainties with regards to new productions we assume that it is possible to start the production of one film in the area *Intermedia Films*, of around four films within *Intermedia Cinema* and the production of at least one TV series or TV mini-series within *Intermedia TV*. A higher predictability for the forecast 2006 is already given due to the closing of contracts for the financing and production of four new films together with QED International.

The company group will continue its efforts on increasing cost efficiency. Meanwhile, the capitalized development costs are on a very low level, so the risk of further extraordinary depreciations is minor.





PAGE
44



❖ Share





2005: Significant Improvement of the Share Price

After the share price had deteriorated in the year before, it was significantly stabilized due to several measures in the last business year. With the company's strategic reorganization in conjunction with the restructuring of the management the confidence of shareholders and the capital markets could be improved. In the course of the strategic restructuring extensive Investor Relations measures were implemented. In particular, the company obtained very positive feedback on a roadshow of several days' duration in the summer of last year.

In autumn 2005 the share price had risen to its year's peak amounting to 1.16 euros. This was also due to positive estimates of analysts. Towards the end of the business year 2005 the company approved a capital restructuring and successfully finalized the placement, which guaranteed the basis for implementing the new strategy. In the future, we will continue the company's active communication with investors and research analysts. However, the company has always pointed out that the share of IM Internationalmedia AG is not a suitable investment for the short-term investor. According to the management's evaluation, this will not change in the business year 2006.

2005: CAPITAL MARKET IMPROVING

The capital markets' trend was evidently more positive than it had been the years before. Despite a significant increase of the oil price, appraisals on the capital markets, especially in Germany, remained friendly. Particular impact stemmed from predominantly positive company news as well as the central banks' moderate monetary policy. It should be pointed out that the highest share price increases could be noted in the field of small- and mid-caps. Throughout last business year the MDAX as well as the SDAX increased by approximately 36 percent each. The same holds true for share prices of the so called standard stocks with the German stock index (DAX) having increased by around 26 percent throughout the year.



BUSINESS DEVELOPMENT

The last business year was defined by the company's strategic restructuring and the capital restructuring that was conducted in December. Especially the announcement of the two further main business areas *Intermedia Cinema* and *Intermedia TV* supported the improvement of investors' confidence in a positive company development. In consequence, the management's efforts last year concentrated on the adjustment of the company's business model as well as the implementation of the new strategy rather than on new productions. With the strategic arrangements concluded with Action Concept and Kadokawa, amongst others, an essential basis was established for such implementation. Again, the liquidity situation in the past year was of far more importance for the capital markets than was an increase of revenues or profitability. This is in line with the company pointing out that liquidity remains the number one priority, followed by profitability and an increase of revenues. This sequence of priorities will not change in the business year 2006.

STOCK TURNOVER AND MARKET CAPITALIZATION

IM Internationalmedia AG is among the top titles of the Prime Standard Segment with regard to stock turnover.

Market data	
Stock exchanges:	Berlin, Bremen, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Electronic Trade System:	Xetra
WKN (Security Identification Code):	548880
ISIN number:	DE 0005488803



Stock Information

Stock information	
Year-start price (Jan 3, 2005)	0,49 €
Year-end price (Dec 30, 2005)	0,97 €
Price per share (high) (Oct 30, 2005)	1,16 €
Price per share (low) (Jan 13, 2005)	0,44 €
Performance IM Internationalmedia AG	+ 97 %
Performance Nemax 50	+ 26 %
Performance CDAX Media	+ 13 %
Performance SDAX	+ 36 %
Average daily trading volume in 2005 of IM Internationalmedia AG	228,201 shares
Source: Deutsche Börse	



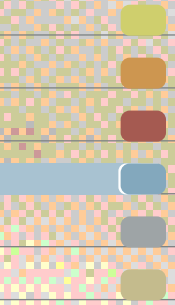
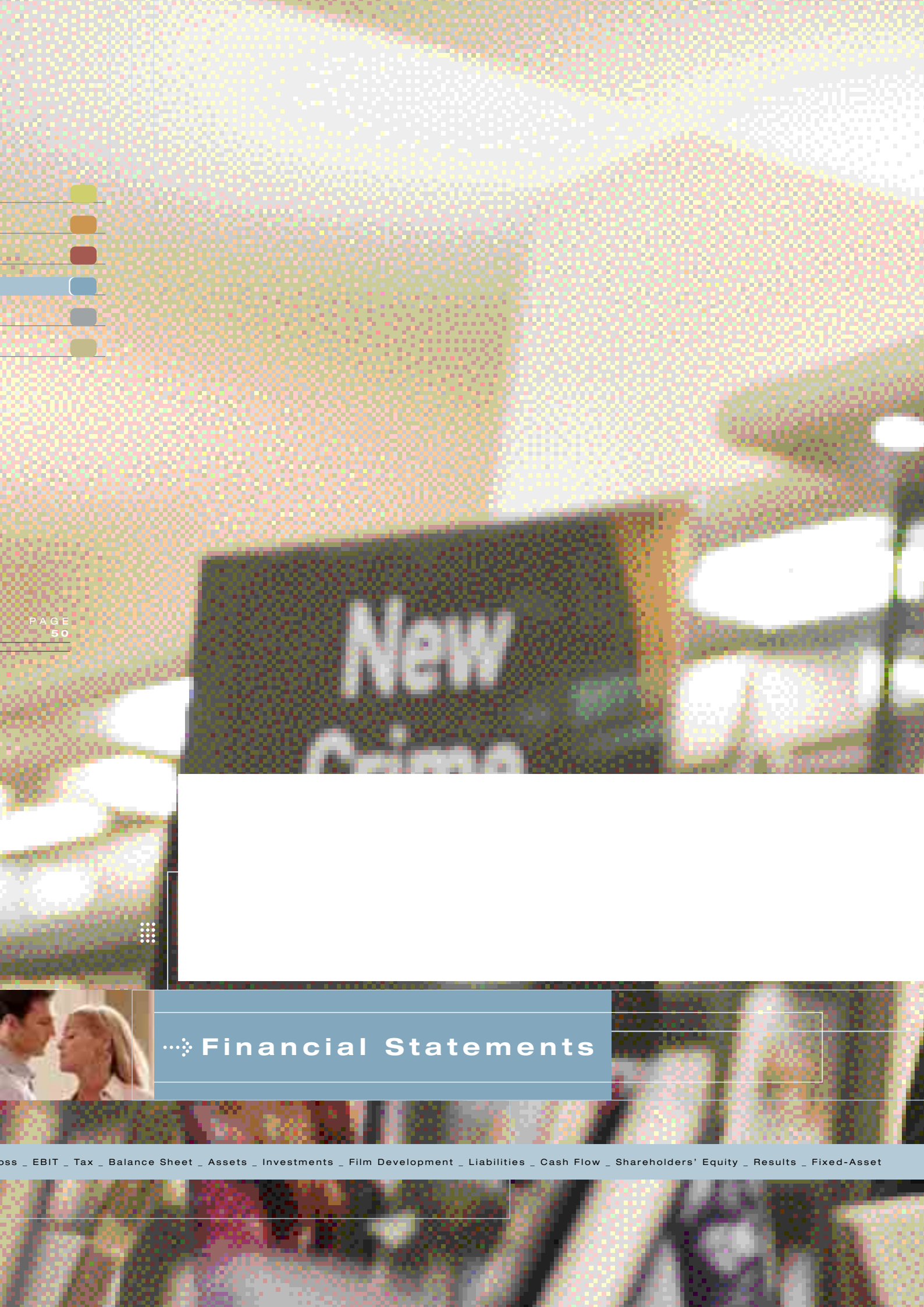
Earnings per Share

The undiluted earnings per share were 0.08 euros (diluted 0.08 euros). No dividend will be paid out.

Prime Standard Segment and SDAX

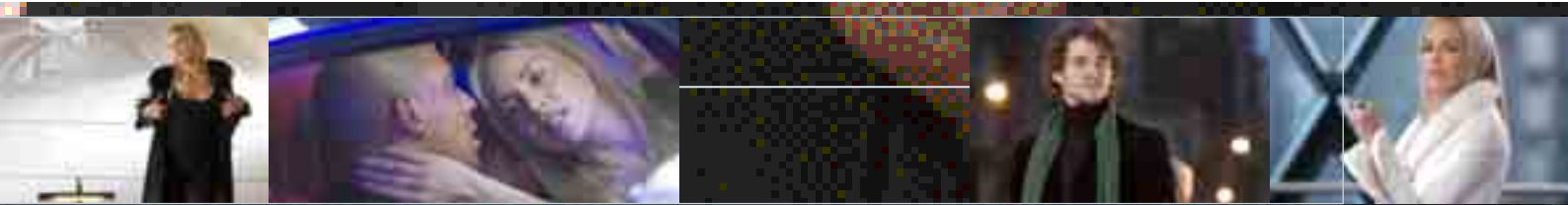
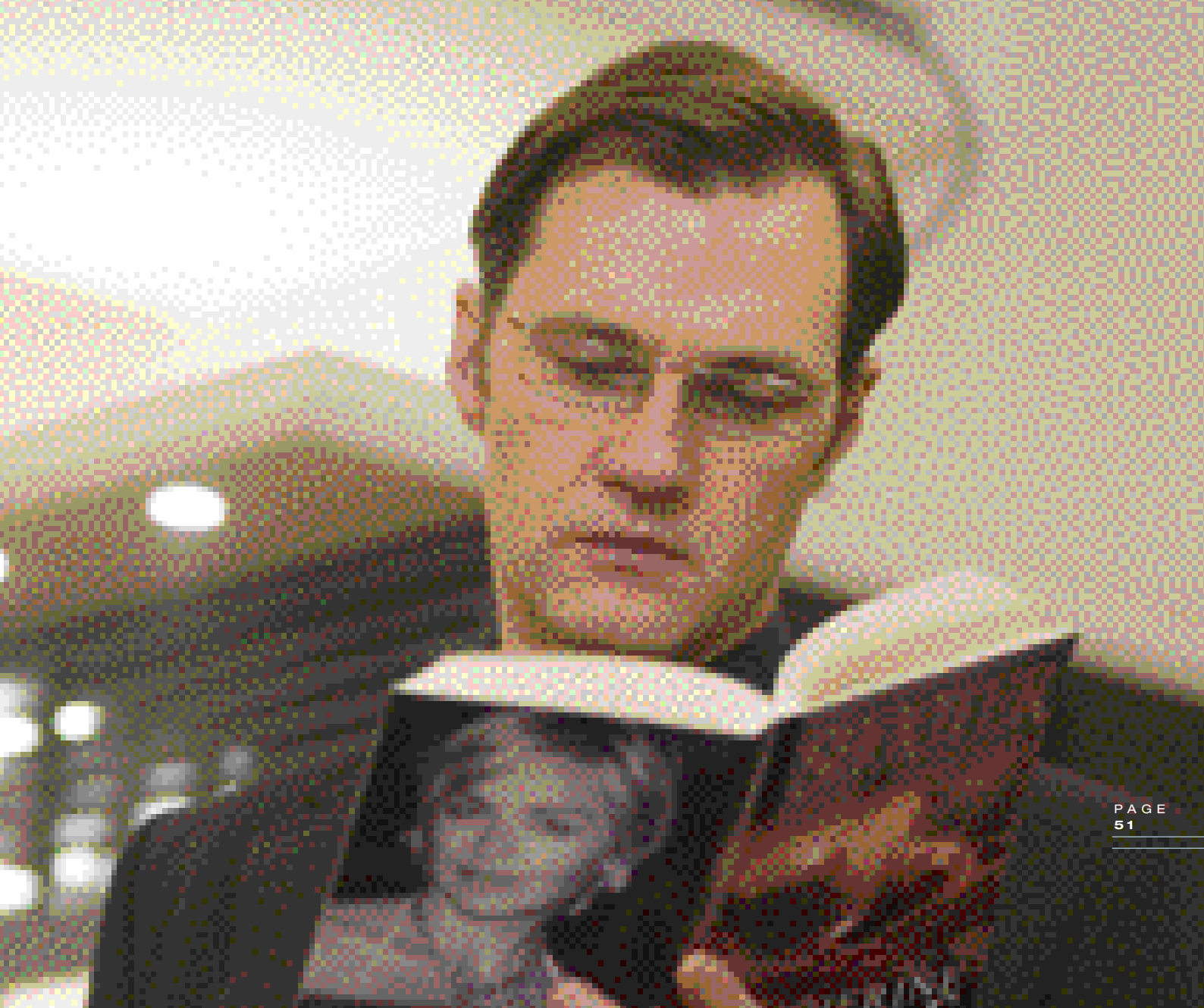
Shares of IM Internationalmedia AG have been traded in the Prime Standard Segment of the Frankfurt Stock Exchange since January 15, 2003. In essence, this segment compiles the titles from the DAX, MDAX, SDAX and TecDAX indices, those are the most liquid and, with regard to the market capitalization, the strongest corporations of the German stock exchange.





