

Annual Report 2006

2006

Intermedia

Films **SPRING BREAK  
IN BOSNIA**

Cast: Richard Gere  
Terrence Howard  
Jesse Eisenberg  
Dylan Baker  
Mark Wahlberg  
Diane Kruger  
James Bralton

SLATE

234 A

TAKE

11/3

INTERNATIONAL MEDIA

THE MOVIE PARTNER

## Financial Calendar

### **May 15, 2007**

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

### **June 8, 2007**

Annual General Meeting/Munich

### **August 14, 2007**

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

### **November 14, 2007**

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

### **March 28, 2008**

Publication of financial information  
for the business year January 1 to December 31, 2007

### **July 2008**

Annual General Meeting/Munich

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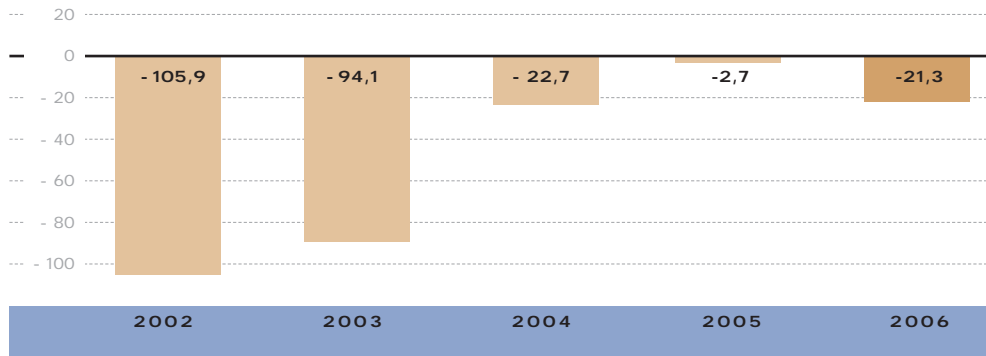
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## Net income

## Internationalmedia Group

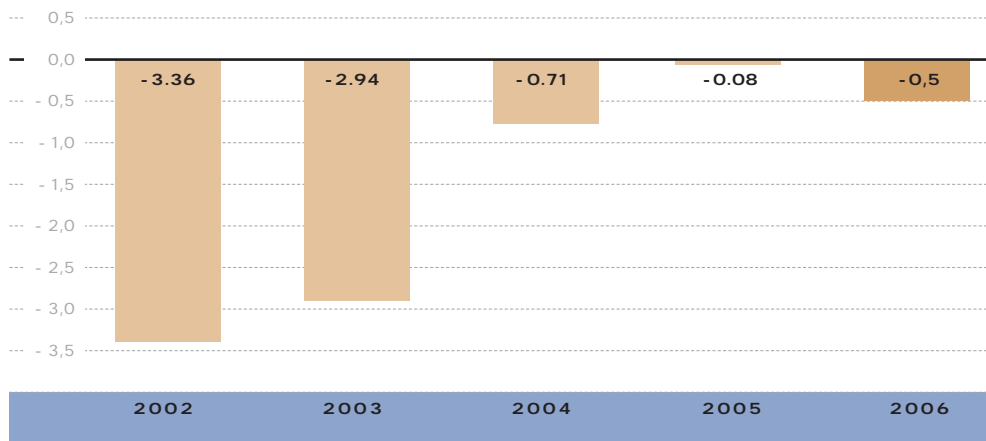
[in million euro]

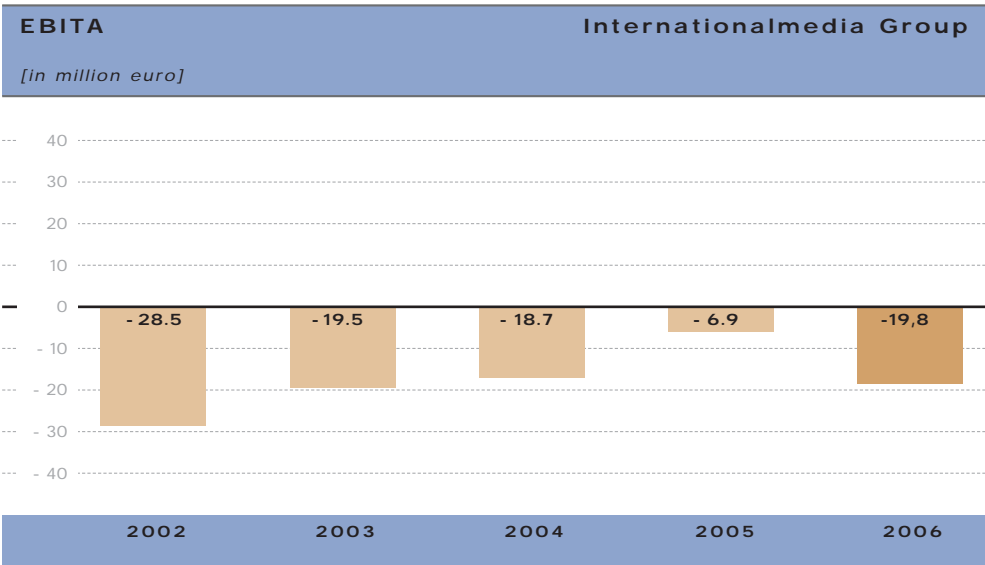
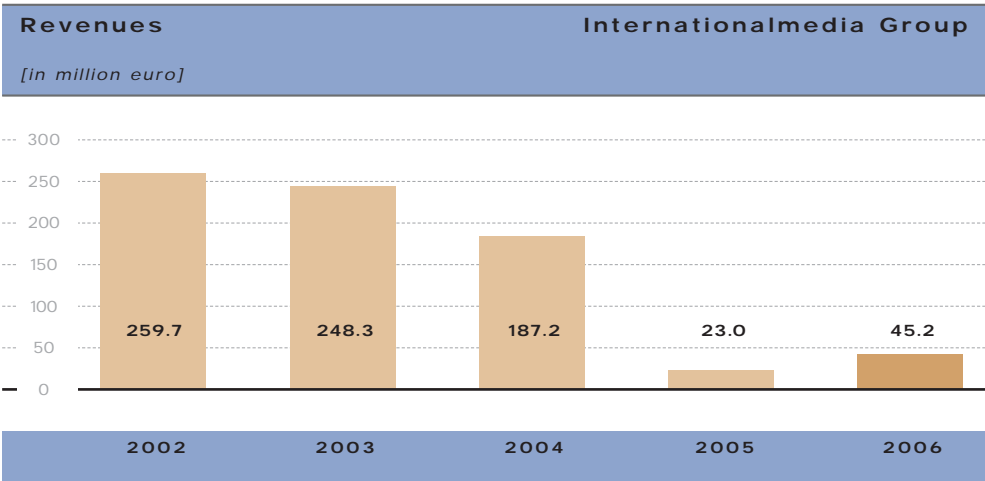


## Earnings per share

## Internationalmedia Group

[in euro]







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**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,

The past business year was in large part defined by the realization of the new strategy, where crucial steps were successfully taken. Already in the first half of the fiscal year 2006 the company group announced the closure of deals with QED International including the co-operation on new projects developed by the Internationalmedia group. In addition, the successful progress within the business area *Intermedia Cinema* has to be pointed out. In this segment, three projects were produced on time and within budget. The horror movie *ONE MISSED CALL* starring Shannyn Sossamon and Ed Burns was produced as the first co-production with Kadokawa Pictures and Alcon Entertainment. Additionally, the adventure comedy *SPRING BREAK IN BOSNIA* went into production. The high-profile main cast of the movie, which is produced by the Internationalmedia group in co-operation with QED International, includes Richard Gere, Terrence Howard and Jesse Eisenberg, as well as Diane Krueger and James Brolin in supporting roles. Furthermore, the comedy *MAGICIANS* starring David Mitchell and Robert Webb was produced in co-operation with Universal Pictures International and Breakout Films.

Even though the strategic restructuring required time and commitment in the past fiscal year, these strategic relationships and realized projects proved vital to the company group's development during the year. It also makes evident that the company's current business strategy, including its concentration on genre films, bode well for the future of the company.

Notwithstanding these achievements on the operative side, the past business year also provided challenges for the company, as well as its shareholders. The strategic options the company had scrutinized and discussed turned out to be much more complicated to implement than we assumed at the beginning of 2006. In addition, confidentiality obligations to our business partners made an active market communication extremely difficult. These circumstances have stroked the discontent and uncertainty of our shareholders leading to a weak share and share price in the course of the past business year. Even the positive development of the company's production activities could not compensate fully for this development.

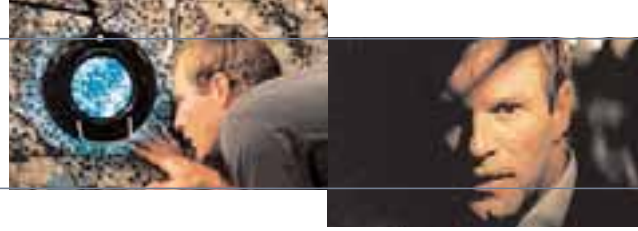


A further important step in the last fiscal year were the changes in the Management and the Supervisory Board of IM Internationalmedia AG. Prof. Dr. Helmut Thoma was appointed as chairman of the Supervisory Board of IM Internationalmedia AG. Prof. Dr. Thoma is the former managing director of RTL, a multiple laureate and media expert. In addition, Sascha Konzack was appointed Chief Financial Officer effective March 15, 2007. Mr. Konzack has been the Director of Finance and Controlling since December 2004. He took over the position from CFO Andreas Konle, who after six years seeks out new professional challenges, and Mr. Christian Böhmer, who was a member of the Board for seven months in the last fiscal year.

## **SALES, EARNINGS AND FINANCIAL SITUATION**

In regards to the profit and loss statement, we already closed the first six months of the fiscal year 2006 with a loss. The theatrical release of the thriller BASIC INSTINCT 2 – RISK ADDICTION starring Sharon Stone in March did not meet expectations, especially with regards to the US box-office results. Therefore it didn't generate a positive effect to our first six months' result. The second half of the business year was particularly influenced by the following developments. First of all, the restructuring has changed the company's production portfolio. Since most of the genre films are our own productions they do not impact on the profit and loss statement until the time of the film's delivery or release. Thus, two of last year's finalized productions will not affect the profit and loss results until the business year 2007. Second, the company's Management Board decided to follow the auditors' opinion regarding the implementation of IAS 36. This change of valuation negatively impacts the overall year's result by the amount of 7.8 million euros. Third, the Management Board cleared remaining past difficulties by writing off the capitalized project development costs to a level of under 1 million euro resulting in a negative impact of 8.3 million euros.

Despite their increase in the business year 2006, revenues are not a decisive benchmark for the company. The priority focus still remains the enhancement of the company's liquidity and profitability, followed by revenue growth.



In the year 2006 we continued to pursue the ongoing goal to improve the company's efficiency and reduce the yearly fixed costs. This is shown in the further reduction of administration costs, which decreased by over 21 percent compared to the same period of last year to 7.3 million euros. This continuing positive trend will improve liquidity in the long-term and consequently contributes to the group's overall development.