Financial Statements

Loss _ EBIT _ Tax _ Balance Sheet _ Assets _ Investments _ Film Development _ Liabilities _ Cash Flow _ Shareholders' Equity _ Results _ Fixed-Asset







Consolidated Income Statement

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2005



	Notes	2005	2004
[in K €]			
Revenues	(1)	23,004	187,152
Costs of goods sold	(2)	-11,410	-172,811
Gross profit		11,594	14,341
Other operating income	(3)	1,606	4,275
Project development costs	(4)	-4,988	-20,405
Distribution costs	(5)	-58	-173
General administration costs	(6)	-9,318	-12,734
Other operating expenses	(7)	-244	-3,993
Operating result (EBIT)		-1,408	-18,689
Result at equity		-467	-364
Finance income	(8)	112	187
Finance costs	(8)	-2,911	-5,675
Result before tax		-4,674	-24,541
Taxes on income and on profits	(9)	7,409	1,844
Result after tax		2,735	-22,697
Undiluted earnings per share (in €)	(10)	0.08	-0.71
Diluted earnings per share (in €)	(10)	0.08	-0.71





Consolidated Balance Sheet

AS OF DECEMBER 31, 2005

Assets	Notes	Dec 31, 2005	Dec 31, 2004
<i>[in K €]</i>			
Current assets			
Cash and cash equivalents	(11)	40,091	32,619
Trade accounts receivable	(12)	4,050	15,797
Film development costs	(13)	9,404	11,816
Other current assets	(14)	8,066	15,204
Total current assets		61,611	75,436
Non-current assets			
Fixed assets	(15)	358	611
Film and license assets	(16)	144,067	129,764
Other intangible assets	(16)	0	2
Investments in associated companies	(17)	34	8
Loans to associated companies	(17)	26	236
Other securities	(17)	6,127	5,197
Other non-current assets	(14)	0	426
Deferred tax assets	(18)	0	1,283
Total non-current assets		150,612	137,527
Total assets		212,223	212,963



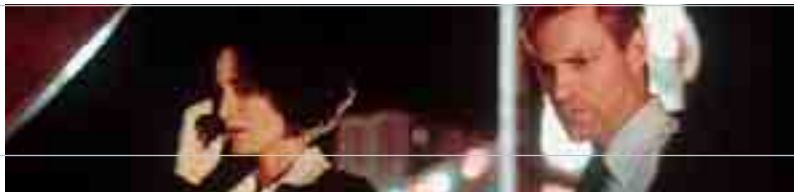
Shareholders' equity and liabilities	Notes	Dec 31, 2005	Dec 31, 2004
[in K €]			
Current liabilities			
Bank loans and overdrafts	(19)	38,876	50,615
Advanced payments received	(19)	5,810	4,315
Trade accounts payable	(19)	1,551	2,107
Other accrued liabilities	(20), (21)	22,652	26,904
Other current liabilities	(19)	163	95
Total current liabilities		69,052	84,036
Non-current liabilities			
Bank loans and overdrafts	(19)	18,454	18,412
Deferred tax liabilities	(22)	4,939	12,362
Liabilities from issuance of equity instruments	(19)	2,259	0
Other accrued liabilities	(20), (21)	66,351	63,982
Total non-current liabilities		92,003	94,756
Shareholders' equity			
Subscribed capital	(23)	42,600	31,950
Capital reserve		261,540	263,093
Net retained earnings		-188,274	-167,797
Currency translation adjustments (CTA)		-64,698	-93,075
Total shareholders' equity		51,168	34,171
Total shareholders' equity and liabilities		212,223	212,963



Consolidated Cash Flow Statement

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2005

[in K €]	Notes	2005	2004
Net income/loss		2,735	-22,697
Depreciation and amortization		9,160	139,013
Changes in non-cash accrued liabilities		-13,064	15,110
Changes in non-cash deferred taxes		-6,783	-4,148
Changes in capitalized development costs		-614	12,402
Changes in trade accounts receivable and other assets		30,906	23,760
Changes in other current assets		20	-22
Changes in trade accounts payable		-16,576	-14,997
Changes in other liabilities		1,008	-17,268
Income tax paid		0	-21
Cash flows from operating activities		6,792	131,132
Investments in intangible assets		-564	-71,318
Investments in fixed assets		-22	-52
Financial investments		-420	-354
Receipts from disposals of assets		0	11
Inflow/outflow from disposals of subsidiaries		1,120	-8,593
Cash flows from investing activities		114	-80,306
Proceeds from borrowings		4,644	72,863
Repayment of borrowings		-12,127	-105,793
Proceeds from issuance of equity instruments		10,004	0
Interests received		111	186
Interests paid		-2,066	-5,675
Cash flows from financing activities		566	-38,419
Net changes in cash and cash equivalents		7,472	12,407
Inflow/outflow from disposals of subsidiaries		0	8,593
Cash and cash equivalents at beginning of period		32,619	11,619
Cash and cash equivalents at end of period		40,091	32,619



Consolidated Statement of Shareholders' Equity



	Subscribed capital	Capital reserves	Net retained earnings	Currency translation adjustments (CTA)	Total
[in K €]					
Balance Jan 1, 2004	31,950	263,093	-166,435	-69,438	59,170
Result after tax			-22,697		-22,697
Translation differences			21,335	-23,637	-2,302
Balance Dec 31, 2004	31,950	263,093	-167,797	-93,075	34,171
Balance Jan 1, 2005	31,950	263,093	-167,797	-93,075	34,171
Result after tax			2,735		2,735
Equity instruments		543			543
Capital Increase	10,650	-2,120			8,530
Stock options		24			24
Translation differences			-23,212	28,377	5,165
Balance Dec 31, 2005	42,600	261,540	-188,274	-64,698	51,168





Notes to the Consolidated Schedule of non-current Asset

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2005

[in K €]	Brought forward Jan 1, 2005	Additions	A C Q U I S I T I O N	
			Disposals	Currency translation adjustments (CTA)
Intangible assets				
Film and licence assets	425,454	3,590	0	63,833
Goodwill	58,589	0	-1,272	8,790
Other intangible assets	25	0	0	4
	484,068	3,590	-1,272	72,627
Fixed assets				
Other equipment, operating and office equipment	2,441	33	-110	366
	2,441	33	-110	366
Financial assets				
Investments in associated companies	1,107	515	0	166
Loans to associated companies	1,147	0	-1,165	172
Other securities	5,197	150	0	780
	7,451	665	-1,165	1,118
Total non-current assets	493,960	4,288	-2,547	74,111

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2004

[in T€]	Brought forward Jan 1, 2004	Additions	A C Q U I S I T I O N	
			Disposals	Currency translation adjustments (CTA)
Intangible assets				
Film and licence assets	615,357	71,318	-216,452	-44,769
Goodwill	75,499	0	-11,417	-5,493
Other intangible assets	27	0	0	-2
	690,883	71,318	-227,869	-50,264
Fixed assets				
Other equipment, operating and office equipment	3,041	52	-431	-221
	3,041	52	-431	-221
Financial assets				
Investments in associated companies	953	223	0	-69
Loans to associated companies	1,489	0	-234	-108
Other securities	5,464	131	0	-398
	7,906	354	-234	-575
Total non-current assets	701,830	71,724	-228,534	-51,060



Financial Statements

Movements

C O S T S		Brought forward Jan 1, 2005	Additions	Disposals	D E P R E C I A T I O N		Balance Dec 31, 2005	B O O K V A L U E	
Balance Dec 31, 2005					Currency translation adjustments (CTA)			Book value Dec 31, 2005	Book value Dec 31, 2004
492,877		295,690	8,338	0	44,782		348,810	144,067	129,764
66,107		58,589	0	-1,211	8,729		66,107	0	0
29		23	2	0	4		29	0	2
559,013		354,302	8,340	-1,211	53,515		414,946	144,067	129,766
2,730		1,830	354	-99	287		2,372	358	611
2,730		1,830	354	-99	287		2,372	358	611
1,788		1,099	467	0	188		1,754	34	8
154		911	0	-875	92		128	26	236
6,127		0	0	0	0		0	6,127	5,197
8,069		2,010	467	-875	280		1,882	6,187	5,441
569,812		358,142	9,161	-2,185	54,082		419,200	150,612	135,818

C O S T S		Brought forward Jan 1, 2004	Additions	Disposals	D E P R E C I A T I O N		Balance Dec 31, 2004	B O O K V A L U E	
Balance Dec 31, 2004					Currency translation adjustments (CTA)			Book value Dec 31, 2004	Book value Dec 31, 2003
425,454		384,172	138,147	-204,195	-22,434		295,690	129,764	231,185
58,589		75,499	0	-11,417	-5,493		58,589	0	0
25		19	7	0	-3		23	2	8
484,068		459,690	138,154	-215,612	-27,930		354,302	129,766	231,193
2,441		1,858	527	-410	-145		1,830	611	1,183
2,441		1,858	527	-410	-145		1,830	611	1,183
1,107		827	332	0	-60		1,099	8	126
1,147		982	0	0	-71		911	236	507
5,197		0	0	0	0		0	5,197	5,464
7,451		1,809	332	0	-131		2,010	5,441	6,097
493,960		463,357	139,013	-216,022	-28,206		358,142	135,818	238,473

I. General

DESCRIPTION OF GROUP ACTIVITIES

IM Internationalmedia AG is registered under No. HR B 130722 with the Commercial Register of the Munich District Court and its registered office is in Munich, Germany. Group activities include production, sale and distribution of media productions, principally feature films and films for television, television series and mini-series. Also included are services to the film and television industry and the acquisition and holding of investments in companies in the same sector.

The present consolidated financial statements were authorized to be released on March 27, 2006 by the management and supervisory board.

ACCOUNTING POLICIES

IM Internationalmedia AG's group financial statements for the financial year January 1, 2005 to December 31, 2005 were prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) in accordance with § 315a of the HGB (German Commercial Code) being in line with the European Community's Accounting Directives Act. Since IM Internationalmedia AG is quoted on the Prime Standard Segment of the German Stock Exchange, it is required to prepare its financial statements in accordance with the regulations of the IFRS.

In both the consolidated income statement and the consolidated balance sheet, various items are combined in order to give a clearer view. The individual items are explained in detail under the corresponding reference number in the notes. The consolidated income statement was drawn up as per the cost of sales format according to international standards. In the cash flow statement the flow of payments are formatted as per IAS 7 conforming to international practice organized by areas of cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

The consolidated financial statements show the consolidated results of the company and its affiliates in which it has a majority holding.



USE OF ESTIMATES

The preparation of final statements in accordance with IFRS regulations requires the use of estimates and assumptions, which have an effect on the values of assets, liabilities and financial obligations at year-end and on the income and expenditures of the financial year shown therein. Actual results may deviate from these estimates and assumptions. Estimates are used for the amortization of film assets and for additions and releases of accrued liabilities.

FIRST-TIME APPLICATION OF REGULATIONS

The following regulations, as revised in conjunction with the “Improvement Project” of the IASB, were applied for the first time in the fiscal year 2005: IAS 1 (“Presentation of Financial Statements”), IAS 2 (“Inventories”), IAS 8 (“Accounting Policies, Changes in Accounting Estimates and Errors”), IAS 10 (“Events after the Balance Sheet Date”), IAS 16 (“Property, Plant and Equipment”), IAS 17 (“Leases”), IAS 21 (“The Effects of Changes in Foreign Exchange Rates”), IAS 24 (“Related Party Disclosures”), IAS 27 (“Consolidated and Separate Financial Statements”), IAS 28 (“Investments in Associates”), IAS 31 (“Interests in Joint Ventures”), IAS 33 (“Earnings per Share”), IAS 39 (“Financial Instruments – Recognition and Measurement”) and IAS 40 (“Investment Property”). Furthermore, the IASB issued new or revised standards in 2004/2005, as follows: IFRS 3 (“Business Combinations”), IFRS 4 (“Insurance Contracts”), IFRS 5 (“Non-current Assets Held for Sale and Discontinued Operations”), IFRS 6 (“Exploration for and Evaluation of Mineral Resources”), IAS 32 (“Financial Instruments – Disclosure and Presentation”), IAS 36 (“Impairment of Assets”), IAS 38 (“Intangible Assets”), Amendment to IAS 19 (“Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure”), Amendment to IAS 39 (“Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk”) and Amendment to IAS 39 (“Financial Instruments: Transition and Initial Recognition of Financial Assets and Financial Liabilities”). The implementation of these changed and amended regulations (as far as applicable for the group’s financial statements) only had immaterial effects on the consolidated financial statements as of December 31, 2005.

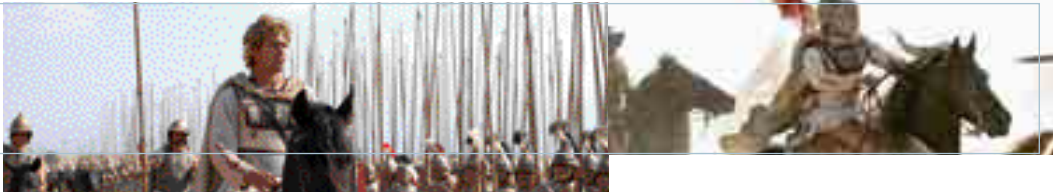
The regulations of IFRS 2 “share-based payment” were adopted for the first time. Thus the fair value of the employee services received in exchange for the grant of the options is recognized as an expense over the vesting period. The implementation of this standard for employee stock options (granted after November 7, 2002 and not yet exercisable when IFRS 2 came into effect) had a negative impact of 24,000 euros on the result, of which 22,000 euros related to prior years and 2,000 euros were current year expenses. Considering the marginal impact, the entire effect was recognized in the financial year 2005 and adjustments to prior years were not made.

IFRS 7 (“Financial Instruments: Disclosures”), IFRIC 4 (“Determining whether an arrangement contains a lease”), IFRIC 5 (“Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”) and IFRIC 6 (“Liabilities arising from Participation in a Specific Market-Waste Electrical and Electronic Equipment”) were early adopted. However, the implementation did not have any impact on the consolidated financials, because the Internationalmedia group does not have corresponding assets and the disclosure of shareholders’ equity and liabilities kept unchanged respectively.

EXPLANATION OF SIGNIFICANT DIFFERENCES BETWEEN IFRS CONSOLIDATED FINANCIAL STATEMENTS AND GERMAN ACCOUNTING REGULATIONS

The main differences in accounting, valuation and consolidation methods according to German law (HGB, DRS) include the capitalization of internally generated intangible assets and the recognition of revenues. In addition, there are further differences in the reporting and valuation of goodwill, receivables, accrued liabilities and other liabilities.

Self-generated intangible assets, in particular film and merchandising rights, were capitalized on the basis of the film-forecast-computation-method in these consolidated IFRS financial statements. The relevant IFRS principles prescribe that the individually attributable costs of production or acquisition of film or licensing assets must be capitalized until the commencement of the license period for a film or film right. Amortization of film and license assets according to the film-forecast-computation-method is effected dependent on exploitation. Amortization occurs over a period of 20 years (amortization dependent on distribution), corresponding to the share of total revenues resulting from exploitation. The amount of the additions and amortization



during the financial year is further explained in the report on accounting methods. According to the German Commercial Code (HGB) capitalization of self-generated intangible assets is forbidden. Therefore they are treated as expenses when they are incurred.

In the consolidated balance sheet the diverging valuation according to IFRS of assets and liabilities at the year-end is relevant. Assets and liabilities in foreign currencies in the IFRS consolidated financial statements are valued at the exchange rate on the closing date regardless of the historical rate. This is contrary to the rules of the HGB where the lowest/highest value principle for assets and liabilities respectively is used.

Accrued liabilities and other liabilities, which are either interest or non-interest bearing, are reported under IFRS at their present value. In contrast, the German Commercial Code uses nominal values or amounts repayable.

The recognition of revenues according to German Commercial Code (HGB) is triggered at delivery to distribution partners, whilst under International Accounting Standards used by the Internationalmedia group the release in one of the territories, where the distribution rights are owned, is relevant.

IFRS's more detailed criteria for disclosure were applied in the notes (including details of earnings per share, etc), rather than those of the Commercial Code.

CONSOLIDATED GROUP

47 companies are fully consolidated in the financial statements of the Internationalmedia group. Three joint ventures are valued according to the equity method. Four companies are included in the consolidated financial statements for the first time in the current financial year, Box TV Limited, UK, London, has been sold for 765 T GBP.

The Internationalmedia group's shares in the three joint ventures amount to 918,800 euros in current assets, 1,000 euros in non-current assets, 231,100 euros in current liabilities, 0 euros in non-current liabilities, 695,500 euros of income and 1,162,100 euros of expenses. The proportional net expenses are shown in the result at equity.





SIGNIFICANT SUBSIDIARIES OF IM INTERNATIONALMEDIA AG

We refer to the summary of affiliated companies of IM Internationalmedia AG in the financial statements of IM Internationalmedia AG according to HGB under reference number (20).

Subsidiaries	Equity interest	Shareholders' equity ¹⁾ [in K €]	Result after taxes ¹⁾ [in K €]
Intermedia Film Equities Ltd., London ²⁾	100 %	69,368.2	6,477.4
Intermedia Film Equities USA, Inc., Los Angeles ²⁾	100 %	-50,391.2	-10,172.9
Pacifica Film Distribution LLC, Los Angeles	100 %	-15.2	0
Pacifica Film Development, Inc., Los Angeles	100 %	-2,315.7	-46.4
IM Filmproduktions- und Vertriebs GmbH & Co. KG, Grünwald	100 %	58,257.7	6,110.0
IM Filmproduktions GmbH, Grünwald	100 % ³⁾	-1,242.3	-956.2
¹⁾ Information as of December 31, 2005 according to IFRS ²⁾ Subgroup ³⁾ Indirect participation			

FIRST TIME FULLY CONSOLIDATED SUBSIDIARIES

Subsidiaries	Equity interest	Time of first inclusion
Intermedia Worldwide Distribution, Inc., USA, Los Angeles	100%	January 2, 2005
Intermedia Film Distribution 2005 Limited, UK, London	100%	January 28, 2005
Meredith Services Limited, UK, London	100%	December 15, 2005
Gordian Productions Limited, UK, London	100%	December 15, 2005

All companies included in the consolidated financial statements for the first time were newly incorporated.



CONSOLIDATION PRINCIPLES

UNIFORM GROUP ACCOUNTING AND VALUATION

The consolidated financial statements of IM Internationalmedia AG are based on uniform rules to the group's balance sheet date and on the audited year-end financial statements of the individual group companies.

FULL CONSOLIDATION

Companies under the direct or indirect control of IM Internationalmedia AG are fully consolidated. Joint ventures and affiliated companies, for which a significant influence exists, are consolidated using the equity method and are initially recognized at cost. The difference between the cost of acquisition and the fair value of identifiable assets, liabilities and contingent liabilities is recorded as goodwill within the investments in associated companies. The share of the joint ventures' and associated companies' post-acquisition profits or losses is recognized in the income statement and the share of post-acquisition movements in reserves is recognized in reserves.

So far the book value method was used for capital consolidation of the fully consolidated companies, setting the purchase price against the groups' share of equity in the consolidated subsidiaries held at time of acquisition or of first-time consolidation. If valued higher than the share in equity, the difference was allocated to the assets of the financial statements of the respective subsidiary. The remaining difference after allocation is shown as goodwill. Goodwill was amortized according to plan.

For fiscal years and/or business combinations dated after March 31, 2004 the Internationalmedia group adopted IFRS 3. According to this new standard the purchase method must be applied. Furthermore, goodwill and other intangible assets with undefined useful life are tested for impairment at least once a year.

Group receivables and liabilities between fully consolidated companies were offset. In the case of earnings, intercompany revenues and expenses are eliminated during consolidation.



CURRENCY TRANSLATION

INDIVIDUAL FINANCIAL STATEMENTS IN FOREIGN CURRENCIES

Monetary positions in foreign currencies reported in individual balance sheets of consolidated companies are valued with the exchange rate on the closing date in accordance with IAS 21.

The main operational activities of the company are settled in US-dollars. The US-dollar therefore also serves as the functional currency. The consolidated financial statements were also prepared in US-dollars. The Internationalmedia group decided to use the euro (€) for the presentation of the consolidated financial statements. According to IAS 21 regarding the conversion from the functional currency into the presentation currency all items on the balance sheet are converted at the exchange rate on the closing date, except for subscribed capital and capital reserves. Items in the income statements are converted at the average rate for the financial year. Conversion differences arising from the conversion of functional currency into the presentation currency are set against shareholders' equity in the "cumulative translation adjustment" (CTA) position with no effect on income.

TRANSACTION CONVERSIONS

The exchange rate pertaining to individual transaction dates was used as the basis for converting the individual balance sheet items of the consolidated German and English companies. Where required, a new valuation of the respective balances was performed on the closing date.

SEGMENT REPORTING

With the exception of a regional allocation of sales revenues in item (1) of the notes, segment reporting was not generated since the Internationalmedia group's internal management and organizational structure ("management approach") does not produce different types of products that could be differentiated by profitability rates, growth rates, future prospects or risks. Therefore, no reasonable regional segment reporting for results and assets can be provided.

Based on the future impact of the implementation of the adjusted strategy to expand the groups' development, finance, production and distribution activities to genre and TV films, series and mini-series the company has adjusted its structure for the financial year 2005 and will report two segments (Cinema and TV) in future financial statements.



ACCOUNTING PRINCIPLES

REVENUE AND REVENUE RECOGNITION

The Internationalmedia group generates revenues from the production of films and worldwide distribution of film rights. Revenues are mainly generated from production and financing fees and licensing of film distribution rights.

Where the group does not already have distribution rights because the group produced the underlying film, the group obtains the necessary licenses from the licensor for particular countries and time periods.

On the basis of the acquired distribution rights, the group grants sublicenses for limited periods and for defined territories worldwide. Revenue is recognized when the film is released in one of the major territories for which the Internationalmedia group has the distribution rights.

PAGE
67

VALUATION OF FILM AND LICENSE ASSETS

All product-related costs are capitalized in accordance with IAS 23 and IAS 38 and amortized over the lifespan according to the film-forecast-computation-method described in the regulation of US-GAAP. This internationally recognized method prescribes that amortization is charged in relation of current distribution revenues to total distribution revenues. Total distribution revenues are forecasted for 20 years. SOP 00-2 prescribes a period of 10 years. Customary security interests are given to financiers.

In general, all directly attributable expenses for production or purchase of film assets are capitalized until start of exploitation. Capitalized production costs include external costs for acquisition of screenplays and film production as well as actors' fees, etc. In addition, directly attributable debt interest expenses are included according to IAS 23. In total, interest on debt was capitalized in the amount of 174,300 euros (previous year 385,400 euros).

In 2005, film production costs of 3,415,700 euros (previous year 70,933,100 euros) were capitalized.

INTANGIBLE ASSETS

Acquired intangible assets are reported at acquisition or production costs. Computer software depreciation is linear over its estimated life span of three to five years.

FIXED ASSETS

Fixed assets are valued at acquisition cost less depreciation in accordance with IAS 16. The following life spans for individual fixed asset items are applied:

	Depreciation in years
Computer hardware	3 – 5
Office and business equipment	4 – 10

IMPAIRMENT OF ASSETS

Assets that have an undefined useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

FINANCIAL ASSETS

Financial assets include investments in associated companies, loans to associated companies and other securities.



Financial assets are classified in the following categories: loans and receivables and held to maturity investments. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. Loans initially are recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Provisions for impairment are established when there is objective evidence that amounts due are not collectable. Other securities are valued according to market value.

Investments in associated companies are valued according to the equity method.

The development of intangible assets, fixed and financial assets are shown in the schedule of non-current asset movements on page 1 of these notes.

CAPITALIZED DEVELOPMENT COSTS

Inventories are valued according to IAS 2 regulations at the lower of acquisition costs or net realizable value. Inventories mainly comprise capitalized project development costs (i.e. underlying rights, development, location scouting, etc.), which are recorded according to the individual costs allocated to each project and written off after three years at the latest. A reclassification to film assets is performed with the start of production.

RECEIVABLES

Receivables are stated at fair value. Based on the short term nature the acquisition costs correspond to the nominal value. Appropriate allowances for doubtful receivables are recorded.

OTHER ASSETS

Other assets and prepaid expenses are valued at their acquisition costs. Individual risks are accounted for by appropriate allowances. Prepaid expenses are stated if payments are performed for expenses of future periods.



CASH AND CASH EQUIVALENTS

Cash includes cash on hand and bank balances with maturities less than three months. Cash is valued according to its market value.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or equity instruments are shown in equity as a deduction, net of tax.

LIABILITIES

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized costs; any difference between the proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

ACCRUED LIABILITIES

According to IAS 37 accrued liabilities are recorded when there is a legal or de facto obligation to third parties as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The posted value of accrued liabilities is based on those amounts required to cover future payment obligations, recognizable risks and contingent liabilities of the group.



DEFERRED TAXES

Deferred taxes are accounted for temporary differences between statutory/consolidated balance sheet items and tax values. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. In accordance with IAS 12.47 these deferred taxes are calculated using tax rates that will be valid when the differences will be reversed or compensated. Deferred tax assets and liabilities are reported net on the basis of similar terms and jurisdictions.

LEASING TRANSACTIONS

As of the balance sheet date, the Internationalmedia group entered into five sale-and-leaseback transactions accounted for in accordance to SIC-27. The company sold a limited number of film rights and/or materials and leased them back over a period of 15 years. Out of the 32,448,100 euros receivables and payables shown net in the balance sheet, 2,115,000 euros have a maturity of one year, 11,558,400 euros between one and five years and 18,774,700 more than five years. The benefits include the reduction of the corresponding capitalized production costs und there-with future amortizations.

STOCK OPTION PLANS

IM Internationalmedia AG operates a share-based compensation plan. The fair value of the employee service received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of the original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and capital reserve when the options are exercised.

II. Notes to the Consolidated Income Statement

(1) REVENUES

Revenues by geographical markets (each by country of licensee) have the following structure:

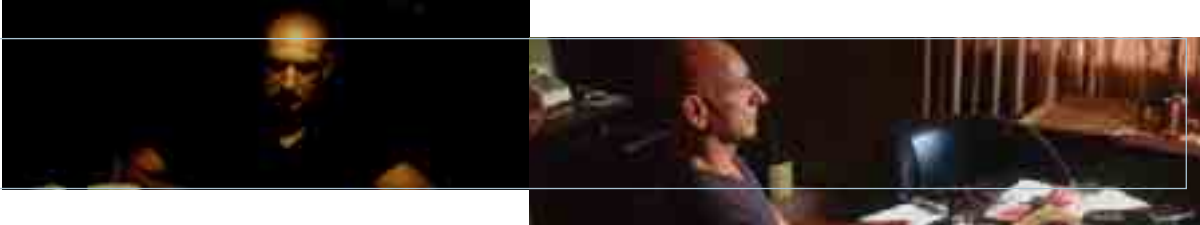
Revenues by geographical markets [in K €]	2005	2004
Europe	11,576	40,998
North America	6,549	113,339
Asia	2,449	24,342
Other regions	2,430	8,473
Total	23,004	187,152

(2) COSTS OF GOODS SOLD

Production costs necessary for the attainment of revenues amounted to 11,410,400 euros.

Costs of goods sold include the following items:

Cost of goods sold [in K €]	2005	2004
Film rights amortization	8,338	138,147
Other costs of materials (residuals, participations, repatriation of share capital)	3,072	34,664
Total	11,410	172.811



(3) OTHER OPERATING INCOME

Other operating income amounting to 1,606,000 euros mainly consisted of the following items:

Other operating income <i>[in K €]</i>	2005	2004
Income from disposal of subsidiaries/associated Companies	1,082	4,196
Foreign exchange gains	119	44
Other	405	35
Total	1,606	4,275

(4) PROJECT DEVELOPMENT COSTS

The write-off in the amount of 4,988,300 euros (previous year 20,405,200 euros) for inactive or abandoned film development projects is included in project development costs.

(5) DISTRIBUTION COSTS

In 2005 distribution costs amounted to 57,600 euros. The individual items are set out in the following table:

Distribution costs <i>[in K €]</i>	2005	2004
Personnel expenses	56	168
Advertising and travel expenses	2	1
Other costs	0	4
Total	58	173

(6) GENERAL ADMINISTRATION COSTS

In 2005, general administration costs amounted to 9,317,800 euros. They consisted of the following items:

General administration costs [in K €]	2005	2004
Personnel expenses	5,167	7,080
Consulting expenses	1,536	1,415
Costs related to premises	1,107	1,116
Depreciation	355	534
Advertising and travel expenses	157	201
Expenses for stock options	24	0
Other costs	972	2,388
Total	9,318	12,734

EXPENSES BY NATURE

Expenses by nature [in T€]	2005	2004
Depreciation/amortization of fixed and intangible assets and impairment	8,693	138,681
Personnel expenses	5,223	7,248
Other costs of materials	3,072	34,664
Total	16,988	180,593



(7) OTHER OPERATING COSTS

Other operating costs amounting to 244,000 euros comprise the following items:

Other operating costs <i>[in K€]</i>	2005	2004
Foreign exchange losses	77	3,941
Losses on disposal of fixed assets	11	8
Allowance for bad and doubtful receivables	156	37
Other	0	7
Total	244	3,993

(8) FINANCIAL RESULT

The financial result for the fiscal year 2005 came to - 2,799,400 euros and comprised:

Financial result <i>[in T€]</i>	2005	2004
Other interest receivable and similar income	112	187
Other interest payable and similar costs	-2,911	-5,675
Total	-2,799	-5,488

(9) TAXES ON INCOME AND ON PROFITS

The tax result for the financial year 2005 consists of the following individual items: income from the release of accruals for deferred taxes of 7,428,500 and current tax expenses of 19,300 euros. Tax income is calculated by applying the German tax rate of 40.86 percent.

Financial Statements

Determination of the German tax rate

Corporate income tax rate	25.00 %
Solidarity surcharge	1.40 %
Trade tax	14.46 %
Calculated German tax rate	40.86 %

Reconciliation of tax result

[in K €]

	2005	2004
Result before tax	-4,674	-24,541
Calculated tax income/expenditure at tax rate of 40.86 %	1,909	10,027
Effects from sale of Initial Entertainment Group, Inc.	0	1,714
Non-deductible tax losses	-4,939	-11,079
Used tax losses carried forward	10,740	2,914
Non-deductible operating expenses	-110	-1,715
Divergent foreign tax rate	0	143
Taxes from previous years	0	-11
Result from equity investments	-191	-149
Actual tax income	7,409	1,844

Deferred taxes amounting to 7,428,500 euros were calculated as follows:

Deferred taxes

[in K €]

	2005	2004
Temporary differences in film assets	7,423	10,221
Temporary differences in film receivables	0	1,770
Temporary differences in other assets	0	-264
Temporary accounting differences from other provisions and liabilities	-1,283	250
Losses carried forward	0	-9,480
Exchange rate changes	1,289	-660
Total	7,429	1,837



Temporary differences [in K €]	Dec 31, 2005		Dec 31, 2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences in film assets	10,740	15,679	2,914	15,276
Temporary differences from other provisions and liabilities	0	0	1,283	0
Total temporary differences	10,740	15,679	4,197	15,276
Total (net)	0	4,939	1,283	12,362

(10) EARNINGS PER SHARE

Basic earnings per share are calculated according to IAS 33 by dividing the result after tax minus minority interest by the weighted average number of outstanding shares.