## STANDING OF THE GROUP

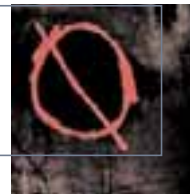
The company's strategic reorganization revitalized the position of the Internationalmedia group within the film industry. With the business area *Intermedia Films* we continue to produce and distribute capital-intensive high-quality motion pictures. Films like *RV* and *BREACH* will continue to enhance the brand name and the image of the company. The concentration on the business area *Intermedia Cinema* has generated the interest of film companies worldwide. We are pleased to have entered into strategic arrangements with respected production and distribution companies, which enabled us to significantly increase our production activities. In addition, we continue to work on the business area *Intermedia TV*. For this area we hired Tom Russo as President *Intermedia TV*. After several years of development and production of TV formats at Universal Television, as well as at Paramount TV thereafter, the TV expert had most recently been Senior Vice President at Paramount Network Television. In this position he supervised numerous TV formats, including such successful series as *NAVY CIS*, *GHOST WHISPERER*, *CRIMINAL MINDS*, *NUMBERS*, *EVERYBODY HATES CHRIS* and *MEDIUM*.

With this development we continue to be one of Hollywood's most important independent film companies and we are convinced that this year's development of the business area *Intermedia TV* under the direction of Tom Russo will be very successful.

## OUTLOOK

With a little delay we succeeded in leading the company in the aimed strategic direction. The focus of the current business year 2007 is to further build our business and to enhance the company's position through new productions within the chosen segments. We believe that another crucial strategic step to achieve in the course of our business aims is the successful establishment and the extension of our distribution and sales operations. Though we have already enhanced our position with existing alliances, it is our goal to further focus our operations in





this area as that is essential for production financing. When achieving this, the company group's prime goal, profitability in 2007, along with the enhancement of liquidity, can be realized.

Munich in March 2007

Martin Schürmann  
Chairman



**Martin Schürmann**

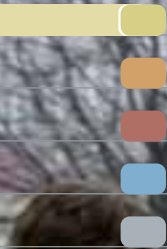
studied business administration and received his MBA; until 1995 worked as Executive Vice President for Don Johnson Productions, producing several studio released feature films as well as a one hour-drama series. Between 1995 and 2000 Managing Director of Bertelsmann's film and TV arm (CLT-UFA) in Los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



**Sascha Konzack**

studied business economics at the University of Konstanz; until March 2003 worked at the Germany-based branches of accounting firms Arthur Andersen and Ernst & Young, where he specialized in media, with a specific focus on audits performed in conformity with the German Commercial Code (HGB), International Financial Reporting Standards (IFRS), and US-GAAP, company valuations and related due diligence, and audits and consulting for IPOs and film fund placements. Thereafter served as a Senior Corporate Auditor with Honeywell International Inc., being responsible for all corporate audit areas for the regions of Europe, the Middle East, and Africa. Since December 2004, Director of Finance and Controlling of IM Internationalmedia AG and on March 15, 2007, appointed as a member of the company's Management Board, with areas of responsibility consisting of finance, investor relations, and corporate communication and administration.

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# ANNUAL



Annual Review



# REVIEW

BREACH (AKA HANSEN PROJECT)

Ryan Phillippe  
Chris Cooper







## MAY

### INTERNATIONALMEDIA GROUP, QED INTERNATIONAL AND ACTION CONCEPT ANNOUNCE DIRECTOR FOR STOPPING POWER

IM Internationalmedia AG's subsidiary Intermedia Film Equities Limited, QED International and action concept announce the acclaimed Dutch film maker Jan De Bont as director for the action thriller STOPPING POWER.

## JULY

### INTERNATIONALMEDIA GROUP SIGNS RICHARD GERE FOR SPRING BREAK IN BOSNIA

IM Internationalmedia AG's subsidiary Intermedia Film Equities Limited, and QED International signed Hollywood star Richard Gere (PRETTY WOMAN, RUNAWAY BRIDE, CHICAGO) as the leading act for SPRING BREAK IN BOSNIA. Terrence Howard (CRASH, RAY, HUSTLE AND FLOW) as well as Jesse Eisenberg (THE SQUID AND THE WHALE, THE VILLAGE, CURSED) were also signed for the main cast. The Weinstein Company has acquired the North American as well as the Australian and New Zealand distribution rights.

## AUGUST

### INTERNATIONALMEDIA GROUP ANNOUNCES PRODUCTION, DIRECTOR AND MAIN CAST OF MAGICIANS

IM Internationalmedia AG's subsidiary Intermedia Film Equities Ltd. announces the production of the high concept comedy MAGICIANS. The film is to be directed by Andrew O'Connor (PEEP SHOW, DERREN BROWN). David Mitchell (PEEP SHOW, I COULD NEVER BE YOUR WOMAN), Robert Webb (PEEP SHOW, CONFETTI), Tom Hollander (PIRATES OF THE CARIBBEAN 2 & 3, PRIDE AND PREJUDICE) and Jessica Stevenson (SHAUN OF THE DEAD, TOMORROW LA SCALA) were signed for the main cast. MAGICIANS is a project of the Internationalmedia group and produced in association with Universal Pictures International und Breakout Films. Additional financing comes from UK Film Council's Premiere Funds and EM Media. Universal Pictures International has acquired all distribution rights for UK, Germany, Benelux, Australia and New Zealand.



## SEPTEMBER

### SPRING BREAK IN BOSNIA STARTS PRINCIPAL PHOTOGRAPHY, INTERNATIONALMEDIA GROUP SIGNS DIANE KRUEGER

With a high-profile star cast principal photography of *SPRING BREAK IN BOSNIA* commences in Sarajevo. In addition to the powerful main cast, the Internationalmedia group signs Diane Krueger (*TROY*, *NATIONAL TREASURE*) and James Brolin (*CATCH ME IF YOU CAN*, *TRAFFIC*).

## OCTOBER

### CHANGES IN MANAGEMENT

Christian Boehmer, member of the Board of IM Internationalmedia AG since March 16, 2006, resigns from his position, effective October 31, 2006. Mr. Martin Schürmann, Chief Executive Officer, and Mr. Sascha Konzack, Director Finance and Controlling, assume his areas of responsibility.

## NOVEMBER

### IM INTERNATIONALMEDIA AG DECIDES ON CAPITAL RESTRUCTURING

The Management Board of IM Internationalmedia AG in accordance with the Supervisory Board authorize the issuance of a warrant bond 2006/2011 with a total nominal value of up to 3,016,200.00 euros that is divided into up to 75,405 warrant bond notes with a nominal value of 40.00 euros each. Each warrant bond is combined with a separable option to acquire 120 voting bearer ordinary shares of the company's subscribed capital of 1.00 euro each at a price of 1.00 euro per share (9,048,600.00 euros in total).



## INTERNATIONALMEDIA SIGNS LETTER OF INTENT WITH CAPCO GROUP LLC

The Management Board of IM Internationalmedia AG signs a letter of intent with the approval of the Supervisory Board, which includes the basic components of a significant strategic alliance with the CapCo Group, LLC. Both company groups intend to work together with regards to the exploitation of existing and future film rights as well as on new film productions. Furthermore, the letter of intent includes an extensive production credit line, distribution arrangements as well as the sale of certain UK subsidiaries, holding a part of the library.

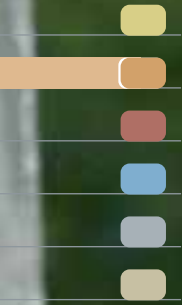
## DECEMBER CAPITAL RESTRUCTURING FINALIZED

By the end of the subscription period on December 28, 2006, shareholders of the IM Internationalmedia AG subscribed for 6,320 warrant bond notes of the warrant bond 2006/2011 with a nominal value of 40 euros each. The company will have qualified investors purchase the 69,085 warrant bond notes through a private placement in early 2007.

## JANUARY 2007 PLACEMENT OF WARRANT BOND SUCCESSFULLY FINALIZED

Contemporary to the end of the subscription period IM Internationalmedia AG completed the sale of the remaining unsubscribed bond notes with warrants to a potential strategic partner. The investor purchased the remaining 69,083 bond notes with warrants for a total nominal value of 2,763,320.00 euros. With this sale completed, the Management Board elected to allow the letter of intent signed by the company with the CapCo Group, LLC on November 22, 2006 to expire. However, the company is still pursuing fundamental aspects of the letter of intent.





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# MANAGEMENT



## Management Report



Review \_ DVD \_ Increase \_ Entertainment \_ Cinema Density \_ Cinema Screen \_ Movies \_ Producer \_ Major Studios \_ Film Distributors \_ Film Titles \_



# NT REPORT

SPRING BREAK IN BOSNIA

Richard Gere  
Terrence Howard  
Jesse Eisenberg



## Market Overview

During the past fiscal year the development of the worldwide economic environment proved to be largely stable with most of the exploitation windows showing positive trends. The theatrical markets in Germany, as well as in the US, clearly improved. Only the home entertainment markets in Germany declined, which resulted in significant losses, in particular within the German rental market.

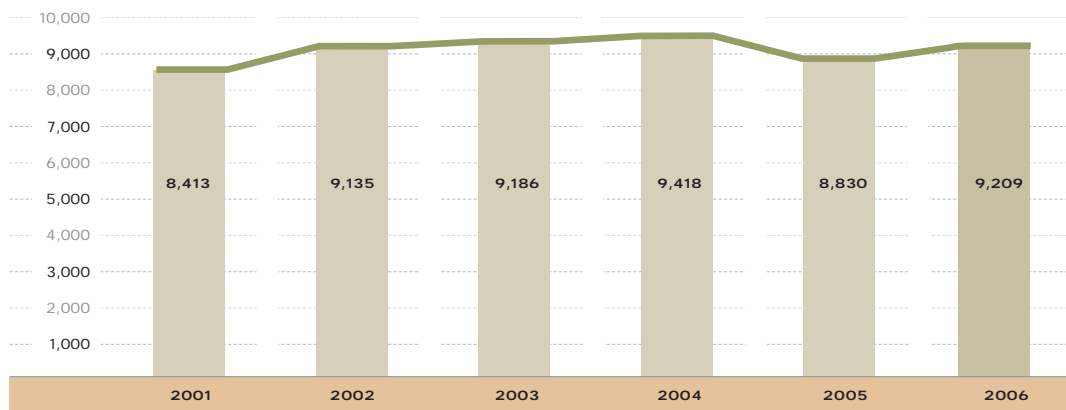
### OVERVIEW CINEMA

Total US box-office revenues increased by 1.4 percent compared to the year before and amounted to 9.2 billion US-dollars at the end of the past business year. The number of tickets sold in the US has slightly increased in the past fiscal year. The same holds true for the average ticket price.

#### US Box-office

[in million USD]

Source: Boxofficemojo.com, Nielsen EDI





The most successful movie in 2006 in the US was PIRATES OF THE CARIBBEAN – DEAD MAN’S CHEST, for which the US box-office results alone amounted to over 423 million US-dollars. Sony/Columbia was last year’s most successful US-studio, followed by Buena Vista, 20th Century Fox and Warner Bros. Each of them succeeded in surpassing the revenue mark of one billion US-dollars at the box-office.