Earnings per share	2005	2004
Net income/loss (in K €)	2,735	-22,697
Weighted average number of shares outstanding	32,504,760	31,950,370
Undiluted earnings per share (in €)	0.08	-0.71
Net income/loss (in K €)	2,735	-22,697
Bond with warrants	33	0
Zero coupon convertible bond	12	0
Stock options	24	0
Diluted earnings	2,804	-22,697
Weighted average number of shares outstanding	32,504,760	31,950,370
Weighted average number of potential shares from bond with warrants	0	0
Weighted average number of potential shares from zero coupon convertible bond	0	0
Weighted average number of potential shares from stock options	0	0
Sum of weighted number and potential shares in units	32,504,760	31,950,370
Diluted earnings per share (in €)	0.08	-0.71

III. Notes to the Consolidated Balance Sheet

ASSETS

CURRENT ASSETS

(11) CASH AND CASH EQUIVALENTS

Liquidity, recorded at its nominal value, consists of cash on hand and bank balances; these amounted to 40,091,200 euros. The bulk of the amount is destined for current productions. The effective interest rates for short-term bank deposits varied between 2.1 percent and 5.52 percent.

(12) TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable relate to the licensing of films. The book value of the receivables approximates the fair market value.

(13) CAPITALIZED FILM DEVELOPMENT COSTS

Capitalized development costs consist mainly of film development and pre-production costs. In the fiscal year 2005 development costs in the amount of 4,988,300 euros (previous year 20,405,200 euros) were depreciated.



(14) OTHER ASSETS

The breakdown of other assets is shown in the following chart:

Other assets <i>[in K€]</i>	Dec 31, 2005	Dec 31, 2004
Pre-payments for film productions	7,060	14,719
Tax refund claims	512*	474*
Accrued interest	14	13
Receivables from employees	28	33
Prepaid expenses	212	232
Miscellaneous other assets	240	159
Total	8,066	15,630
* maturity of more than 1 year	0	426

The book value of the other assets approximates the fair market value.

NON - CURRENT ASSETS

(15) FIXED ASSETS

The change in fixed assets is mainly a result of foreign exchange currency effects and depreciations.



(16) INTANGIBLE ASSETS

Intangible assets mainly comprise the film and license assets. Film rights amortizations include an extraordinary correction (impairment loss) in the amount of 1,085.400 euros. This correction relates to one library title for which forecasted revenues for individual territories were not realized.

(17) FINANCIAL ASSETS

Financial assets consist of investments in and loans to associated companies. The financial assets are consolidated at equity, the loans are valued at acquisition cost.

Other securities include a zero bond, which was pledged as security for the film loan of SUSPECT ZERO granted by the State of New Mexico.

(18) DEFERRED TAX ASSETS

Further explanations regarding capitalized deferred taxes are to be found under note (9) "Taxes on income and on profits". The Internationalmedia group has not capitalized any deferred taxes. The group has remaining carried forward tax losses in the amount of 247,232,000 euros (previous year 232,266,000 euros) which can be offset against future taxable income.



SHAREHOLDERS' EQUITY AND LIABILITIES

(19) LIABILITIES

Liabilities to banks are secured by assignments of parts of cash flows resulting from the film stock and an open assignment of receivables from sale of licenses. Liabilities to banks include a non-interest bearing loan from the State of New Mexico amounting to 6.2 million euros, which is adequately pledged by a zero bond; the bond is capitalized in the financial assets. The loan was borrowed in December 2002 and will be repaid in 2007.

In the financial year 2005 IM Internationalmedia AG has issued a bond with warrants as well as a zero coupon convertible bond. Both instruments are accounted for in accordance to the revised standards of IAS 32 and IAS 39. Liabilities from the issuance of equity instruments include the liability part of the bond with warrants issued on September 6, 2005 and the liability part of the zero coupon convertible bond 2005/2010, which was issued in connection with a public offering on December 12, 2005. The negative effect of the post-issuance valuation in the amount of 45,000 euros was expensed.

The zero coupon convertible bond is due on June 30, 2009, the bond with warrants on October 31, 2010.

The liabilities are made up as follows:

Liabilities <i>[in K€]</i>	Maturity		Dec 31, 2005	Maturity		Dec 31, 2004
	Up to 1 year	More than 1 year	Total	Up to 1 year	More than 1 year	Total
Bank loans and overdrafts	38,876	18,454	57,330	50,615	18,412	69,027
Liabilities from issuance of equity instruments	0	2,259	2,259	0	0	0
Payments received on account of orders	5,810	0	5,810	4,315	0	4,315
Trade accounts payable	1,551	0	1,551	2,107	0	2,107
Other liabilities	163	0	163	95	0	95
Total	46,400	20,713	67,113	57,132	18,412	75,544

The book value of the liabilities approximates the fair value. The band of interest rates for liabilities lies between 3.2 percent and 13.0 percent.



(20) OTHER ACCRUED LIABILITIES

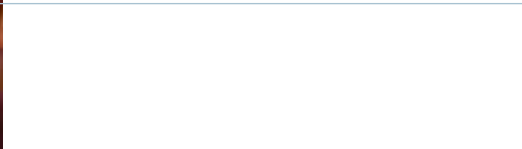
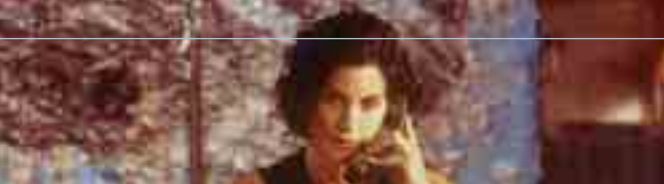
Accrued liabilities for residuals and participations include net proceed participations and equity repatriation obligations to producers.

Other accrued liabilities are set out in the following table:

Other accrued liabilities [in K\$]	Dec 31, 2005 Maturity		Dec 31, 2004 Maturity	
	Up to 1 year	More than 1 year	Up to 1 year	More than 1 year
Accrued liabilities for residuals and participations	20,643	66,351	23,827	63,982
Accrued liabilities for personnel	268	0	681	0
Other accrued liabilities	1,741	0	2,396	0
Total	22,652	66,351	26,904	63,982

(21) SCHEDULE OF ACCRUED LIABILITIES

Accrued liabilities schedule [in K\$]	Accrued liabilities for:			
	Residuals	Personnel	Other	Total
Balance on Jan 1, 2005	87,809	681	2,396	90,886
Additions	3,334	190	1,436	4,960
Utilization	-14,625	-347	-2,396	-17,368
Releases	-380	-275	0	-655
CTA	10,856	19	305	11,180
Total Dec 31, 2005	86,994	268	1,741	89,003



(2 2) D E F E R R E D T A X L I A B I L I T I E S

Further information concerning deferred taxes is to be found in note (9) “Taxes on Income and on Profits”.

E Q U I T Y

(2 3) S U B S C R I B E D C A P I T A L

The subscribed capital of IM Internationalmedia AG amounting to 42,600,493 euros on the closing date consists of 42,600,493 no-par value bearer shares with a mathematical interest in capital of 1 euro each. Subscribed capital was fully paid in.

A U T H O R I Z E D C A P I T A L

In the fiscal year 2005 the Authorized Capital 2004/I was used in connection with a capital increase for cash in the amount of 10,650,123 euros.

C O N T I N G E N T C A P I T A L

With resolution of the Annual General Meeting on August 23, 2005 the Contingent Capital 2000 was partly repealed. The contingent increase by issuance of new no-par value bearer shares to avail stock option rights of IM Internationalmedia AG’s Stock Option Plan 2000 is now limited to an amount of up to 300,000 euros. In addition, the Contingent Capital 2004/I was also partly repealed. The contingent increase by the issuance of new no-par value bearer shares to owners or creditors of options and/or convertible bonds is therefore limited to an amount of up to 13,975,185 euros.

Neither the Contingent Capital 2000 nor the Contingent Capital 2004/I was used in the financial year 2005. As of December 31, 2005 a total of 83,965 partial bearer notes from the zero coupon convertible bond with a nominal value of 20.00 euros were issued.

The Annual General Meeting on August 23, 2005 also authorized a contingent increase of subscribed capital by up to 1,700,000 euros by the issuance of up to 1,700,000 no-par value bearer shares (Contingent Capital 2005/I). This contingent capital is used to secure rights in connection with stock options, which can be issued between August 24, 2005 and August 23, 2009 based on Annual General Meeting's authorization regarding the Stock Option Plan 2005.

In the fiscal year 2005 the Contingent Capital 2005/I was not used.

(24) CONTINGENCIES

Guarantees in the amount of 33,855,400 euros for film productions and loans were set up.

(25) OTHER CONTINGENT LIABILITIES

On the balance sheet date the following financial obligations were outstanding, resulting from services, rentals and lease obligations:

Other financial liabilities [in K €]	Up to 1 year	Between 1 and 5 years	More than 5 years	Dec 31, 2005 Total	Dec 31, 2004 Total
Rental and leasing contracts	1,039	154	0	1,193	1,767
Producer and writer contracts	457	0	0	457	2,253
Total	1,496	154	0	1,650	4,020



I V . N o t e s t o t h e C a s h F l o w S t a t e m e n t

(2 6) C A S H F L O W F R O M O P E R A T I N G A C T I V I T I E S

Cash flow from operating activities decreased due to lower business volume and the related lower inflow of minimum guarantee payments during the reporting year. The non-cash element of interest outflows and of income is recognized under changes in other liabilities and accrued liabilities, and under other current assets.

(2 7) C A S H F L O W F R O M I N V E S T I N G A C T I V I T I E S - I N V E S T M E N T I N I N T A N G I B L E A S S E T S

Investments in film and license assets, including payments on account, are shown under investing activities within the cash flow statement.

(2 8) C A S H F L O W F R O M I N V E S T I N G A C T I V I T I E S - O U T F L O W F R O M D I S P O S A L S O F S U B S I D I A R I E S A N D A S S O C I A T E D C O M P A N I E S

The inflow is a result of the disposal of Box TV Limited, UK, London.

(2 9) C A S H F L O W F R O M F I N A N C I N G A C T I V I T I E S

The positive cash flow from financing activities is mainly a result of the capital restructuring 2005.

(3 0) C A S H A N D C A S H E Q U I V A L E N T S

The cash and cash equivalents consist of cheques, cash on hand and bank.

V. Risk Management

The Internationalmedia group is exposed to a number of risks that may influence the financials, assets and income position of the group. The company has therefore implemented a risk management system for the entire group, which provides the management with early indicators and benchmarks in order to take the appropriate measures to avoid and to reduce the negative consequences stemming from those risks. The following examples show some of the typical risks of the Internationalmedia group.

Monetary Risk

The Internationalmedia group's cash and cash equivalents are mainly invested in the money market. This balances the need to safeguard the group's immediate ability to pay with finding the best possible return.

Investments are also made in time deposits with maturities of between one and six months. Such investments are always based on the LIBOR (London Interbank Offered Rate) and, because of their much smaller risk factor, are preferred to higher-risk securities offering a higher return.

In general, liabilities connected with film productions are generally secured by the film itself as well as by the completion bond. The latter is a completion guarantee granted by an insurance company. Under such arrangements there is usually no recourse to the company.

The production of feature films is in its essence a project related business and therefore prone to postponements and cancellations of planned projects. The cash forecast of the Internationalmedia group builds upon the premises of a certain number of production starts as well as re-licensing of library titles in the upcoming 18 months. If some or all of these planned projects or re-licensing were not realized, this could result in cash shortages within the Internationalmedia group, threatening its existence in the worst case.



Exchange Rate Risks

The main transaction currency of the Internationalmedia group is the US-dollar as sales revenues and expenses are mainly executed in US-dollars. Therefore, Internationalmedia group's exposure to a possible exchange rate risk is minimal and only affects reporting. To the external reader the reported financials appear either better or worse depending on the euro-dollar exchange rate. For IM Internationalmedia AG an exchange rate risk exists due to the requirements of the statutory accounts according to the German Commercial Code (HGB) to follow the strict lower of cost or market principle. An indirect influence on the Internationalmedia group can result from the fact that regional buyers might be affected by exchange rate fluctuations.

Risks Inherent in the Industry

INCREASING ACQUISITION AND PRODUCTION COSTS

Overall, the costs of producing, marketing and distributing films have generally risen considerably in the last decade. As part of its business strategy, the Internationalmedia group also intends to acquire, develop, finance and produce films, which – often because of a higher budget – have higher production values and therefore a greater potential to reach a broader public. An experienced management team, defined corporate communication and decision-making channels along with strict cost control take these factors into account. In addition, the artistic value and the public acceptance of the films are secured by the use of well-known independent production companies.

FIERCE COMPETITION

The development, production, financing and licensing of films is highly competitive. Since the Internationalmedia group is one of the few groups with worldwide distribution, the company has established a significant position in the market. The expansion strategy includes broadening this position by consistently developing high-quality films and television products.

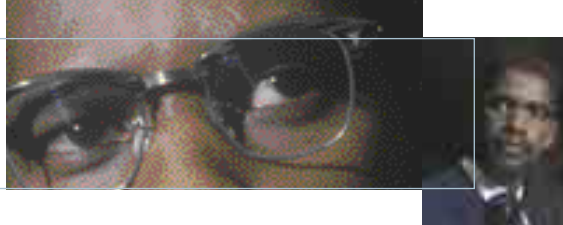


LIQUIDITY AND GOING CONCERN RISK

The net liquidity of the Internationalmedia group has stabilized over recent quarters. This is a result of a structurally induced lowered investment volume and reduced overhead costs due to the restructuring program. In addition, the Internationalmedia group's efficient distribution strategy, especially the utilization of its joint venture with Summit Entertainment, as well as the successfully performed capital restructuring in 2005 had a positive effect. Nevertheless, going concern still depends on the management's ability to finance the continued operations of the group through reinvestments of revenues from operations and/or through incurring loans or raising equity. The going concern of the company ultimately depends on the success of its business activities, i.e. to what extent can library income and financing and producer fees, which are a result from the production of motion pictures and TV series, cover the overhead, film development costs, interest and principal repayment for the company's debt financing. Should this be impossible due to external (market environment) or internal (management) reasons the going concern of the company would be endangered.

FILM PIRACY

Film piracy causes enormous damage to the entire film industry, from production companies via film licence dealers to the Major Studios and national distributors. Nevertheless, this industry has the advantage to benefit and learn from the negative experiences of the related music industry. While the music industry did not reach a consensus on a pricing model that had given all implicated parties a balanced incentive to collaboration, the film industry starts from a lower price level as compared to the music industry, which raises the inhibition threshold for illegal copying as the legal purchase now supposes an appealing alternative and reduces the margins for illegal sales at the same time. In spite of these effects, increased film piracy poses a serious threat to the earnings models of the film industry.