The German theatrical market in 2006 showed an increase in box-office revenues as well. Compared to the year before, the number of moviegoers increased by approximately 7.4 percent to nearly 137 million. With a slightly increased average ticket price, the revenues totalled around 814 million euros. German productions also showed a gain in revenues and the number of moviegoers, with a market share of 25.8 percent being the largest market share of German films since the year 1991. The most successful movies in Germany were ICE AGE – THE MELTDOWN, PIRATES OF THE CARIBBEAN - DEAD MAN’S CHEST, THE DA VINCI CODE and PERFUME – THE STORY OF A MURDERER.

According to the latest media research report of PricewaterhouseCoopers, the German theatrical market should continue to rebound in the years to come. It is expected that the number of moviegoers will further increase within the next few years. Analysis estimates a yearly box-office growth rate of an average 4.2 percent.



## OVERVIEW HOME ENTERTAINMENT

The US home entertainment market showed a slight decrease in revenues in the past business year. Overall revenues in the US declined to 24.2 billion US-dollars in comparison to 24.3 billion US-dollars in the year before. Compared to the year before, DVD sales generated a slight increase in revenues from 16.3 billion US-dollars to 16.6 billion US-dollars. The DVD rental market improved by a billion US-dollars amounting to 7.5 billion US-dollars in the year 2006. However, this increase is offset by the decline of the VHS format. With a decrease in revenues by almost 1.5 billion US-dollars to only 1.0 million US-dollars in the past business year the VHS video cassette market is virtually nonexistent now. This is also evidenced by the fact that in the past fiscal year 33 million households purchased a DVD player in the US and the number of households that own DVD players is now approximately 88 million. About half of these households own more than one DVD player.

As in the US, the German video industry also experienced a decline of revenues in the past fiscal year. After a weak first half of the soccer world cup year sales improved in the second half with sales in the sell-through market even achieving a new record. However, due to the continuing significant drop in prices revenues from the sell-through window declined. Home entertainment market revenues from the sell-through and the rental market combined totalled nearly 1.6 billion US-dollars, a decrease of over 5.0 percent. Compared to the year before revenues from the sell-through market declined by 4.0 percent to 1.3 billion US-dollars in the past business year. Also impacted by the soccer world cup the rental market decreased by 11.0 percent to 284 million US-dollars.

The average growth rate of the German rental market is forecasted to be on a low level. However, research also indicates that DVD sales in Germany will increase within the next few years. According to PriceWaterhouseCoopers, the German sell-through market should grow by an annual average rate of around 5 to 6 percent until 2010.



Despite receiving a lot of media attention in the last business year, video downloads and the new formats Blu-ray and HD DVD still did not surpass a market share of one percent, neither internationally nor in the US. However, in the years to come market analysts expect significant growth in revenues for video downloads as well as other formats and devices that simplify digital distribution.

## OVERVIEW PAY TV AND FREE TV IN GERMANY

In the past years the German market had only one major pay TV provider dominating the market. However, in the course of the past business year the German TV landscape started to change. New providers along with numerous new packages and specialized TV channels significantly increased the German pay TV market's competition. For the years to come, it can be expected that TV cable network providers will continue to increasingly enter the market with their own packages of pay TV content. However, pay TV channels still have to compete with an extensive supply of free TV providers. All in all, this development along with the new formats and technologies within the home entertainment industry will lead to an increasing demand for entertainment programs.

Gross advertising revenues increased by 5.1 percent to around 20.1 billion euros in the German market. In total, approximately 8.3 billion euros of TV advertisement was sold last year, a growth rate of over 3.0 percent. Thus, the highest revenues within the field of classic media are still generated by TV advertising. The ongoing improvement of the gross advertising market was strengthened by a general economic pick-up as well as increased expenses in the course of the Soccer World Cup.





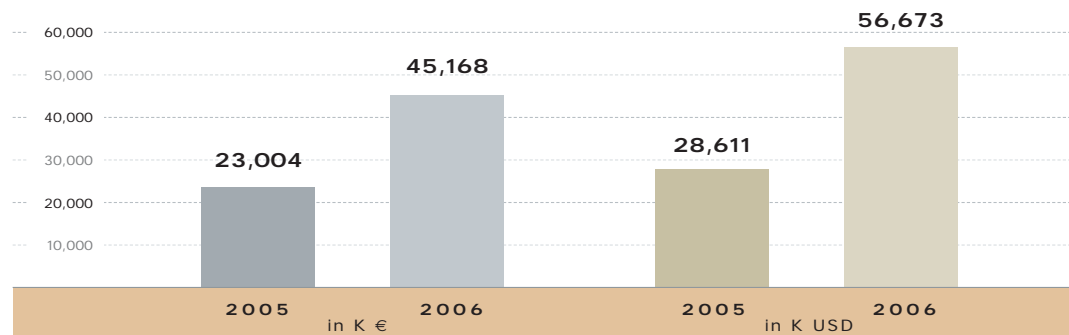
## Group Turnover and Income

### REVENUES

While the restructuring of the Internationalmedia group had been the focus of the year before, the new strategy was almost completely implemented in the business year 2006. As a result, principal photography of three *Intermedia Cinema* projects was completed on time and on budget in the last business year. However, these own productions will not affect profit and loss results until the business year 2007 since they do not have an impact on the profit and loss statement until the time of the film's release. In the business area *Intermedia Films* the theatrical release of the thriller **BASIC INSTINCT 2 - RISK ADDICTION** starring Sharon Stone did not meet expectations, especially with regards to the US box-office results. Therefore it didn't generate a positive effect to our result.

A main part of the turnover's increase from 23.0 million euros in the year before to 45.2 million in 2006 is based on the release of **BASIC INSTINCT 2 - RISK ADDICTION**, as no theatrical releases were realized in the same period the year before. Another essential part of the overall revenues results from the constantly high revenues from the film library.

Sales trend

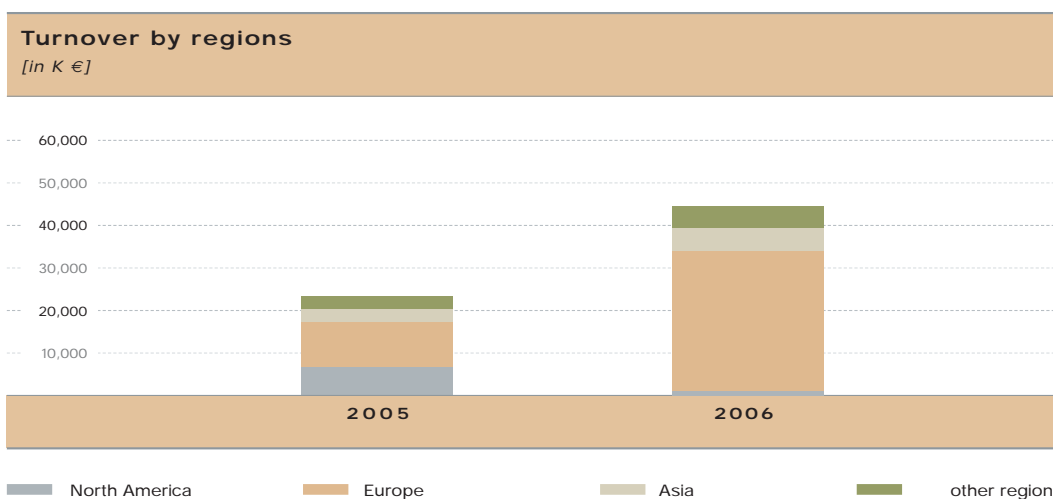




## TURNOVER BY REGION

The 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 in which the licensee holder resides. In the fiscal year 2006 licensing of Internationalmedia group movies mainly took place in Europe, as did the recognition of producer and financing fees.

| Turnover by regions | 2005          | 2006          | Change        |             | Share 2006   |
|---------------------|---------------|---------------|---------------|-------------|--------------|
|                     | [in K €]      | [in K €]      | [in K €]      | [in %]      | [in %]       |
| North America       | 6,549         | 870           | - 5,679       | - 86.7      | 1.9          |
| Europe              | 11,576        | 34,957        | 23,381        | 202.0       | 77.4         |
| Asia                | 2,449         | 4,711         | 2,262         | 92.4        | 10.4         |
| other regions       | 2,430         | 4,630         | 2,200         | 90.5        | 10.3         |
| <b>Total</b>        | <b>23,004</b> | <b>45,168</b> | <b>22,164</b> | <b>96.3</b> | <b>100.0</b> |





## GROSS PROFIT

For the year's 2006 consolidated financial statements the company follows for the first time the auditor's opinion regarding IAS 36. Accordingly, every single film's evaluation was analyzed on the basis of the discounted cash flow method. The resulting cumulated non-recurring loss in the amount of 17.4 million euros was separated in current expenses and expenses of the years before, according to IAS 8. The respective part of the non-recurring loss belonging to the business year 2006 in the amount of 7.8 million euros led to a negative result amounting to 4.0 million euros. Even though the cumulated reserves exceed the expenses by far, they can only be realized in the course of the exploitation.

## PROJECT DEVELOPMENT COSTS

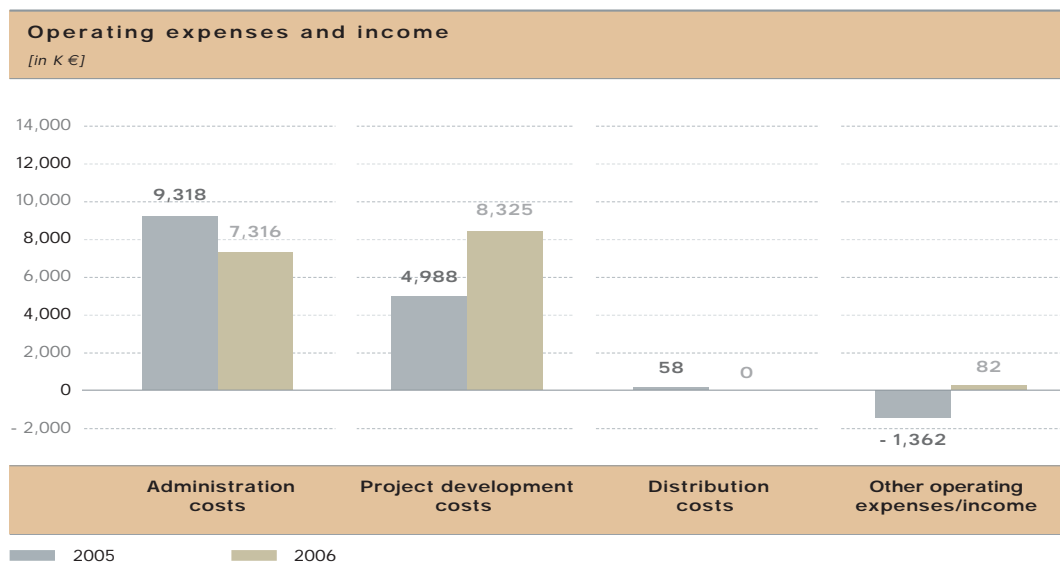
Due to the delays in the course of the new strategy's implementation, the company – largely based on the 3-year depreciation rule – had to depreciate around 91 percent of its capitalized project development costs. However, the projects do not become worthless for the company. In contrast, the company now is able to work completely clear from past difficulties and holds potential reserves that can be realized by future productions of the existing projects.





## RESTRUCTURING PROGRAM SHOWS ONGOING POSITIVE IMPACT

The further consolidation of the Internationalmedia group in prior years, the resulting realization of further cost saving potential and the implementation of the company's new strategy again resulted in a significant reduction of operating expenses in the business year 2006. Overhead costs were reduced by 2.0 million euros to 7.3 million euros, which is a decrease of 21.5 percent compared to the year before.





## EARNINGS BEFORE INTEREST AND TAXES

Being exposed to a continuously difficult situation on the presales market and challenges in connection with the new strategy's implementation, earnings before interest and taxes (EBIT) showed a decrease of 12.9 million euros to -19.8 million euros. Adjusted by the non-recurrent effects from the impairment of film assets and the depreciation of capitalized development projects the EBIT amounts to -3.6 million euros.

## EARNINGS AFTER TAXES

Earnings before taxes were -22.9 million euros and are characterized by a better financial result of -2.7 million euros compared to the previous year and the negative result at equity. Earnings after taxes were -21.3 million euros due to the positive impact of the reverse of accruals for deferred taxes based on further changes of the group structure.

## EARNINGS PER SHARE

Undiluted earnings per share were at -0.5 euros (diluted -0.5 euros). Undiluted earnings per share for the year before were (adjusted) -0.08 euros (diluted -0.08 euros).



# Group Balance Sheet Structure and Investments

## DECREASE IN TOTAL ASSETS

Compared to the year 2005 total assets of the Internationalmedia group decreased by 41.2 million euros to 161.4 million euros. A significant part of this decrease in the amount of 20.9 million euros is due to the altered exchange rate between euro and US-dollar.

## CURRENT ASSETS

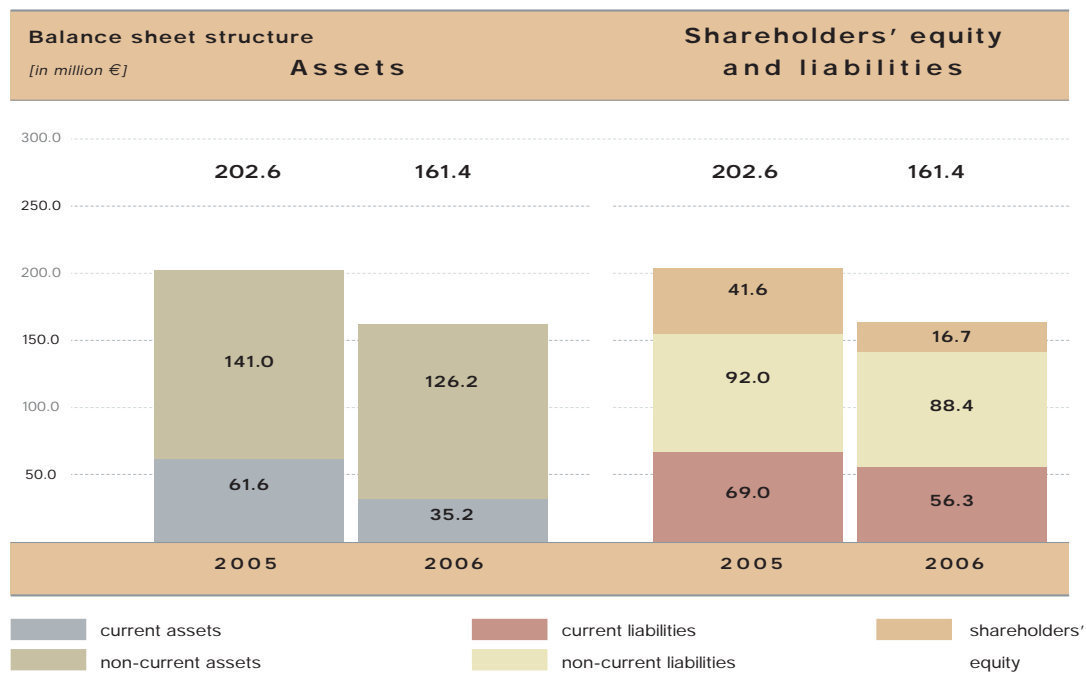
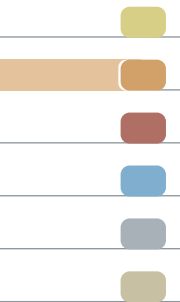
Current assets decreased by 26.4 million euros to 35.2 million euros. On the one hand, this can be attributed to a decrease in capitalized project development costs, which contributes to continuing work without past difficulties. On the other hand, repayments of bank liabilities led to a decrease of cash and cash equivalents. The decrease was partially compensated by the reclassification of other securities from non-current assets to current assets.

## NON-CURRENT ASSETS

Non-current assets show a decrease of 14.8 million euros to about 126.2 million euros. Basically this is a result of the development of film assets, which decreased by 8.4 million euros to 126.1 million euros, due to foreign exchange rate effects, depreciations that are handled dependent on total revenue exploitation as well as the first-time altered application of IAS 36. Fixed assets decreased by 0.2 million euros to 0.1 million euros. The changes regarding the financial assets are mainly due to the reclassification of securities into current assets as a result of their terms.



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## CURRENT LIABILITIES

Total current liabilities show a decline of 12.8 million euros to 56.3 million euros. On the one hand, the overall reduction is attributable to the decrease of bank liabilities of 5.7 million euros to 33.2 million euros. On the other hand, it is also due to the reduction of other accrued liabilities by 3.6 million euros to 19.0 million euros based on equity repatriation to producers. Advanced payments received also decreased by 2.9 million euros to 2.9 million euros, which is mainly due to the company's operative activities.



## NON - CURRENT LIABILITIES

Non-current liabilities decreased by 3.6 million euros to 88.4 million euros. This is mainly due to the decrease of accruals for deferred taxes by 2.0 million euros to 2.9 million euros and the reclassification of accruals for equity repatriation from the non-current to current accruals. This reduction is partially offset by an increase of bank loans due to current productions and the interest for the equity instruments.

## Shareholders' Equity

Shareholders' equity shows a decrease of 24.8 million euros to 16.7 million euros. This is mainly due to the net loss in the amount of 21.3 million euros and the negative currency translation adjustments (CTA) of 3.7 million euros. As a result, the equity ratio has decreased from 20.5 percent to 10.4 percent. However, due to the applied accountancy rules ratios like equity or equity-to-fixed asset are of limited significance since in contrast to the negative effects of the film assets the high reserve assets can only be realized over time.

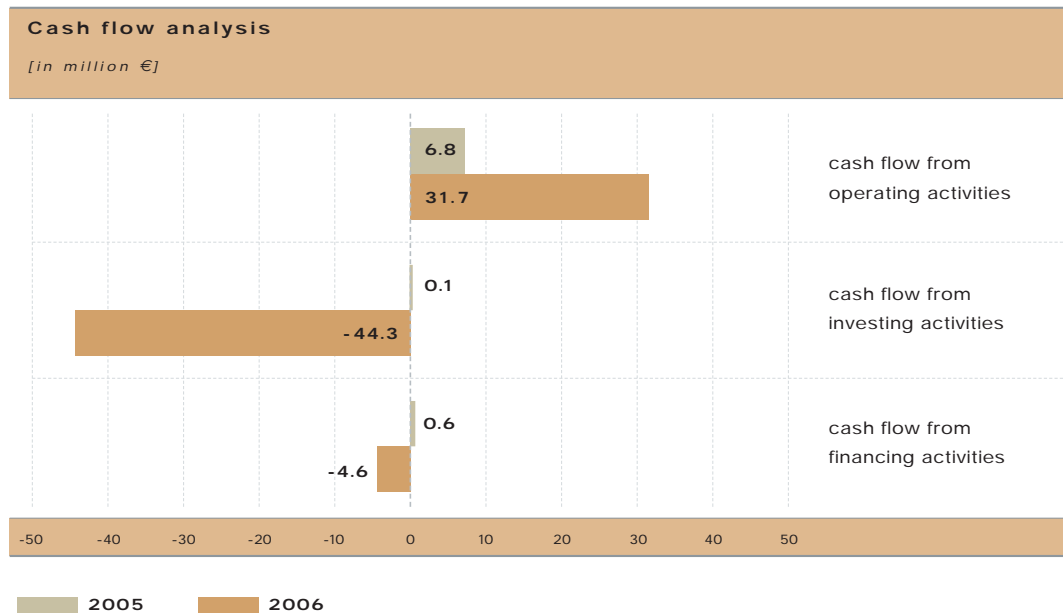
| Ratios                      |   | Dec 31, 2006 | Dec 31, 2005 |
|-----------------------------|---|--------------|--------------|
| Equity ratio                | $\frac{\text{Equity}}{\text{Total assets}}$                   | 10.4%        | 20.5%        |
| Equity-to-fixed asset ratio | $\frac{\text{Equity and film accruals}}{\text{Fixed assets}}$ | 78.3%        | 91.2%        |
| Debt structure              | $\frac{\text{Current debt}}{\text{Total liabilities}}$        | 38.9%        | 42.9%        |



## Group Cash Flow

Compared to the year before, free cash flow decreased by 19.5 million euros to -12.6 million euros. This is mainly due to the operational film investments, which amounted to 43.9 million euros in the last business year. If the film investments in movies that had not been released by December 31, 2006 were not taken into account free cash flow would be balanced. Thus, the net cash flow of -17.2 million euros is basically a result of the redemption of and the interest paid on debt.

The cash flow from operating activities increased by 24.9 million euros based on the higher business volume and the related higher inflow of minimum guarantee payments during the reporting year. The cash flow from investing activities decreased to -44.3 million euros. As a consequence of the reduction of current and mid-term liabilities and the inflow from production loans, the cash flow from financing activities amounted to -4.6 million euros.





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



## INCOME POSITION

The turnover of 0.2 million euros in the fiscal year 2006 mainly consists of management charges to subsidiary companies of IM Internationalmedia AG.

The cost of materials in the amount of 1.4 million euros result from operational activities of IM Filmproduktions- und Vertriebs GmbH & Co. KG, which were merged into IM Internationalmedia AG. The cost of materials include solely received services in connection with film productions.

Compared to the year before earnings before interest, taxes and transfer of losses decreased from -2.7 million euros to -3.2 million euros. This is mainly due to first-time cost of materials in 2006, which could only partly be compensated by the decrease in other operating expenses, being essentially affected by the capital restructuring in the previous year.

Compared to the year before the result from ordinary business activities decreased to -13.5 million euros and includes an improved interest and investment result in the amount of 0.7 million euros. The latter also results from the merger of IM Filmproduktions- und Vertriebs GmbH & Co. KG, because liabilities against affiliated companies were reduced. In addition, the result from ordinary business activities was significantly influenced by the first-time transfer of losses of IM Filmproduktions GmbH, which had closed a profit transfer deal with IM Filmproduktions- und Vertriebs GmbH & Co. KG for the previous year.