Management of Opportunities

Besides the risks, the Internationalmedia group also faces a number of opportunities which can substantially influence the groups earnings, financial condition and prospects.

STRATEGIC ADJUSTMENTS

Last year the management of the Internationalmedia group has consequently implemented changes to the group's business strategy. Besides the existing focus on art house and event films, the company now will also engage in the development, financing, production and distribution of genre movies and TV productions. Management believes that this diversified strategy will result in an increase of flexibility as well as an increased ability to forecast the business model. In addition, the adjusted strategy will reduce the dependence on individual partners in areas like production and distribution.

The segment *Intermedia TV* shall gain a higher share of the production volume, amounting to approximately one third in two to three years' time.

Management seeks to successfully implement the new business segments also by forming strategic partnerships with other companies. Therefore, agreements were entered into with Kadokawa International, Action Concept and QED International.

DEVELOPMENT PROJECTS

Numerous opportunities for the Internationalmedia group result out of its extensive slate of active development projects. They provide a basis for future productions. Already existing projects will be actively pursued to be realized as own productions for the group's library or as projects made for third parties. Various existing development projects are already in such an advanced stage that only small investments are necessary to complete the development stage. In addition, the bulk of those projects are already written off because of applied depreciation rules so production and sales offer additional earning potential.

VI. Details of the Share Option Scheme

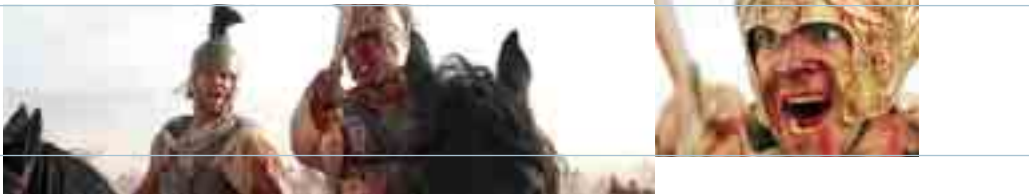
(31) DETAILS OF THE STOCK OPTION PLAN

The objective of the program is to recruit and retain employees and to secure the success of the enterprise by enabling employees to purchase shares in the company.

Under the Stock Option Plan 2000, the company was authorized to issue to employees a total of 1,500,000 options to purchase shares in IM Internationalmedia AG over the period between May 16, 2000 and May 21, 2006. A third of the options are reserved for members of the Management Board, a further third for senior executives and members of subsidiary companies' management, and the final third for all other employees. The options entitle the owner to purchase shares in the company at a price equal to the share price on the day of grant plus 10 percent. The options can be redeemed in three installments: 33 percent after two years, a further 33 percent at the end of three years and the remaining 33 percent after four years from the time the option rights were granted. In each case exercise is only possible within four weeks after the publication of quarterly results.

Under the Stock Option Plan 2000, option rights can only be exercised as long as the owner is employed at IM Internationalmedia AG or at a subsidiary company. Options are not transferable.

Stock Option Plan	Number of options
Balance at beginning of financial year	721,168
Granted	0
Exercised	0
Expired	- 420,168
Balance at end of financial year	301,000
Of which may be exercised	178,000



The weighted average contract life time of the outstanding options with an exercise price of 35.20 euros amounts to 0.4 years. The band of exercise prices for all other outstanding options lies in between 1.0 euro and 1.42 euros with a weighted average contract life of 2.05 years.

With the resolution of the Annual General Meeting on August 23, 2005 the Stock Option Plan 2000 was substituted by the Stock Option Plan 2005. In accordance to this new plan the company can issue to employees up to 1,700,000 share options in IM Internationalmedia AG until August 23, 2009. 1,000,000 of the options are reserved for members of the Management Board, 400,000 for senior executives and members of subsidiary companies' management, and 300,000 for all other employees. The exercise price for the granted options will be calculated as following: If the share price as of December 31 has increased by at least 50 percent compared to January 1 of the same year, the exercise price equals 80 percent of the share price at grant day closing. If the share price as of December 31 has increased between 25 percent and 50 percent compared to January 1 of the same year, the exercise price equals 90 percent of the share price at grant day closing. For all other cases the exercise price equals the share price at grant day closing. Minimum exercise price for each case is the minimum exercise price in accordance to Art. 9 para. 1 AktG (German Stock Corporation Act).

The options have a term of six years after issuance to the beneficiary. After this term non-exercised options expire. In the financial year 2005 no options were granted.

Both plans are designed as equity settled transactions, for which IFRS 2 was applied in 2005 for the first time.



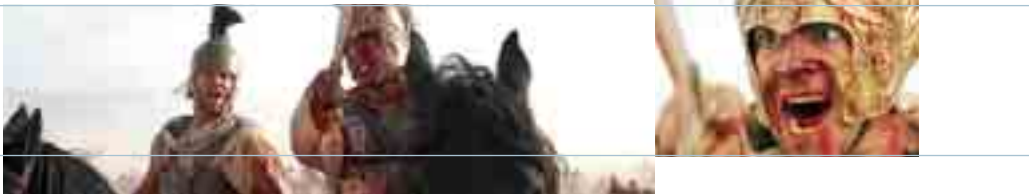
VII. Other Information

(32) MEMBERS OF THE MANAGEMENT BOARD DURING THE FINANCIAL YEAR 2005:

Management Board		
Martin Schürmann (since April 15, 2005)	Chairman	Coordination and monitoring of US productions, film financing, mergers and acquisitions
Andreas Konle		Personnel, investor relations, finance and administration
Moritz Borman (until April 30, 2005)		

(33) MEMBERS OF THE SUPERVISORY BOARD DURING THE FINANCIAL YEAR 2005:

Supervisory Board	Profession	Other Supervisory Board Duties
Oliver Kächele (since August 23, 2005)	Chairperson CPA and Tax advisor	None
Christian Böhmer (since August 23, 2005)	Vice chairman Media consultant	None
Konstantin Thoeren (since August 23, 2005)	Producer	None
Antoinette Hiebeler-Hasner (until August 23, 2005)	Tax advisor	n.a.
Matthias Deyle (until August 23, 2005)	Film producer	n.a.
Prof. Dr. Ronald Frohne (until August 23, 2005)	Lawyer	n.a.



(3 4) SHAREHOLDING BY SENIOR MEMBERS OF THE COMPANY

Members of the Management Board and the Supervisory Board	Dec 31, 2005 <i>[in units]</i>		Dec 31, 2004 <i>[in units]</i>	
	Shares	Options	Shares	Options
Martin Schürmann	2,000,000	0	n.a.	n.a.
Andreas Konle	0	150,000	0	150,000
Oliver Kächele	0	n.a.	n.a.	n.a.
Christian Böhmer	0	n.a.	n.a.	n.a.
Konstantin Thoeren	0	n.a.	n.a.	n.a.
Moritz Borman	n.a. ¹⁾	n.a. ¹⁾	4,308,578 ²⁾	150,000
Antoinette Hiebeler-Hasner	n.a. ³⁾	n.a. ³⁾	300,000	n.a.
Matthias Deyle	n.a. ³⁾	n.a. ³⁾	11,511	n.a.
Prof. Dr. Ronald Frohne	n.a. ³⁾	n.a. ³⁾	0	n.a.

1) No longer a member of the Management Board

2) Thereof 398,387 being mortgaged

3) No longer a member of the Supervisory Board

3 5) CORPORATE GOVERNANCE STATEMENTS

IM Internationalmedia AG approves the efforts of the Government Commission on the German Corporate Governance Code aiming at enforcing the financial markets' and investors' trust in listed German companies through numerous recommendations combined with disclosure requirements.

IM Internationalmedia AG has issued the statement according to § 161 AktG (German Stock Corporate Act) and has made it available to shareholders. The statement is published on the internet under www.internationalmedia.de.





(36) STRUCTURE OF THE MANAGEMENT BOARD COMPENSATION SYSTEM

The overall compensation of the members of the Management Board comprises a fixed salary and variable components. The fixed components are linked to the tasks of the respective member of the Management Board and his performance taking into account its peer companies and the regional environment.

Variable compensation should include bonus payments and stock options. Bonus payments are granted to the Management Board members according to a combination of achieving personal goals and corporate objectives. Personal goals are associated to the tasks of Management Board members. Corporate objectives include the standard benchmarks such as liquidity and earnings figures. The Management Board members also participate in the Stock Option Plan 2000 and the Stock Option Plan 2005 of IM Internationalmedia AG.

Members of the Management Board receive annual compensation containing both fixed and variable elements. In the reporting period these amounted to 597,000 euros (previous year 1,167,700 euros), thereof 572,000 euros (previous year 1,167,7000 euros) are fixed components, 25,000 euros (previous year 0 euros) are variable and 0 euros (previous year 0 euros) have long-term character. During the fiscal year 2005 no share options were granted to members of the board.

(37) STRUCTURE OF THE SUPERVISORY BOARD COMPENSATION SYSTEM

Pursuant to article 14 of the articles of association of IM Internationalmedia AG in the version of December 9, 2005 the compensation consists of fixed and variable components. The fixed component amounts to net 20,000 euros for a complete fiscal year. The variable component amounts up to net 5,000 euros for a complete fiscal year and is conditioned to the participation in ordinary and extraordinary Supervisory Board meetings.

In the financial year 2004 the compensation of the Supervisory Board amounted to a total of 45,000 euros (previous year 75,000 euros).



(3 8) R E L A T E D P A R T I E S ' T R A N S A C T I O N S

Under IAS 24 the management of IM Internationalmedia AG, its shareholders and the Supervisory Board are considered to be "related parties". With the approval of the Supervisory Board, members of the Supervisory Board or their companies have executed orders in an amount totaling 18,500 euros in the reporting period.

Name	Activities	Remuneration
[in €]		
Oliver Kächele (all services of the McDermott, Will & Emery Lewyers and Tax consultants LLP)	Tax consulting	18,540.00

Transactions with associated companies are at "arms length".

(3 9) N U M B E R O F E M P L O Y E E S

In the financial year 2005 the Internationalmedia group employed an average of 41 people.
On December 31, 2003 there were a total of 32 employees.

Munich, March 24, 2006

IM Internationalmedia AG
Management Board



Martin Schürmann
Chairman



Andreas Konle



Christian Böhmer



Auditor's report

(Translation – only German text is authoritative)

"We have audited the consolidated financial statements prepared by the IM Internationalmedia AG, Munich, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the IM Internationalmedia AG, Munich, for the business year from January 1st to December 31st, 2005. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any exceptions, apart from the following matter. A cumulative impairment loss of 9,597 K euros on film assets required by IAS 36 on the basis of the discounted cash flow method with a risk-related discount rate to adjust the carrying value to the recoverable amount has not been recorded.



Except for this matter, in our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB, supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and taken as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

It is our duty to draw attention to the fact that the existence of the company is threatened by the risks described in the section "Risk Management - monetary risks" of the combined management report. To secure its liquidity, the company is reliant on achieving its forecasts and the related cash-inflows. Significant variances from the cash-flow forecasts could lead to a cash shortage which would threaten the existence of the company unless financing can be secured from another source."

Munich, March 27, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Krawietz
Wirtschaftsprüfer
(German Public Auditor)

ppa. Deni
Wirtschaftsprüfer
(German Public Auditor)





Report of the Supervisory Board

In the year 2005, the Supervisory Board was informed on the situation of the company by the Management Board in three ordinary meetings (March 14, 2005, October 3, 2005 and December 15, 2005) as well as in numerous individual meetings and passed the required resolutions pursuant to its duties legally established in the statute.

The strategic change, corporate business development, risk management as well as corporate strategic planning, including investment, corporate financing and personnel, formed the focal point of the reporting of IM Internationalmedia AG's Management Board.

In the year 2005 necessary resolutions were passed in the Supervisory Board meetings as well as via circulars. No special committees were required. The complete Supervisory Board gave advice and took decisions on all important topics of the year 2005.

The consolidated financial statements as well as the statutory accounts of IM Internationalmedia AG as of December 31, 2005 have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. They expressed a qualified opinion for the consolidated financial statements and an unqualified opinion for the statutory accounts. The auditors' report of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft on both the financial and the individual statements were available to the Supervisory Board and were discussed in detail with the auditors at the meeting of the Supervisory Board on March 27, 2006. Based on our examination of the documents made available by the auditors and the Management Board, we have no reservations and agree with the auditor's opinion.



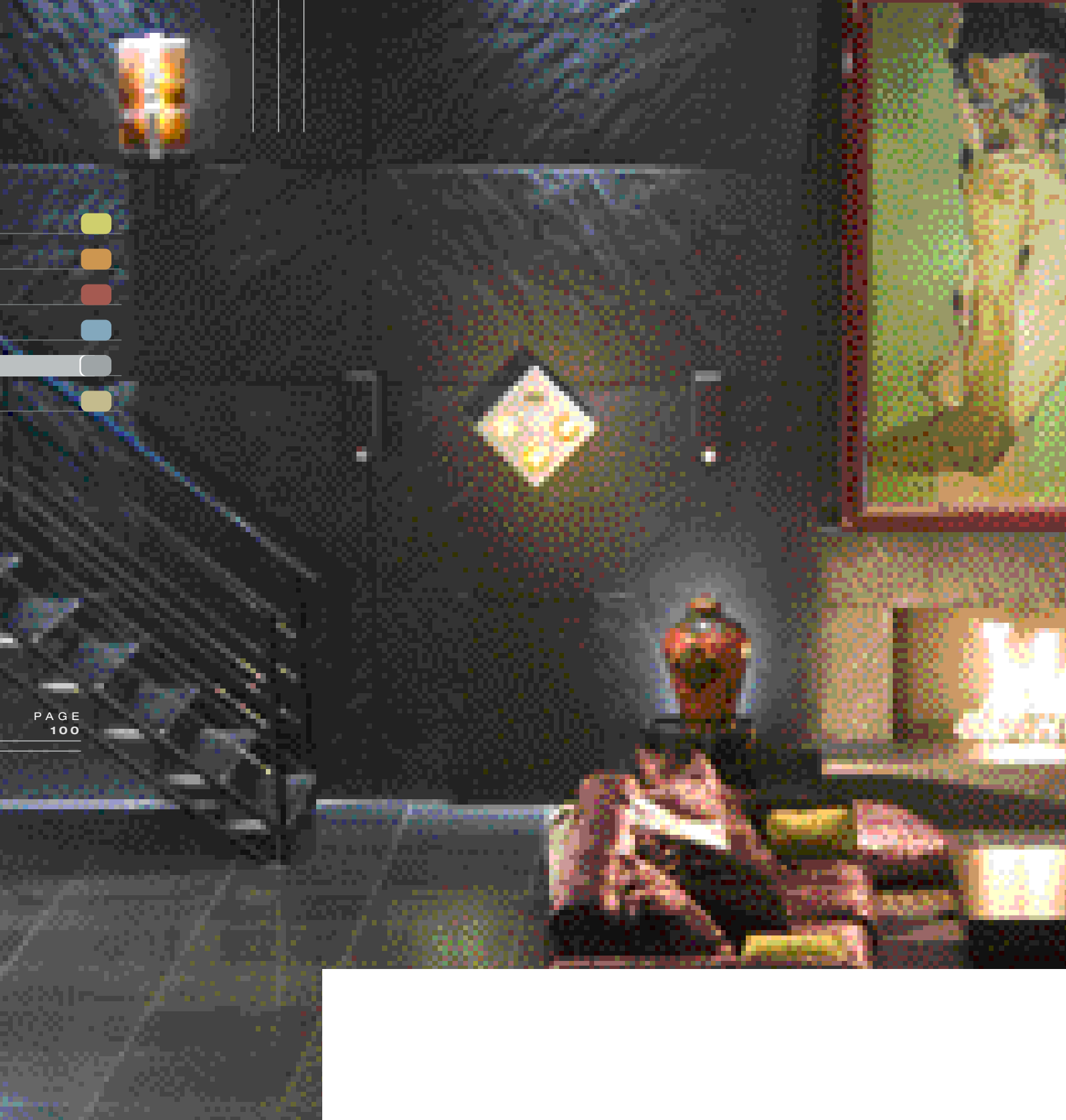
The Supervisory Board approves the consolidated financial statements as well as the statutory accounts of IM Internationalmedia AG for the year 2005 – which are herewith passed pursuant § 172 German Corporation Act (AktG).