Earnings after taxes amount to -5.1 million euros and are significantly affected by the extraordinary result that stems from the performed merger as well as the expenses of adjustments to the book values of financial assets.

## BALANCE SHEET STRUCTURE

Total assets of IM Internationalmedia AG amount to 80.2 million euros, approximately 38.8 million euros below last year's level. In all essential balance sheet items, this development is affected by the performed merger of IM Filmproduktions- und Vertriebs GmbH & Co. KG and the borrowing of cash among group companies.

Compared to the year before equity decreased by 5.1 million euros. Thus IM Internationalmedia AG shows an equity ratio of 72.6 percent. Intercompany liabilities decreased by 37.4 million euros,



mainly as a result of the performed merger and the corresponding reduction of liabilities against IM Filmproduktions- und Vertriebs GmbH & Co. KG.

## CAPITAL RESTRUCTURING 2006

In the past business year the company issued a bond with warrants. The issuance of the bond with warrants with a total nominal value of 3,016,200.00 euros was authorized on November 23, 2006. The placement was completed on January 25, 2007. The term of the bond as well as the attached warrants extends until November 30, 2011.

## DISCLOSURES ACCORDING TO ART. 315 PARA. 3 OF THE GERMAN COMMERCIAL CODE

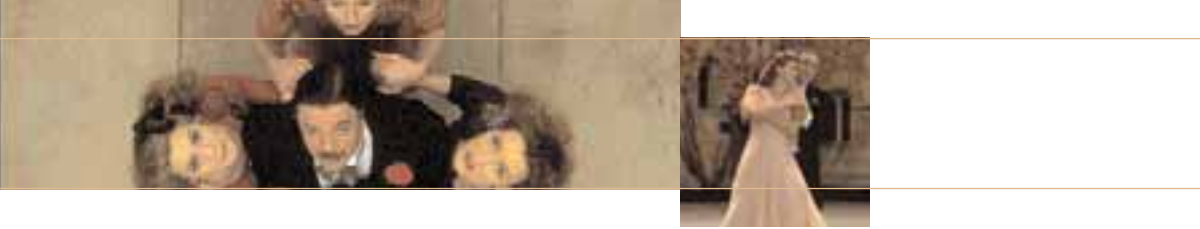
The subscribed capital of IM Internationalmedia AG consists of 42,603,813 no-par value bearer shares with an interest in capital of one euro each. There are no limitations to the voting rights. Subscribed capital was fully paid in.

The authorized capital (Authorized Capital 2004/I) amounts to 5,325,062 euros after partial utilization.

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 reduced to an amount of up to 300,000 euros (Contingent Capital 2000). The contingent increase by the issuance of new no-par value bearer shares to owners or creditors of options and/or convertible bonds is reduced to an amount of up to 13,975,185 euros (Contingent Capital 2004/I). Furthermore the company also has a Contingent Capital 2005, which allows to increase subscribed capital of up to 1,700,000 euros by the issuance of up to 1,700,000 no-par value bearer shares. This contingent capital is used to secure rights in connection with Stock Option Plan 2005.

Neither the Contingent Capital 2000 (300,000 euros) nor the Contingent Capital 2005/I (1,700,000 euros) were used in the fiscal year 2006. From the Contingent Capital 2004/I 3,320 euros were used, so 13,971,865 euros remain as of December 31, 2006.





As of balance sheet date 84,688 convertible bonds with a nominal value of 20.00 euros from the zero coupon convertible bond 2005 and 6,320 warrant bond notes with a nominal value of 40.00 euros are issued.

The Management Board is appointed and recalled according to the regulations of the company's articles and the legal requirements of Art. 84 and 85 of the German Stock Companies Law (AktG). Changes to the company's articles are subject to Art. 179 of the German Stock Companies Law (AktG). The Supervisory Board is only authorized to change the articles of the company in regards to its version. There are no additional or differing provisions to the articles of the company.

## Business Activities of the Internationalmedia Group



The Internationalmedia group is a global, independent film company with operations in London and Los Angeles. The Munich-based parent company IM Internationalmedia AG 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 548880). 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 **BASIC INSTINCT 2** starring Sharon Stone, Oliver Stone's **ALEXANDER** starring Colin Farrell and Angelina Jolie, **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, **K-PAX** starring Jeff Bridges and Kevin Spacey, and **THE WEDDING PLANNER** starring Jennifer Lopez and Matthew McConaughey, among others.

### BUSINESS MODEL

The core business of the Internationalmedia group consists of three main business areas. The current primary focus is the business area *Intermedia Cinema*, in which the company develops, finances, produces and distributes genre films, primarily action, comedy and horror films with budgets of generally between 10 and 25 million US-dollars. In the company's traditional business area, *Intermedia Films*, the group develops, finances, produces and distributes international

capital-intensive high-quality 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.

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

## DEVELOPMENT

The development of motion picture assets starts with the creation of concepts for films and TV series and the search for material and extends to 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 appropriate 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 right dealers.

## 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 70 films.

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



- Reimbursement 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 ancillary rights such as video games.



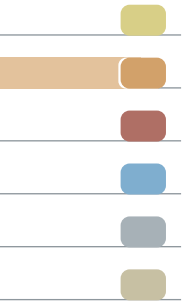
# Productions





## FILMS THAT WERE IN PRODUCTION IN THE YEAR 2006

| Title   | Key Creative Collaborators   | Summary   |
|---|--|---|
| <p><b>SPRING BREAK IN BOSNIA</b></p>  | <p><b>Production:</b><br/>Intermedia Film Equities Ltd.<br/>Weinstein Co.<br/>Gran Via</p> <p><b>Cast:</b><br/>Richard Gere<br/>Terrence Howard<br/>Jesse Eisenberg</p> <p><b>Director:</b><br/>Richard Shepard</p>  | <p>SPRING BREAK IN BOSNIA is a comic thriller about three journalists looking to make their names in the hunt for a Bosnian war criminal. As the latter mistakes them for CIA agents they involuntarily become the hunted target themselves.</p>  |
| <p><b>MAGICIANS</b></p>              | <p><b>Production:</b><br/>Intermedia Film Equities Ltd.<br/>Universal Pictures International<br/>Breakout Films</p> <p><b>Cast:</b><br/>David Mitchell<br/>Robert Webb<br/>Tom Hollander<br/>Jessica Stevenson</p> <p><b>Director:</b><br/>Andrew O'Connor</p> | <p>The high concept comedy comes from the creators of the successful UK TV series PEEP SHOW; the film follows the split of a famous magic double after one of them is involved in a tragic accident with the guillotine. Years later they have to face one another as they both enter the competition of their lives.</p> |







| Title  | Key Creative Collaborators   | Summary   |
|--|--|---|
| <p><b>ONE MISSED CALL</b></p>                | <p><b>Production:</b><br/>Intermedia Film Equities Ltd.<br/>Kadokawa Pictures USA<br/>Alcon Entertainment</p> <p><b>Cast:</b><br/>Shannyn Sossamon<br/>Ed Burns</p> <p><b>Director:</b><br/>Eric Valette</p> | <p>ONE MISSED CALL is the American remake of Takashi Miike's highly successful Japanese hit horror film. The story follows a young graduate student whose friends receive cell phone voicemails where they hear themselves being murdered. When the grad student gets her death call, she has three days to change her fate before she becomes the next victim.</p> |
| <p><b>BREACH (AKA HANSSEN PROJECT)</b></p>  | <p><b>Production:</b><br/>Intermedia Film Equities Ltd.<br/>Outlaw Pictures</p> <p><b>Cast:</b><br/>Ryan Phillippe<br/>Chris Cooper</p> <p><b>Director:</b><br/>Billy Ray</p>                                | <p>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.</p>  |



FILMS THAT WRE RELEASED IN THE YEAR 2006

| Title   | Key Creative Collaborators  | Summary   |
|---|---|---|
| <p><b>BASIC INSTINCT 2</b></p>  | <p><b>Production:</b><br/>Intermedia Film Equities Ltd.<br/>IMF 3<br/>C2 Pictures<br/><b>Cast:</b><br/>Sharon Stone<br/>David Morrissey<br/>Charlotte Rampling<br/><b>Director:</b><br/>Michael Caton-Jones</p> | <p>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.</p> |
| <p><b>RV</b></p>               | <p><b>Production:</b><br/>Red Wagon Productions<br/>IMF 3<br/>Intermedia Film Equities Ltd.<br/><b>Cast:</b><br/>Robin Williams<br/>Cheryl Hines<br/><b>director:</b><br/>Barry Sonnenfeld</p>                  | <p>The overwrought family dad Bob Munro, his wife Jamie and their two children urgently need to spend more quality time together. However, instead of enjoying the tropical paradise Hawaii the dysfunctional family has to start for a road trip – in an RV. A chaotic family vacation has begun and everything that can go wrong no doubt will go wrong.</p>  |



## Legal Company Structure

The Internationalmedia group consists of the parent company IM Internationalmedia AG and the five fully-owned subsidiaries: IM Filmproduktions GmbH (Munich), 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 ongoing realization of the corporate restructuring program that was implemented 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 reductions the number of employees was again reduced last business year. Thus the total number of employees has declined from a total of 32 at the beginning of the year to 22 persons by the end of 2006.

### COMPENSATION OF MANAGEMENT BOARD

The overall compensation of the Management Board members is comprised of both a fixed salary and a variable component. The fixed components are linked to the tasks of the respective member of the Management Board and his performance, taking into account the Board's peer companies and the regional environment. Variable compensation includes bonus payments and stock options. Bonus payments are granted to the Management Board members based upon both achieving personal goals and corporate objectives. Personal goals are attributed 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 2005 of IM Internationalmedia AG.

The compensation for the business year 2006 split into fixed and variable components for each member is described in the notes to the consolidated financial statements.



## COMPENSATION OF SUPERVISORY BOARD

The compensation of the Supervisory Board consists of fixed and variable components. The fixed component amounts to a net of 20,000.00 euros for a complete fiscal year. The Chairperson of the Supervisory Board receives a net of 40,000.00 euros. The variable component amounts up to 0.25 percent of the company group's EBIT for a complete fiscal year and is conditioned upon the participation in all ordinary and extraordinary Supervisory Board meetings.

# Corporate Communications



**Most notably, the company based its corporate communication of the past fiscal year on two pillars: the product film on the one hand and the capital market on the other hand.**

Different from the year before, last year's communication of the Internationalmedia group was more focused on the product film again. Four productions were undertaken last year: The horror film ONE MISSED CALL starring Shannyn Sossamon and Ed Burns and the UK comedy MAGICIANS starring David Mitchell and Robert Webb were produced and shot on time and within budget. The same holds true for the comic adventure SPRING BREAK IN BOSNIA starring Richard Gere and Terrence Howard. In addition, the company produced the spy thriller BREACH starring Ryan Phillippe and Academy Award winner Chris Cooper for Universal in co-operation with Outlaw Pictures.

The shareholder structure still is affected by a great number of private investors. This includes an immense effort to reply to individual inquiries, which we endeavor to do consistently. In addition, we still obtain invariably positive feedback for the handling of the company's website.