The Supervisory Board expresses its thanks to the Management Board and all employees of IM Internationalmedia AG and its subsidiaries for their performance and commitment during the year 2005.

Munich, March 2006

Oliver Kächele
Chairperson of the Supervisory Board

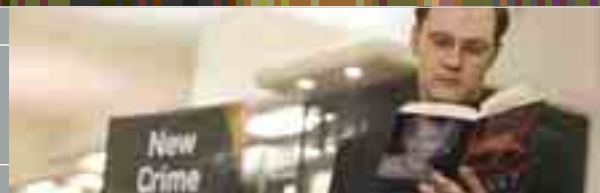




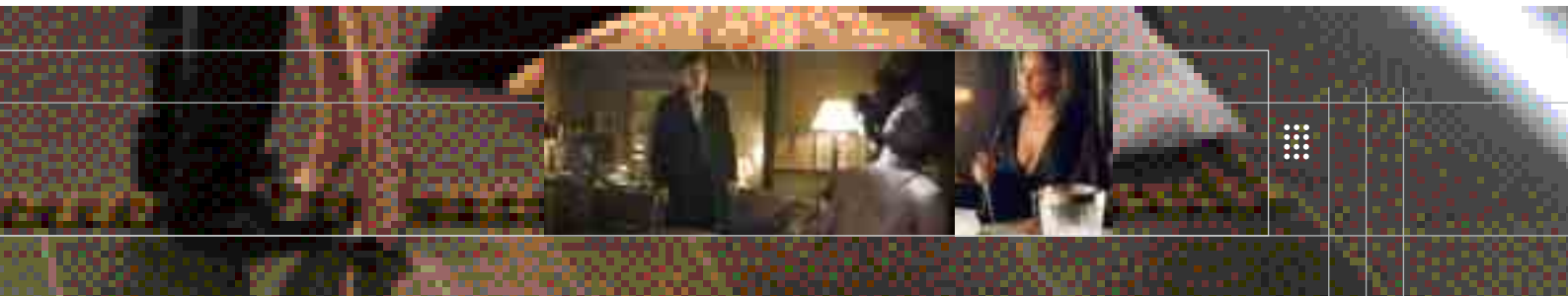
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100



Group Data



Munich _ Beverly Hills _ Los Angeles _ London _ IM Internationalmedia AG _ Intermedia Film Development _ Munich _ Beverly Hills _ Los Angeles _





Locations (including significant subsidiaries)

Germany

IM Internationalmedia AG

Kaulbachstraße 1
80539 Munich
Tel.: +49 (89) 98 107-100
Fax: +49 (89) 98 107-199
www.internationalmedia.de
info@internationalmedia.de

USA

Pacifica Film Development, Inc.

9350 Civic Center Drive
Beverly Hills, CA 90210
Tel.: +1 (310) 550-3800
Fax: +1 (310) 550-3801

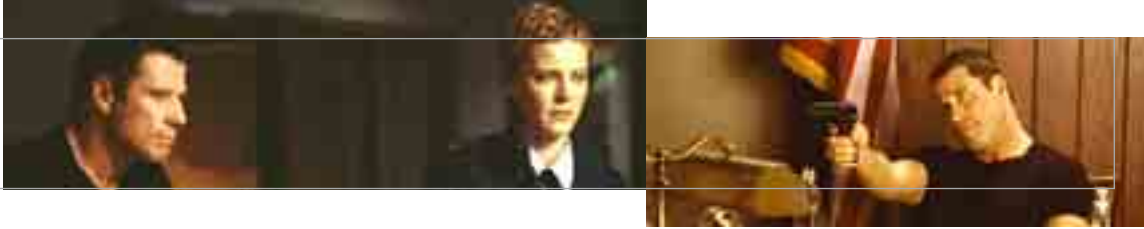
Intermedia Film Equities USA, Inc.

9350 Civic Center Drive
Beverly Hills, CA 90210
Tel.: +1 (310) 777-0007
Fax: +1 (310) 777-0008
www.intermediafilm.com

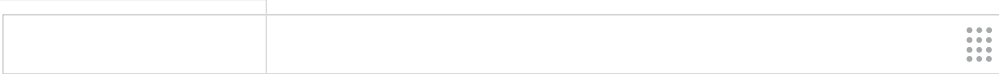
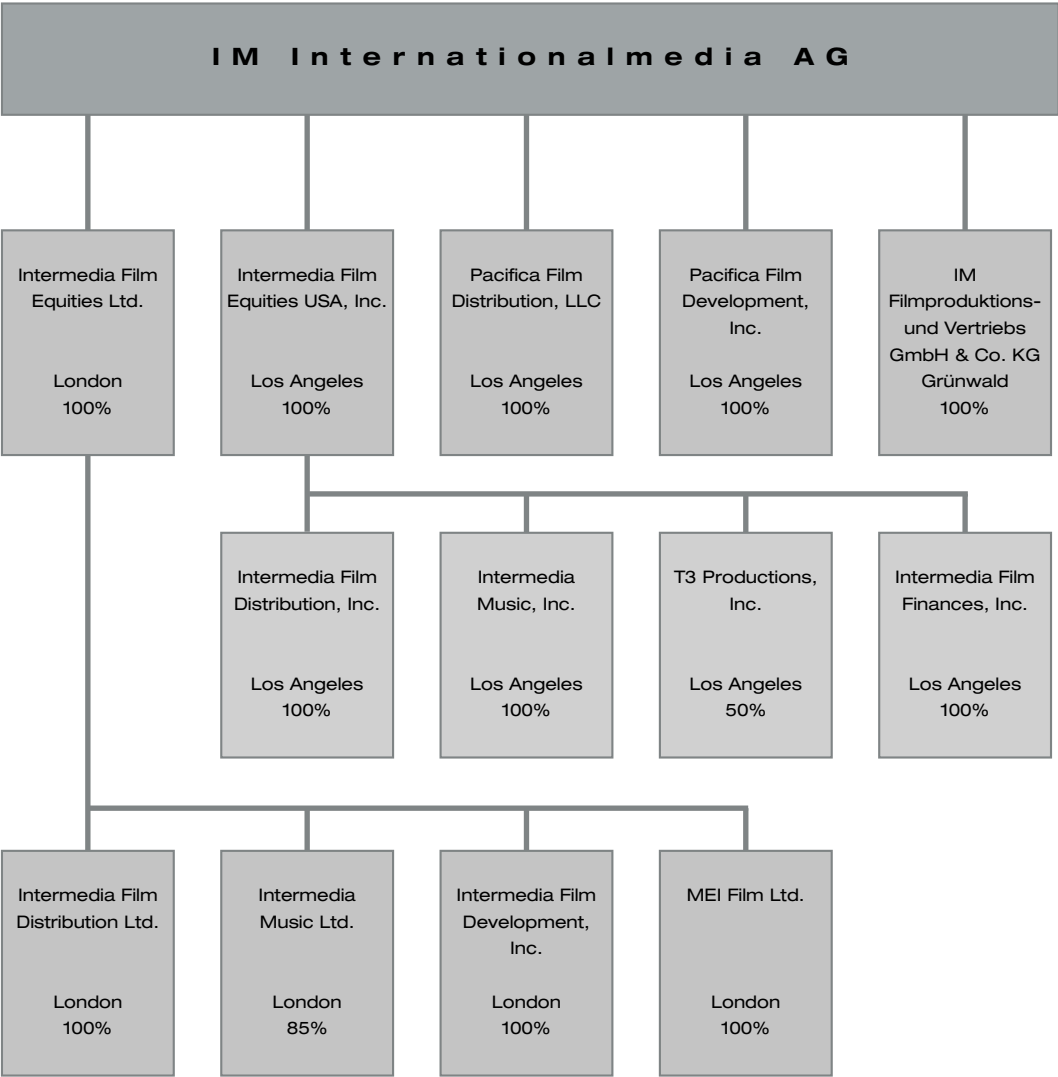
United Kingdom

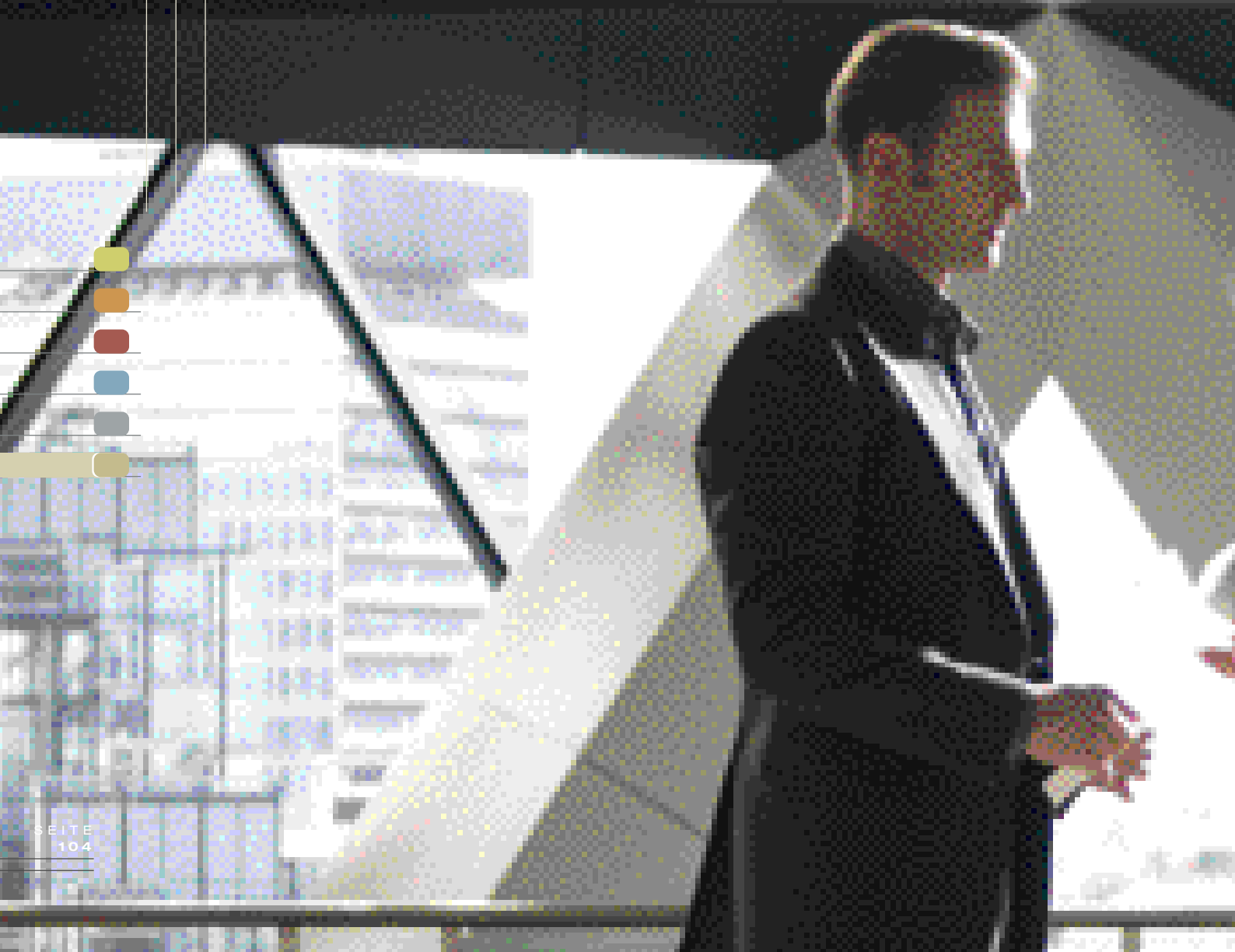
Intermedia Film Equities Ltd.

Enterprise House, 59-65 Upper Ground
London, SE 1 9PQ
Tel.: +44 (207) 59 31 630
Fax: +44 (207) 59 31 639

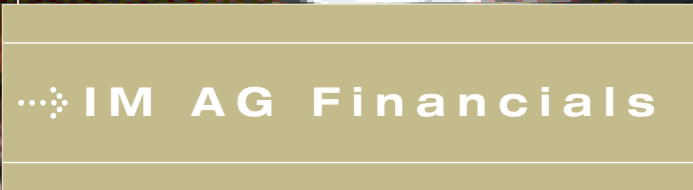
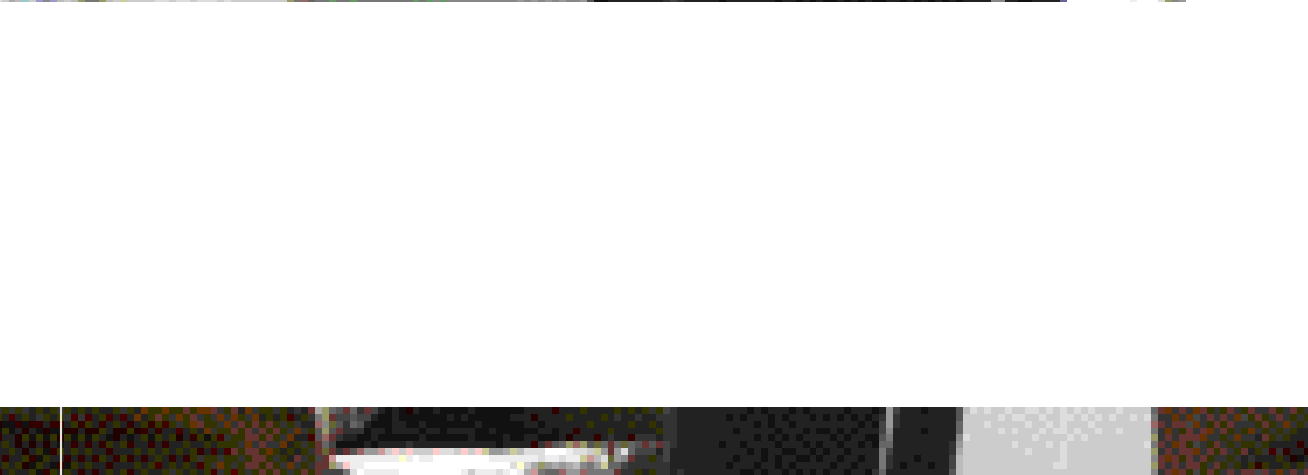
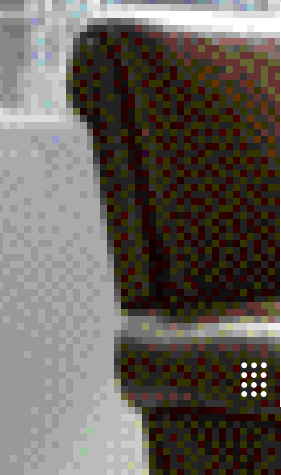


Group Structure



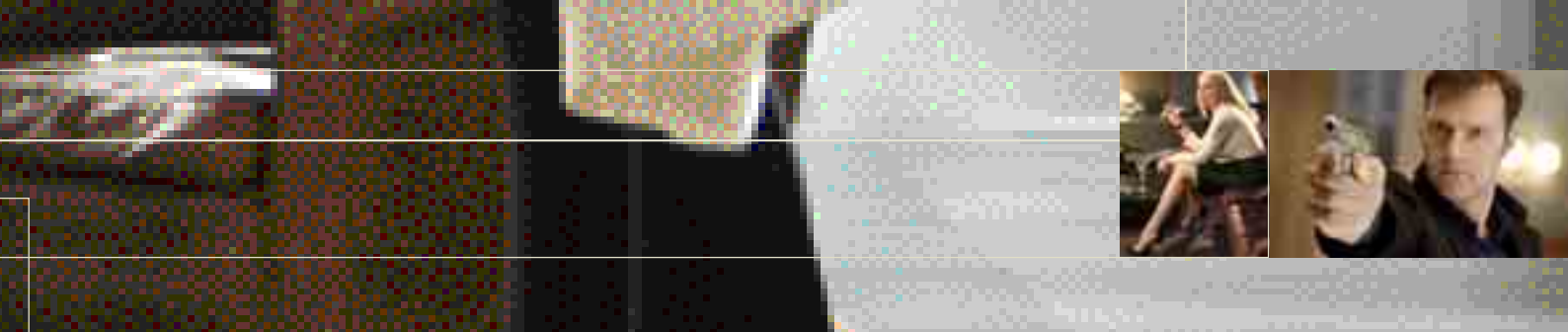
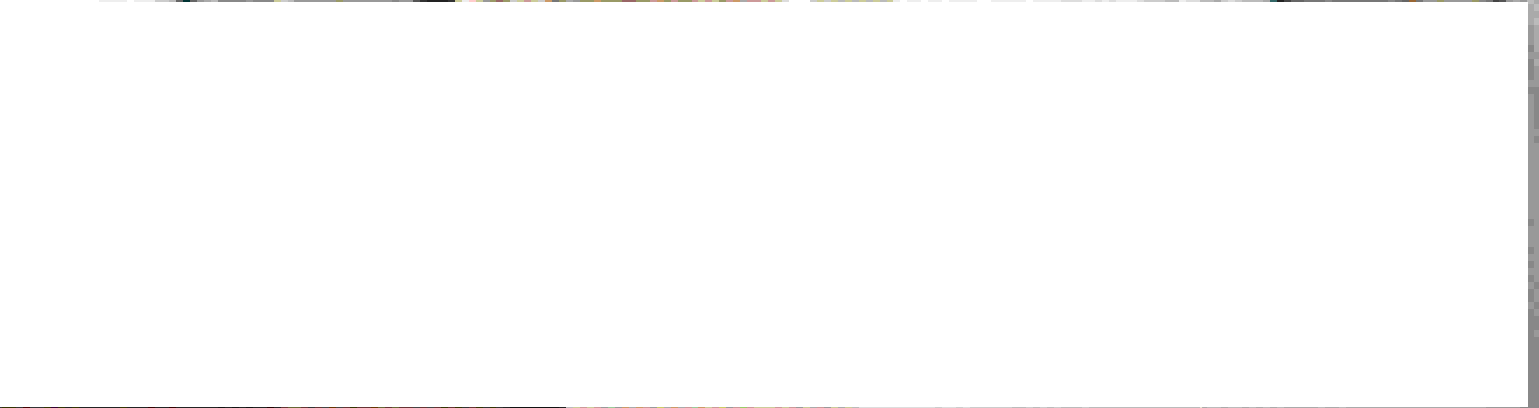


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104



Goodwill _ Payments _ Trade Accounts _ Liabilities _ German Commercial Code _ Stock Companies Law _ Additions _ Disposals _ Share Subscription _







IM Internationalmedia AG

Balance Sheet

AS OF DECEMBER 31, 2005 AS PER HGB

Assets	Notes	Dec 31, 2005	Dec 31, 2004
<i>[in €]</i>			
A. Non-current assets			
Intangible assets			
Franchises, trademarks, patents, licenses and similar rights		485.81	2,801.77
Total intangible assets	(1)	485.81	2,801.77
Fixed assets			
Other fixed assets, fixtures and fittings		70,278.34	90,419.67
Total fixed assets	(2)	70,278.34	90,419.67
Financial assets			
Investments in subsidiaries		99,410,943.84	99,410,943.84
Total financial assets	(3)	99,410,943.84	99,410,943.84
Total non-current assets		99,481,707.99	99,504,165.28
B. Current assets			
Accounts receivable and other assets			
Trade accounts receivable		4,615.89	4,615.89
Intercompany receivables		12,108,542.85	12,181,555.41
Other current assets		488,782.82	521,782.96
Total accounts receivable and other assets	(4)	12,601,941.56	12,707,954.26
Cheques, cash on hand and in banks	(5)	6,872,772.76	43,723.54
Total current assets		19,474,714.32	12,751,677.80
C. Prepaid expenses		14,600.00	35,852.49
Total assets		118,971,022.31	112,291,695.57

Shareholders' equity and liabilities

[in €]

Notes

Dec 31, 2005

Dec 31, 2004

A. Shareholders' equity

Subscribed capital		42,600,493.00	31,950,370.00
Capital reserve		211,315,658.96	211,315,658.96
Loss carried forward		-190,594,246.29	-186,588,689.01

Contingent capital ? 15,975,185.00

Total shareholders' equity	(6)	63,321,905.67	56,677,339.95
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B. Accrued liabilities

Deferred tax liabilities	(7)	4,939,851.81	4,830,136.54
Other accrued liabilities	(8)	447,124.00	658,880.00

Total accrued liabilities		5,386,975.81	5,489,016.54
----------------------------------	--	---------------------	---------------------

C. Liabilities

Bonds of which convertible € 2,698,925.58 (prev. year € 0)	(9)	2,698,925.58	0.00
Trade accounts payable	(10)	336,336.89	21,547.44
Intercompany liabilities of which € 47,208,916.40 (prev. year € 50,086,329.74) with a remaining term of over one year	(10)	47,208,916.40	50,086,329.74
Other liabilities of which taxes € 13,354.80 (prev. year € 13,855.53) of which social security € 3,704.60 (prev. year € 3,606.37)	(10)	17,961.96	17,461.90

Total Liabilities		50,262,140.83	50,125,339.08
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Total shareholders' equity and liabilities		118,971,022.31	112,291,695.57
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IM Internationalmedia AG

Income Statement

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005 AS PER HGB



	Notes	2005	2004
[in €]			
Revenues	(12)	139,902.34	182,672.67
Other operating income	(13)	1,385,655.71	34,982.74
Total services and revenues		1,525,558.05	217,655.41
Personnel expenses	(14)	-514,576.78	-871,256.17
Depreciation on intangible and fixed assets		-24,311.44	-44,980.16
Other operating expenses	(15)	-3,648,448.50	-2,167,182.45
Other interest and similar income of which from subsidiary companies € 586,421.87 (prev. year € 382,080.59)	(16)	602,745.25	382,334.22
Other interest and similar expenditures of which from subsidiary companies € -1,792,636.07 (prev. year € -1,049,566.17)	(16)	-1,833,136.14	-1,050,017.66
Result from ordinary business activities		-3,892,169.56	-3,533,446.81
Extraordinary expenses		0.00	-28,369,126.45
Extraordinary result		0.00	-28,369,126.45
Result before taxes		-3,892,169.56	-31,902,573.26
Taxes on income		-113,387.72	-4,830,136.54
Net loss		-4,005,557.28	-36,732,709.80
Loss brought forward from last year		-186,588,689.01	-149,855,979.21
Loss carried forward		-190,594,246.29	-186,588,689.01





Schedule of Fixed Asset Movements

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2005 AS PER HGB

[in 8]	Brought Forward Jan 1, 2005	A C Q U I S I T I O N	
		Additions	Disposals
Intangible assets			
Franchises, trademarks, patents, licenses and similar rights	38,193.98	0.00	0.00
	38,193.98	0.00	0.00
Fixed assets			
Other fixed assets, fixtures and fittings	328,648.53	1,854.15	99,480.48
	328,648.53	1,854.15	99,480.48
Financial assets			
Investments in subsidiaries	127,780,070.29	0.00	0.00
	127,780,070.29	0.00	0.00
Total fixed assets	128,146,912.80	1,854.15	99,480.48

II. Accounting principles

IM Internationalmedia AG's annual financial statements have been prepared in accordance with the regulations of the German Commercial Code (HGB) for large corporations, the German Stock Companies Law (AktG) and the supplementary provisions of the articles of incorporation. IM Internationalmedia AG as the parent company has used the possibility of consolidating the management report and group management report, which is allowed under Art. 315 para. 3 of the German Commercial Code.

III. Notes to the Balance Sheet

(1) INTANGIBLE ASSETS

Acquired intangible assets are valued at acquisition cost less depreciation calculated in accordance with the straight-line method. In the event of a presumably permanent diminution in value an extraordinary depreciation is recognized.

(2) FIXED ASSETS

Tangible fixed assets are valued at acquisition or manufacturing cost less ordinary depreciation. Tangible fixed assets are written down using the straight-line method only. For other assets, the useful life for fixtures and fittings is between three and ten years. Economic assets with a negligible value are fully depreciated in the year they are acquired. Extraordinary depreciation is charged if an expected decrease in value will be permanent. Should the reasons no longer exist, the extraordinary depreciation is reversed.

(3) F I N A N C I A L A S S E T S

Financial assets are generally recorded at acquisition cost less depreciation, where applicable.

Shares in affiliated companies contain all shares in Intermedia Film Equities Limited, London, Intermedia Film Equities USA, Inc., Los Angeles, Pacifica Film Distribution LLC, Los Angeles, Pacifica Film Development, Inc., Los Angeles, as well as all shares in IM Filmproduktions- und Vertriebs GmbH & Co. KG, Grünwald, and IM Filmproduktions- und Vertriebs-Verwaltungs GmbH, Grünwald.

(4) R E C E I V A B L E S A N D O T H E R A S S E T S

Receivables and other assets are generally shown at their nominal value. Receivables and other assets in foreign currencies are valued at the lower cost or market principle on the acquisition or closing date. Any default or other risks are taken into account by corresponding valuation allowances.

Other receivables and other assets <i>[in 8]</i>	Dec 31, 2005	Of which with a remaining term of more than 1 year	Dec 31, 2004	Of which with a remaining term of more than 1 year
Trade accounts receivable	4,616	0	4,616	0
Intercompany receivables	12,108,543	0	12,181,555	0
Other current assets	488,783	0	521,783	411,823
	12,601,942	0	12,707,954	411,823

Tax refund claims in the amount of 488,699 euros are included within other assets.



(5) C H E Q U E S , C A S H O N H A N D A N D I N B A N K S

Cash includes credit balances with various banks in different currencies. Credit balances in foreign currencies are converted at the exchange rate.

(6) S H A R E H O L D E R S ' E Q U I T Y

The subscribed capital of IM Internationalmedia AG consists of 42,600,493 no-par value bearer shares with an interest in capital of one euro each. Subscribed capital was fully paid in.

In the fiscal year 2005 the Authorized Capital 2004/I was used in connection with a capital increase for cash in the amount of 10,650,123 euros.

With resolution of the Annual General Meeting on August 23, 2005 the Contingent Capital 2000 was partly repealed. The contingent increase by the issuance of new no-par value bearer shares to avail stock option rights of IM Internationalmedia AG's Stock Option Plan 2000 is now limited to an amount of up to 300,000 euros. In addition, the Contingent Capital 2004/I was also partly repealed. The contingent increase by the issuance of new no-par value bearer shares to owners or creditors of options and/or convertible bonds is therefore limited to an amount of up to 13,975,185 euros.

Neither the Contingent Capital 2000 nor the Contingent Capital 2004/I was used in the financial year 2005. As of December 31, 2005 a total of 83,965 partial bearer notes from the zero coupon convertible bond with a nominal value of 20.00 euros was issued.

The Annual General Meeting on August 23, 2005 also authorized a contingent increase of subscribed capital of up to 1,700,000 euros by the issuance of up to 1,700,000 no-par value bearer shares (Contingent Capital 2005/I). This contingent capital is used to secure rights in connection with stock options, which can be issued between August 24, 2005 and August 23, 2009 based on Annual General Meeting's authorization regarding the Stock Option Plan 2005.

In the fiscal year 2005 the Contingent Capital 2005/I was not used.

Development of shareholders' equity <i>[in 8]</i>	Subscribed capital	Capital reserve	Net income/ Loss carried forward	Total
Balance at Jan 1, 2004	31,950,370	211,315,659	-149,855,979	93,410,050
Net Loss			-36,732,710	-36,732,710
Balance at Dec 31, 2004	31,950,370	211,315,659	-186,588,689	56,677,340
Balance at Jan 1, 2005	31,950,370	211,315,659	-186,588,689	56,677,340
Capital Increase for Cash	10,650,123			10,650,123
Net Loss			-4,005,557	-4,005,557
Balance at Dec 31, 2005	42,600,493	211,315,659	-190,594,246	63,321,906

(7) DEFERRED TAX LIABILITIES

Deferred tax liabilities are set up for different accounting treatments of development costs within statutory and tax balance sheets of IM Filmproduktions- und Vertriebs GmbH & Co. KG and IM Filmproduktions GmbH.