Apart from 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 indirectly in co-operation with



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analysts, and directly through contact at road shows in Munich, Frankfurt and London. Amongst others, IM Internationalmedia AG was covered by SES Research, DZ Bank AG and Close Brothers Seydler AG in the past fiscal year. As in previous years, estimates of analysts can be viewed on the company's website [www.internationalmedia.de](http://www.internationalmedia.de).

In the past fiscal year public relations were handled in a familiar manner. Most notably the press focused on the new productions of the Internationalmedia group. Through close contacts to editors and journalists we strengthened the company's largely positive image as an important producer of international film projects, in particular with regards to the trade 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 utilized to the extent suggested by the Federal Financial Supervisory Authority (BAFin). 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 financial condition, assets and operating results of the group. The company has therefore implemented a risk management system for the entire group that provides management with early indicators and benchmarks necessary to take appropriate measures to avoid risks and reduce the negative consequences stemming therefrom. The Internationalmedia group's management focuses on the company's liquidity, profitability, and revenue growth, among others, as the primary indicators of financial performance. 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 money market securities. This balances the need to safeguard the group's liquidity by achieving the best possible return on its money.

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

Liabilities connected with film productions are generally secured by the film itself, as well as by a completion bond, which is a completion guarantee issued by an insurance company. There is usually no or only limited recourse to the company under such arrangements.

Net liquidity of the Internationalmedia group appears to have stabilized over the last few quarters. This is a result of reduced investments and significantly reduced overhead costs resulting from the company's restructuring program. Furthermore, liquidity was enhanced by the capital restructuring finalized in 2005, and the bond notes with warrants issued in 2006 and fully placed after the closing date. However, the Internationalmedia group's going concern status continues to depend on management's ability to finance the continued operations of the group through the reinvestment of revenues from operations and/or through raising debt or equity financing. Thus, the going concern status of the company ultimately depends on the success of its business

activities (i.e. to what extent financing and producer fees that result from the production of motion pictures and TV projects and library income can cover overhead, film development costs, and interest and principal repayment with respect to the company's debt financing). Because the production and exploitation of feature films is basically a project-related business, it is prone to postponements and cancellations of planned projects. The short- and mid-term cash forecast of the Internationalmedia group builds upon the premise that the company achieves a certain number of production starts and a certain level of revenue from the re-licensing of library titles. If some or all of these planned projects or re-licensings were not realized due to external (market environment) or internal (management) reasons, and further management does not succeed in acquiring adequate alternative financing, this could result in cash shortages within the Internationalmedia group, that could, in a worst-case scenario, threaten its existence or going concern status.

## Exchange Rate Risks

The main transaction currency of the Internationalmedia group is the US-dollar, as international sales revenues and most of its operating expenses are executed in US-dollars. Therefore, the Internationalmedia group's exposure to a possible euros/US-dollar exchange rate risk is minimal and only affects the company's reporting. To the external reader, the reported financials appear either better or worse, depending on the euro/US-dollar exchange rate. For IM Internationalmedia AG, exchange rate risk exists due to the requirement under the German Commercial Code (HGB) that statutory accounts strictly reflect the lesser of either cost or market principle. Additionally, the Internationalmedia group may be affected indirectly by the effect that exchange rates have on regional film buyers.



## Risks Inherent to the Industry

### INCREASING ACQUISITION AND PRODUCTION COSTS

Overall, the cost of producing, marketing and distributing films has risen considerably in the last decade. As part of its new business strategy, the Internationalmedia group also intends in the future to sporadically acquire, develop, finance and produce films, which (often because of a higher budget) have higher production values and therefore greater potential to reach a broader public. An experienced management team, defined corporate communication and decision-making channels, and strict cost control measures incorporate these factors. Additionally, the company also minimizes these costs by concentrating on the production of films with comparatively lower budgets that are less capital-intensive and more predictable in development and production. Moreover, financing of such films is less complex and international pre-sales can be forecasted more easily. When appropriate, the artistic value and the public acceptance of the films are further enhanced by the use of well-known independent production companies.

### INTENSE COMPETITION

The development, production, financing, and licensing of films is highly competitive. The Internationalmedia group is one of the few worldwide film companies that has established an independent position in the market. The company plans to enhance this position by consistently developing high-quality films.

Moreover, a main focus of the company is the establishment and extension of an effective distribution strategy. After the termination of our joint venture with Summit Entertainment for the distribution of our motion pictures, we have commenced re-licensing library titles on our own and secured pre-sales arrangements for new productions with strategic allies. Because of the intense competition within the distribution market, it is critical to company's development to be able to secure strategic alliances.

## FILM PIRACY

Film piracy causes enormous damage to the entire film industry, from production companies to sales agencies to the Major Studios and national distributors. Nevertheless, the motion picture industry has the advantage of benefiting and learning from the negative experiences of the music industry. While the music industry did not reach a consensus on a pricing model that gives all implicated parties a balanced incentive to collaborate, the film industry collectively starts from a lower comparative price, which both raises the threshold for illegal copying and reduces the margin for illegal sales, thus rendering the option of legal purchase a much more appealing alternative to copying. Despite these preventative measures, increased film piracy poses a serious threat to the earnings models of the film industry. Primarily affected are big event films, which are subject to illegal copying at a significantly greater rate than smaller genre films.

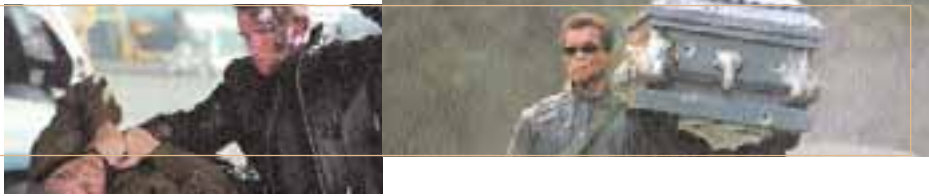
## Management of Opportunities

All risks aside, the Internationalmedia group faces a number of opportunities that may substantially influence the group's earnings, financial condition, and prospects.

## STRATEGIC ADJUSTMENTS

Last year Internationalmedia group management implemented changes to the group's business strategy, focusing not only on event films, but also on engaging in the development, financing, production, and distribution of motion pictures with a specific target market. In the near future, the company's management also intends to take a similar approach with regard to TV productions. Management believes that this diversified strategy will result in an increase of flexibility, an increased ability to forecast the business model, and reduce the company's dependence on individual partners in areas like financing and production.

Management seeks to successfully implement the new business segments also in part by forming strategic alliances with other companies. For example, in the 2005 fiscal year, the company entered into agreements with Kadokawa International, action concept and QED International, all of which successfully resulted in productions and projects in the 2006 fiscal year.



## DEVELOPMENT PROJECTS

The Internationalmedia group's slate of active development projects provides it with extensive opportunities for future productions. The company continues to actively pursue these existing projects as productions for the group's library or as projects made for third parties. In addition, various existing development projects are already in such an advanced stage that only small investments are necessary to prepare them for production. Furthermore, when depreciation is applied, the development costs associated with the bulk of those projects are already written off. Consequently, production and sales of these projects offer additional earning potential.

# Outlook



## MARKET ENVIRONMENT

The appetite of global capital markets, as well as institutional and private investors to invest in media shares and the production of motion pictures has significantly increased within the last two years. Among other things, this is due to an increasing demand for entertainment formats that has grown in direct proportion to emerging technical innovations and the resulting new media distribution formats. These factors have led to positive growth forecasts for the entertainment industry.

Ignoring for a moment the potential of these new technological innovations and distribution formats, industry expectations for the exploitation of traditionally important forms of entertainment such as cinema, home entertainment, and TV remain favorable and an integral prospective revenue source. As a result of the spread of digital theatres and increasing ticket prices, experts estimate a yearly box-office growth rate in the US of three to five percent. Forecasts for Germany and Europe imply a yearly growth rate for box-office revenues of between four and five percent.



In addition, estimates for the development of home entertainment remain clearly positive. Even though the negative trend of the rental market should continue, research indicates that the increase in DVD sales revenues will more than compensate for the rental market's decline. Within the sell-through window, positive growth rates are forecasted for all important markets.

Due to new analog and digital channels, as well as new technologies like HDTV, analysts for the TV market also indicate increasing growth rates.

## THE COMPANY

In the past business year, IM Internationalmedia AG succeeded in taking crucial steps such as the closing of different deals and the production of three projects, all of which were on time and within budget. In addition, the theatrical release of *RV* and the production of *BREACH*, both of which are projects within the traditional business area of *Intermedia Films*, further enhanced the company's name brand and image.

Even though management's strategic restructuring required time and commitment, these factors make evident that the new strategy bodes well for the company. However, the company is aware of the fact that the timeline for implementing the strategic restructuring has been longer than anticipated and that the future will likely continue to provide challenges for both the company and its shareholders. One present goal is to successfully establish and extend our sales and distribution strategy in order to simplify and facilitate the production and financing of film projects. An active market communication about the development and implementation of such strategy is difficult and thus will likely demand the confidence of our shareholders in the future.

Furthermore, in the 2007 business year, we have started to intensify our activities in the third business area, the area of TV. Beginning March 2007, Tom Russo will be building this area as President of *Intermedia TV*. Most recently, he supervised numerous successful TV formats at Paramount Network Television, including *NAVY CIS*, *THE GHOST WHISPERER*, *CRIMINAL MINDS*, *NUMBERS*, *EVERYBODY HATES CHRIS* and *MEDIUM*.



## FILMS AND FORECAST 2007

The company's revenues are expected to decline to a lower level in the 2007 fiscal year. Four films of the Internationalmedia group will have their theatrical releases compared to two films in the year before. However, two of these movies are work-for-hire productions, and thus revenues generated from their worldwide exploitation will not be shown in the company's financial figures. The other two productions are smaller than the films produced last year, and as such, will generate less revenue volume compared to the larger films from the previous year, even in success.

In contrast, management's expectations as to income for the current business year are good. Despite existing uncertainties with new production, we assume that it is possible to achieve our goal established in 2006 (i.e., to start the production of one film in the *Intermedia Films* division, of around four films within *Intermedia Cinema*, and the production of at least one TV series or TV mini-series within *Intermedia TV*). However, whether this will be reflected in a positive 2007 result depends upon the production deals for such projects. In general, work-for-hire or co-productions affect the company's financial figures earlier than productions for our own account since the latter do not impact the profit and loss statement until the time of the film's release.