(8) OTHER ACCRUED LIABILITIES

Other accrued liabilities	Dec 31, 2005	Dec 31, 2004
<i>[in 8]</i>		
Provision for employee expenses	60,000	16,000
Provision for outstanding invoices	7,124	31,000
Provision for costs of annual financial statements	167,000	126,880
Other accrued liabilities	213,000	485,000
	447,124	685,880

Other accrued liabilities refer mainly to deferred amounts for the annual report and the Annual General Meeting.

(9) BONDS

In the fiscal year 2005 the company issued a bond with warrants as well as a zero coupon convertible bond. The bond with warrants with a nominal value of 1,000,000 US-dollars was issued on September 6, 2005 and is due on June 30, 2009. The attached option right was not exercised in 2005. The zero coupon convertible bond was issued on December 12, 2005 and is due on October 31, 2010. The issue price of a partial bearer note was 22.00 euros with a nominal value of 20.00 euros. The owner is entitled to convert each partial note into shares of IM Internationalmedia AG at a ratio of 1:20 (number of shares, in which a partial note may be converted). None of such conversion rights were exercised in fiscal year 2005. With the issuance of the zero coupon convertible bond gross proceeds of 1,847,230 euros have been realized.

(10) LIABILITIES

Liabilities are generally valued at repayment amounts. Short-term liabilities in foreign currencies have been converted at the higher rates prevailing at closing or transaction date. Trade accounts payable and other liabilities have a remaining term of up to one year. Intercompany liabilities have a remaining term of over one year. Liabilities have not been secured.

All liabilities arising from accounts payable are to third parties. Accounts payable to affiliated companies are settled via accounts. The other liabilities include mainly tax liabilities and personnel liabilities.

(11) CONTINGENCIES

There were other financial liabilities in the form of rental and leasing liabilities in the amount of 173,000 euros. Guarantees in the amount of 53,401,800 euros for film productions and loans were set up.

IM Internationalmedia AG has provided a so called letter of support to Intermedia Film Equities Ltd., London.



IV. Notes to the Income Statement

(11) REVENUES

Revenues arose from charging management services to subsidiaries in Germany, the U.K. and the United States.

(13) OTHER OPERATING INCOME

The other operating income essentially relates to foreign exchange gains amounting to 1,073,000 euros (previous year 1,000 euros) and the release of provisions in the amount of 275,000 euros (previous year 19,000 euros).

(14) PERSONNEL EXPENSES

Personnel expenses <i>[in 8]</i>	2005	2004
Salaries and wages	481,657	803,356
Contributions and expenses for pensions and benefits	32,920	67,900
	514,577	871,256
Average number of employees during the year	4	4
Number of employees at year end	4	4

(15) OTHER OPERATING EXPENSES

Other operating expenses <i>[in 8]</i>	2005	2004
Legal and capital market consulting	2,928,890	380,809
Annual General Meeting	155,001	200,305
Advertising and entertainment	120,691	109,531
Insurance fees	116,233	170,706
Premises (rent, heating, lighting, etc.)	88,435	81,433
Foreign exchange losses resulting from operations	47,151	928,412
Annual and quarterly report	35,709	31,654
Travel and accommodation	33,560	56,806
Other	122,779	207,526
	3,648,449	2,167,182

Other operating expenses include auditor's fees in amount of 422,000 for due diligence work and 144,000 euros for the audit of the statutory and consolidated financials.

(16) FINANCIAL RESULT

Financial result <i>[in 8]</i>	2004	From affiliated companies	2003	From affiliated companies
Income from short-term loans	586,422	586,422	382,081	382,081
Other interest and similar income	16,323	0	253	0
Other interest and similar expenditures	-1,833,136	-1,792,636	-1,050,017	-1,049,566
	-1,230,391	-1,206,214	-667,683	-667,485



V. Other Information

(17) SHARE OWNERSHIP

Company	Share [in %]	Shareholders' equity [in K €]	Result [in K €]
Intermedia Film Equities Ltd., London ¹⁾	100	69,368	6,477
Intermedia Film Equities USA, Inc., Los Angeles ¹⁾	100	-50,391	-10,173
Pacifica Film Distribution LLC, Los Angeles ⁴⁾	100	-15	0
Pacifica Film Development, Inc., Los Angeles ⁴⁾	100	-2,316	-46
IM Filmproduktions- und Vertriebs GmbH & Co. KG, Grünwald ²⁾	100	37,206	9,425
IM Filmproduktions GmbH, Grünwald ²⁾	100 ³⁾	25	0
IM Filmproduktions- und Vertriebs- Verwaltungs GmbH, Grünwald ²⁾	100	24	-2

1) Amounts for the financial year 2005 according to subgroups' financial statement acc. IFRS

2) Amounts for the financial year 2005 according to HGB financial statement

3) Indirect participation

4) Amounts for the financial year 2005 according to local financial statements acc. IFRS

(18) EXECUTIVE BODIES

18.1 MANAGEMENT BOARD

The Management Board consists of two members:

Management Board		Supervisory Board duties	
Martin Schürmann (since April 15, 2005)	Chairman	Coordination and monitoring of US productions, film financing, mergers and acquisitions	None
Andreas Konle		Personnel, investor relations, finance, administration and communication	None
Moritz Borman (until April 30, 2005)			n.a.

The compensation for the Management Board in fiscal year 2005 amounts to 275,000 euros. As of December 31, 2005. Mr. Martin Schürmann owned 2,000,000 shares of IM International-media AG (previous year: 0) - Mr. Konle owned 150,000 stock options (previous year: 150,000).

18.2 SUPERVISORY BOARD

The Supervisory Board consists of three members at December 31, 2004:

Supervisory Board	Profession	Other Supervisory Board duties
Oliver Kächele, chair person (since August 23, 2005)	CPA and Tax adviser	None
Christian Boehmer, vice chair person (since August 23, 2005)	Media consultant	None
Konstantin Thoeren (since August 23, 2005)	Producer	None
Antoinette Hiebeler-Hasner (until August 23, 2005)	Tax adviser	n.a.
Matthias Deyle (until August 23, 2005)	Film producer	n.a.
Prof. Dr. Ronald Frohne (until August 23, 2005)	Lawyer	n.a.

In the past financial year emoluments paid to the Supervisory Board totaled 45,000 euros (previous year: 75,000).

(19) DECLARATION OF CONFORMITY WITH GERMAN CORPORATE GOVERNANCE CODE

IM Internationalmedia AG has issued the statement according to § 161 AktG (German Stock Corporate Act) and made it available to shareholders. The statement is published on the website www.internationalmedia.de.

(20) SUMMARY OF AFFILIATED COMPANIES OF IM INTERNATIONALMEDIA AG

	Participation [in %]
Pacifica Film Development, Inc., USA, Los Angeles *)	100,0
Pacifica Film Distribution, LLC, USA, Los Angeles *)	100,0
Intermedia Film Equities Limited, UK, London *)	100,0
Intermedia Film Equities USA, Inc., USA, Los Angeles *)	100,0
K-19 Productions, Inc., USA, Los Angeles	100,0
August Productions, Inc., USA, Los Angeles	100,0
T3 Productions Inc., USA, Los Angeles	50,0
Intermedia Music, Inc., USA, Los Angeles	100,0
Intermedia Film Distribution, Inc., USA, Los Angeles	100,0
Intheaters Music Inc., USA, Los Angeles	100,0
Atheaters Music, Inc., USA, Los Angeles	100,0
I.S. Film Distribution, LLC, Los Angeles	50,0
IC Video, LLC, Los Angeles	50,0
Intermedia Film Distribution Limited, UK, London	100,0
Intermedia Land Girls Limited, UK, London	100,0
Intermedia Films/MP Limited, UK, London	100,0
Intermedia Films (JDP) Limited, UK, London	100,0
MEI Films Limited, UK, London	100,0
Intermedia Films (HS) Limited, UK, London	100,0
Intermedia Films (LLL) Limited, UK, London	100,0
Intermedia Film Development Limited, UK, London	100,0
Intermedia Films (Enigma) Limited, UK, London	100,0
Up at the Villa Productions Limited, UK, London	100,0
Intermedia Arc Pictures Limited, UK, London	100,0
Intermedia Music Limited, UK, London	85,0
Dovestar Limited, UK, London	100,0
Todayhunter Limited, UK, London	100,0
RPM Guaranty Corporation N.V., Netherlands Antilles, Curacao	100,0
IM Music Limited, UK, London	100,0
Mindhunters UK Limited, UK, London	100,0
Mindhunters Distribution Limited, UK, London	100,0
Intermedia GFS Limited, UK, London	100,0
GFS Distribution Limited, UK, London	100,0
If Only Production Services Limited, UK, London	100,0
BI2 Production Services Limited, UK, London	100,0
Alexander Productions Limited, UK, London	100,0
Alex's Productions Limited, UK, London	100,0
IM Filmproduktions- und Vertriebs GmbH & Co. KG, Germany, Grünwald *)	100,0
IM Filmproduktions- und Vertriebs-Verwaltungs GmbH, Germany, Grünwald *)	100,0
IM Filmproduktions GmbH, Germany, Grünwald	100,0
Crosscall Limited, UK, London	100,0
Intermedia (BI2) Limited, UK, London	100,0
Millennium Media Works, Inc., USA, Los Angeles	100,0
Gordian Productions Limited, UK, London	100,0
Meredith Services Limited, UK, London	100,0
Intermedia Adrenaline Limited, UK, London	100,0
Intermedia Film Distribution 2004 Limited, UK, London	100,0
Intermedia Film Distribution 2005 Limited, UK, London	100,0
Intermedia Worldwide Distribution, Inc., USA, Los Angeles	100,0
Intermedia Film Finances, Inc., USA, Los Angeles	100,0

*) Direct participations, all other are indirect participations

(21) APPROPRIATION OF PROFITS

The Management Board intends to carry forward the declared net loss of IM Internationalmedia AG from last year.

Munich, March 24, 2006

Management Board




Martin Schürmann
Chairman



Andreas Konle



Christian Böhmer



Auditor's report

(Translation – only German text is authoritative)

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which is combined with the group management report of the IM Internationalmedia AG, Munich, for the business year from January 1st to December 31st, 2005. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handels-gesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the annual financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

It is our duty to draw attention to the fact that the existence of the company is threatened by the risks described in the section "Risk Management - monetary risks" of the combined management report. To secure its liquidity, the company is reliant on achieving its forecasts and the related cash-inflows. Significant variances from the cash-flow forecasts could lead to a cash shortage which would threaten the existence of the company unless financing can be secured from another source."

Munich, March 27, 2006

PricewaterhouseCoopers - Aktiengesellschaft - Wirtschaftsprüfungsgesellschaft

Krawietz
Wirtschaftsprüfer
(German Public Auditor)

ppa. Deni
Wirtschaftsprüfer
(German Public Auditor)



AFM

American Film Market

Blockbuster

Very successful film (in the USA from box office takings around 100 million US-dollars, in Germany from at least 3 million viewers)

Box Office

Proceeds from the sale of cinema tickets.

Completion Bond

Completion Guarantee of a film granted by an insurance company.

Copyright

A document granting exclusive right to publish and sell literary or musical or artistic work.

DVD

"Digitale Versatile Disc" is a digital storage medium for films which has already largely replaced video tapes.

EBIT

Earnings Before Interest and Tax

EBITA

Earnings Before Interest, Tax and Goodwill Amortization

EBITDA

Earnings Before Interest, Tax, Depreciation and Goodwill Amortisation

EPS (Earnings per share)

Net profit per share. This value is used to determine the P/E ratio (price/earnings ratio).

Event film

Film that shows additional potential for sales outside of the cinema (product placement, video games, etc.)

Exploitation stages

Generally compromise the exploitation rights for cinema, video/DVD, pay-TV, free-TV, merchandizing and soundtrack.

Film assets

Value of the film rights portfolio of a private or legal entity.

Film library

Portfolio of film rights owned by a producer or distributor.

First-Look-Deal

Agreement on the first offer of films or rights (see also output deal).

Free TV

Television financed by fees and advertising (see also pay TV).

Genre films

Horror and action films (with a budget usually below 20 million US-dollars)

Home Entertainment

DVD and Video (sale and rental)

IFRS (International Financial Reporting Standards)

Accounting standards promulgated by the International Accounting Standards Committee (IASC). They used to also be called IAS.

Independent distributor

Film distributor not tied to a major studio.

Internet-TV

World wide web supported TV broadcasts.

Library

Portfolio of film rights owned by a producer or distributor

Major Studios

US-studios with worldwide distribution (MGM, Warner Bros., Disney, Columbia TriStar, Universal Pictures, Paramount, 20th Century Fox).

Market capitalization

The value of a company measured by the value of its share on the stock exchange.

Merchandising

Film-related articles for sale
(e.g. T-shirts, toys, etc.)

Minimum guarantee

Also has to be paid if a film is unsuccessful and is equal to the purchase price of the rights in a film. If the film is successful, a proportion of the proceeds from exploitation also has to be paid.

Multiplex cinema

Cinema with several (approximately 6 to 20) auditoria of varying size.

Net Profit Participation

Participation in the proceeds arising from the net profit on a film (e.g. by actors).

Output-Deal

License agreement on all productions that are produced by a film producer or studio within a specified period of time.

Overages

Additional income from film revenues.

Owned Films

Films in which a film distributor generally holds rights unrestricted by time.

Package business

License Agreement on a film package, comprising several productions.

Participations

Payments to talents participating in the film.

Pay TV

Broadcasting television programs that can be received on payment of a monthly fee (see also Free TV).

Post Production

Completion of the film via music, cut, etc.

Pre-sales

Licence agreements that are contracted before shooting starts (e.g. only on the basis of a film script, the cast and the budget).

Prime Standard

Market Segment of the Frankfurt Stock Exchange requiring increased admission and transparency criteria.

Production alliances

Contractual agreement between a producer and a distribution company on realizing film projects.

Residuals

Certain payment obligations.

Second-Look-Deal

Agreement on the second offer of films or rights (see also output deal).

Serviced Films

Films whose rights may be used by a film distributor limited by time.

Soundtrack

Compilation of specially composed or selected music titles that represent a specific film.

Split-Rights-Deal

License agreement for singular exploitation chains.

Straight distribution deal

Revenues depend on box office.

Studio Deal

Output deal with a major studio for domestic (US) distribution.

Territory

Individual countries to which film rights are assigned.

Value added chain

Includes film development, financing, production and distribution.

Video-On-Demand

Broadcasting transmissions (e.g. films) that can be triggered by individual order.

Web-TV

See Internet-TV



Credits

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Internationalmedia
AG

BASIC INSTINCT 2

Producer: Mark Goodson
Andy Rosen
Director: Michael Catton-Jones
Screenplay: Steven Soderbergh
David Moroney

TAPE