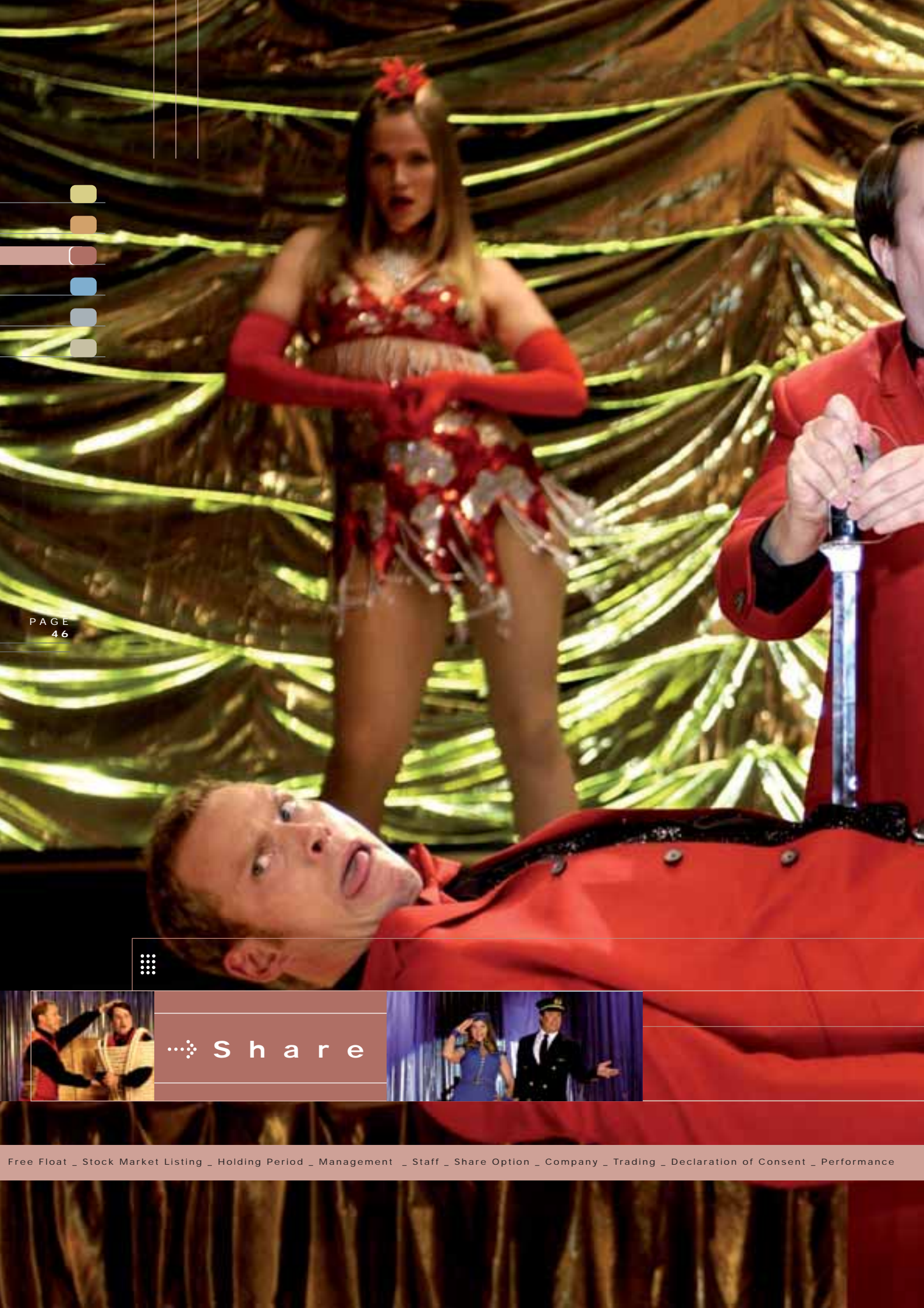
Apart from concentration on new productions, the Internationalmedia group will continue its successful efforts to maintain cost efficiency. All in all this should result in a positive development in 2007/2008.

## SUBSEQUENT EVENTS

In January 2007, IM Internationalmedia AG completed the sale to a potential strategic partner of the remaining unsubscribed bond notes with warrants following the close of the IMAG shareholder subscription offering period. The investor purchased the 69,083 bond notes with warrants for a total nominal value of 2,763,320.00 euros.

Effective March 15, 2007, the Supervisory Board of IM Internationalmedia AG appointed Mr. Sascha Konzack as a new member of the company's Management Board. He is responsible for the areas of finance, investor relations, and corporate communication and administration. Mr. Konzack joined the company as Manager of Finance and Controlling in December 2004.





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Share







# S H A R E

## MAGICIANS

Daniel Mitchell  
Robert Webb  
Tom Hollander





## 2006: Deterioration in Share Price

After experiencing positive trends in our share price in 2005, declines in share value during the second quarter of the 2006 fiscal year suggested that the indicated trust of the capital market in our share had deteriorated. Despite management's goals to implement extensive measures for stabilization, the uncertainty in the market regarding the company's future prevailed. This uncertainty can be attributed mainly to the fact that management was unable to realize certain announced strategic goals within the set timeframes. The strategic options scrutinized and discussed by the company turned out to be much more complicated to implement than assumed at the beginning of 2006. The company is aware that the limited communication of these verifications may have created discontent among our shareholders, and has tested their trust in the company. But confidentiality obligations to our business partners made active market communication extremely difficult.

Despite such difficulties within the past fiscal year, we will continue the company's active communication with investors and research analysts, as seen through our participation in different conferences and expert discussions throughout the past year, among other things. However, the company has always pointed out that shares of IM Internationalmedia AG are not a suitable investment for the short-term investor. According to the management's evaluation, this will only change slightly in the 2007 fiscal year.

### 2006: CAPITAL MARKET IMPROVING

The German capital market in 2006 was defined by a generally friendly appraisal after a collapse in the middle of the year. This positive trend was influenced mainly by a decrease in oil prices, overall positive company news and the central banks' moderate monetary policy. It should be noted that the highest share price increases could be observed in the field of small- and mid-caps. Throughout the last business year, the MDAX and the SDAX increased by approximately 29 percent and 31 percent, respectively. Similarly, share prices of the so-called "standard stocks" of the German stock index (DAX) increased by around 22 percent throughout the year.



## BUSINESS DEVELOPMENT

The last business year was defined by the implementation of the company's new strategy and the capital restructuring conducted in December 2006. Delays in the implementation of the new strategy diminished our shareholders' confidence in a positive development of the company, unfortunately, even the positive development of the company's production activities could not offset this depletion of confidence. The announcements of four projects entering production in 2006 were largely ignored by the market, and therefore had no impact on the share price of IM Internationalmedia AG.

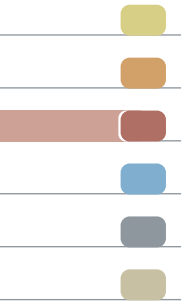
## STOCK TURNOVER AND MARKET CAPITALIZATION

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,<br>Hamburg, Hanover, Munich, Stuttgart |
| Electronic Trade System:            | Xetra   |
| WKN (Security Identification Code): | 548880<br>AOLR8J  |
| ISIN number:                        | DE 0005488803<br>DE 000AOLR8J5  |





## Stock Information

| Stock information   |                |
|---|----------------|
| Year-start price (Jan 2, 2006)  | 0.94 €         |
| Year-end price (Dec 29, 2006)   | 0.42 €         |
| Price per share (high) (March 31, 2006)                                     | 1.16 €         |
| Price per share (low) (Nov 11, 2006)  | 0.36 €         |
| Performance IM Internationalmedia AG  | - 55%          |
| Performance DAX   | + 22%          |
| Performance TecDAX  | + 25%          |
| Performance SDAX  | + 31%          |
| Average daily trading volume in 2006 of the IM Internationalmedia AG shares | 292,300 shares |
| <i>Source: Deutsche Börse</i>   |                |



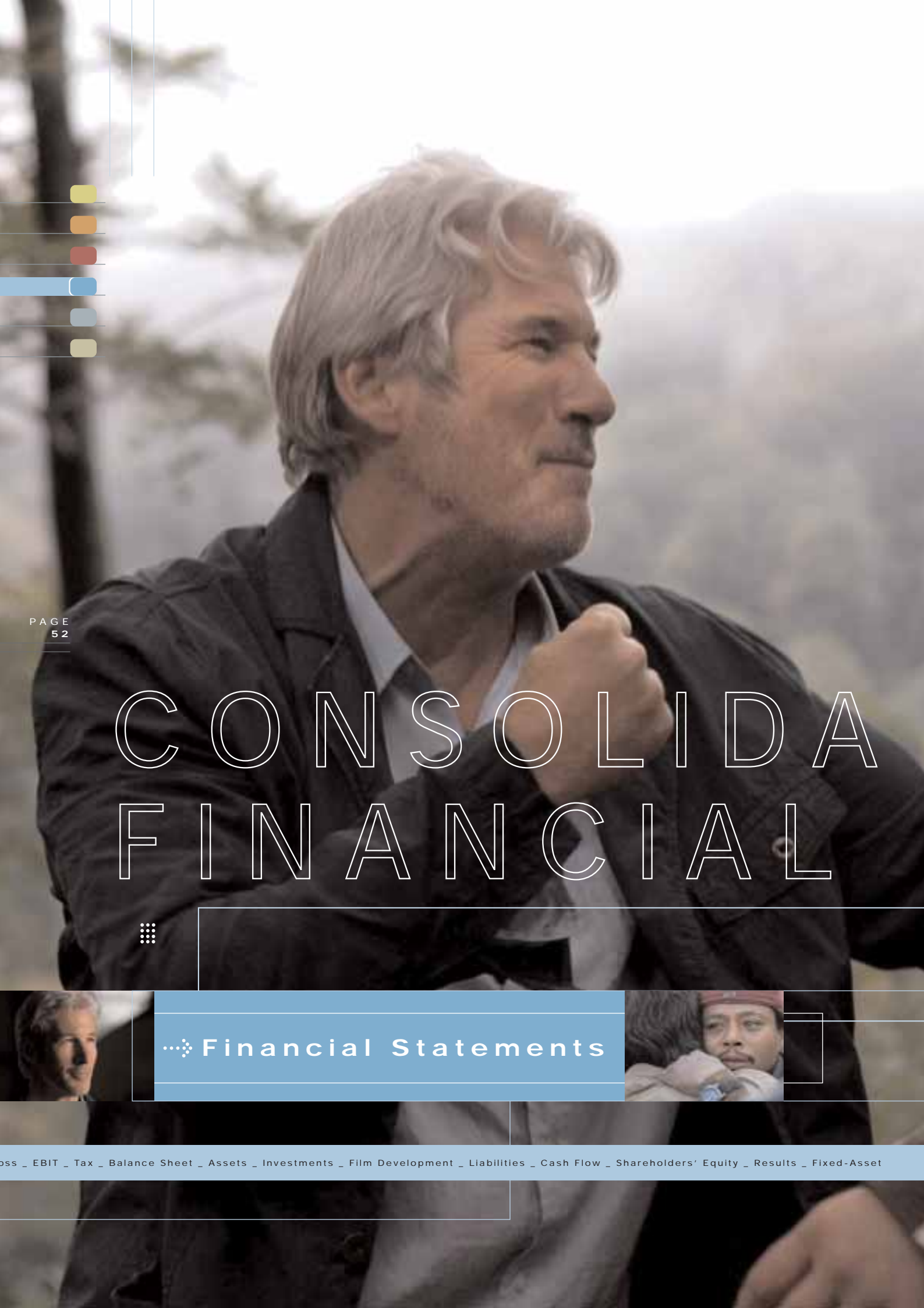
## Earnings per Share

The undiluted earnings per share were -0.50 euros (diluted -0.50 euros). No dividend will be paid.

## 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 that are the most liquid and, with regard to the market capitalization, the strongest corporations of the German stock exchange.





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# CONSOLIDADA FINANCIAL



Financial Statements

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

# TED STATEMENTS



# Financial Statements







# Consolidated Income Statement

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2006



| <i>[in K €]</i>                            | Notes | 2006           | 2005<br>adjusted |
|--|-------|----------------|------------------|
| <b>Revenues</b>                            | (1)   | <b>45,168</b>  | <b>23,004</b>    |
| Costs of goods sold                        | (2)   | -49,198        | -16,889          |
| <b>Gross profit</b>                        |       | <b>-4,030</b>  | <b>6,115</b>     |
| Other operating income                     | (3)   | 197            | 1,606            |
| Project development costs                  | (4)   | -8,325         | -4,988           |
| Distribution costs                         | (5)   | 0              | -58              |
| General administration costs               | (6)   | -7,316         | -9,318           |
| Other operating expenses                   | (7)   | -279           | -244             |
| <b>Operating result (EBIT)</b>             |       | <b>-19,753</b> | <b>-6,887</b>    |
| Finance income                             | (8)   | 267            | 112              |
| Finance costs                              | (8)   | -2,994         | -2,911           |
| Result at equity                           |       | -393           | -467             |
| <b>Result before tax</b>                   |       | <b>-22,873</b> | <b>-10,153</b>   |
| Taxes on income and on profits             | (9)   | 1,587          | 7,409            |
| <b>Result after tax</b>                    |       | <b>-21,286</b> | <b>-2,744</b>    |
| <b>Undiluted earnings per share (in €)</b> | (10)  | <b>-0.50</b>   | <b>-0.08</b>     |
| <b>Diluted earnings per share (in €)</b>   | (10)  | <b>-0.50</b>   | <b>-0.08</b>     |





## Consolidated Balance Sheet

AS OF DECEMBER 31, 2006

| <b>Assets</b>                       | Notes | Dec 31, 2006   | Dec 31, 2005<br>adjusted |
|-------------------------------------|-------|----------------|--------------------------|
| <i>[in K €]</i>                     |       |                |                          |
| <b>Current assets</b>               |       |                |                          |
| Cash and cash equivalents           | (11)  | 22,896         | 40,091                   |
| Trade accounts receivable           | (12)  | 1,213          | 4,050                    |
| Film development costs              | (13)  | 858            | 9,404                    |
| Financial assets                    | (14)  | 5,666          | 0                        |
| Other current assets                | (14)  | 4,534          | 8,066                    |
| <b>Total current assets</b>         |       | <b>35,167</b>  | <b>61,611</b>            |
| <b>Non-current assets</b>           |       |                |                          |
| Fixed assets                        | (15)  | 112            | 358                      |
| Film and license assets             | (16)  | 126,096        | 134,470                  |
| Other intangible assets             | (16)  | 1              | 0                        |
| Investments in associated companies | (17)  | 1              | 34                       |
| Other financial assets              | (17)  | 0              | 6,153                    |
| <b>Total non-current assets</b>     |       | <b>126,210</b> | <b>141,015</b>           |
| <b>Total assets</b>                 |       | <b>161,377</b> | <b>202,626</b>           |



| <b>Shareholders' equity and liabilities</b><br><i>[in K €]</i> | Notes      | Dec 31, 2006   | Dec 31, 2005<br>adjusted |
|--|------------|----------------|--------------------------|
| <b>Current liabilities</b>                                     |            |                |                          |
| Bank loans and overdrafts                                      | (19)       | 33,180         | 38,876                   |
| Advanced payments received                                     | (19)       | 2,914          | 5,810                    |
| Trade accounts payable   | (19)       | 1,065          | 1,551                    |
| Other accrued liabilities                                      | (20), (21) | 19,036         | 22,652                   |
| Other current liabilities                                      | (19)       | 55             | 163                      |
| <b>Total current liabilities</b>                               |            | <b>56,250</b>  | <b>69,052</b>            |
| <b>Non-current liabilities</b>                                 |            |                |                          |
| Bank loans and overdrafts                                      | (19)       | 19,462         | 18,806                   |
| Deferred tax liabilities                                       | (22)       | 2,892          | 4,939                    |
| Liabilities from issuance of equity instruments                | (19)       | 2,312          | 1,907                    |
| Other accrued liabilities                                      | (20), (21) | 63,726         | 66,351                   |
| <b>Total non-current liabilities</b>                           |            | <b>88,392</b>  | <b>92,003</b>            |
| <b>Shareholders' equity</b>                                    |            |                |                          |
| Subscribed capital   | (23)       | 42,604         | 42,600                   |
| Capital reserve  |            | 261,730        | 261,540                  |
| Net retained earnings  |            | -199,178       | -197,871                 |
| Currency translation adjustments (CTA)                         |            | -88,421        | -64,698                  |
| <b>Total shareholders' equity</b>                              |            | <b>16,735</b>  | <b>41,571</b>            |
| <b>Total shareholders' equity and liabilities</b>              |            | <b>161,377</b> | <b>202,626</b>           |





## Consolidated Cash Flow Statement

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2006

| <i>[in K €]</i>                                       | Notes       | 2006           | 2005<br>adjusted |
|---|-------------|----------------|------------------|
| <b>Net income/loss</b>                                |             | <b>-21,286</b> | <b>-2,744</b>    |
| Depreciation and amortization                         |             | 40,967         | 14,639           |
| Changes in non-cash accrued liabilities               |             | 2,402          | -13,064          |
| Changes in deferred taxes                             |             | -1,605         | -6,783           |
| Changes in capitalized development costs              |             | 8,547          | -614             |
| Changes in trade accounts receivable and other assets |             | 6,082          | 30,906           |
| Changes in other current assets                       |             | 90             | 20               |
| Changes in trade accounts payable                     |             | -483           | -16,576          |
| Changes in other liabilities                          |             | -2,964         | 1,008            |
| Income tax paid                                       |             | -19            | 0                |
| <b>Cash flows from operating activities</b>           | <b>(26)</b> | <b>31,731</b>  | <b>6,792</b>     |
| Investments in intangible assets                      | (27)        | -43,885        | -564             |
| Investments in fixed assets                           |             | -9             | -22              |
| Financial investments                                 |             | -398           | -420             |
| Inflow/outflow from disposals of subsidiaries         |             | 0              | 1,120            |
| <b>Cash flows from investing activities</b>           |             | <b>-44,292</b> | <b>114</b>       |
| Proceeds from borrowings                              |             | 12,433         | 4,644            |
| Repayment of borrowings                               |             | -14,791        | -12,127          |
| Proceeds from issuance of equity instruments          |             | 20             | 10,004           |
| Interests received                                    |             | 85             | 111              |
| Interests paid  |             | -2,381         | -2,066           |
| <b>Cash flows from financing activities</b>           | <b>(28)</b> | <b>-4,634</b>  | <b>566</b>       |
| Net changes in cash and cash equivalents              |             | -17,195        | 7,472            |
| Cash and cash equivalents at beginning of period      |             | 40,091         | 32,619           |
| <b>Cash and cash equivalents at end of period</b>     | <b>(29)</b> | <b>22,896</b>  | <b>40,091</b>    |



# Consolidated Statement of Shareholders' Equity



|                                      | Notes | Subscribed capital | Capital reserves | Net retained earnings | Currency translation adjustments (CTA) | Total         |
|--------------------------------------|-------|--------------------|------------------|-----------------------|--|---------------|
| <i>[in K €]</i>                      |       |                    |                  |                       |  |               |
| <b>Balance Jan 1, 2005 adjusted</b>  |       | <b>31,950</b>      | <b>263,093</b>   | <b>-171,915</b>       | <b>-93,075</b>                         | <b>30,053</b> |
| Result after tax adjusted            |       |                    |                  | -2,744                |  | -2,744        |
| Equity instruments                   |       |                    | 543              |                       |  | 543           |
| Capital Increase                     |       | 10,650             | -2,120           |                       |  | 8,530         |
| Stock options                        |       |                    | 24               |                       |  | 24            |
| Translation differences              |       |                    |                  | -23,212               | 28,377                                 | 5,165         |
| <b>Balance Dec 31, 2005 adjusted</b> |       | <b>42,600</b>      | <b>261,540</b>   | <b>-197,871</b>       | <b>-64,698</b>                         | <b>41,571</b> |
| <b>Balance Jan 1, 2006</b>           |       | <b>42,600</b>      | <b>261,540</b>   | <b>-197,871</b>       | <b>-64,698</b>                         | <b>41,571</b> |
| Result after tax                     |       |                    |                  | -21,286               |  | -21,286       |
| Equity instruments                   | (19)  | 4                  | 67               |                       |  | 71            |
| Stock options                        | (30)  |                    | 123              |                       |  | 123           |
| Translation differences              |       |                    |                  | 19,979                | -23,723                                | -3,744        |
| <b>Balance Dec 31, 2006</b>          |       | <b>42,604</b>      | <b>261,730</b>   | <b>-199,178</b>       | <b>-88,421</b>                         | <b>16,735</b> |





## Notes to the Consolidated Schedule of non-current Asset

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2006

| [in K €]  | Brought forward<br>Jan 1, 2006 | Additions     | ACQUISITION   |  |
|---|--------------------------------|---------------|---------------|--|
|   |                                |               | Disposals     | Currency<br>translation<br>adjustments (CTA) |
| <b>Intangible assets</b>                        |                                |               |               |  |
| Film and license assets                         | 492,877                        | 43,884        | 0             | -50,733                                      |
| Goodwill  | 66,107                         | 0             | 0             | -6,805                                       |
| Other intangible assets                         | 29                             | 1             | 0             | -3   |
|   | <b>559,013</b>                 | <b>43,885</b> | <b>0</b>      | <b>-57,541</b>                               |
| <b>Fixed assets</b>                             |                                |               |               |  |
| Other equipment, operating and office equipment | 2,730                          | 86            | -1,603        | -281   |
|   | <b>2,730</b>                   | <b>86</b>     | <b>-1,603</b> | <b>-281</b>                                  |
| <b>Financial assets</b>                         |                                |               |               |  |
| Investments in associated companies             | 1,788                          | 343           | -1,358        | -185   |
| Other financial assets                          | 6,281                          | 0             | -5,648        | -633   |
|   | <b>8,069</b>                   | <b>343</b>    | <b>-7,006</b> | <b>-818</b>                                  |
| <b>Total non-current assets</b>                 | <b>569,812</b>                 | <b>44,314</b> | <b>-8,609</b> | <b>-58,640</b>                               |

\* thereof extraordinary 7,776,400 euros

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2005

| [in T €]  | Brought forward<br>Jan 1, 2005 | Additions    | ACQUISITION   |  |
|---|--------------------------------|--------------|---------------|--|
|   |                                |              | Disposals     | Currency<br>translation<br>adjustments (CTA) |
| <b>Intangible assets</b>                        |                                |              |               |  |
| Film and license assets                         | 425,454                        | 3,590        | 0             | 63,833                                       |
| Goodwill  | 58,589                         | 0            | -1,272        | 8,790  |
| Other intangible assets                         | 25                             | 0            | 0             | 4  |
|   | <b>484,068</b>                 | <b>3,590</b> | <b>-1,272</b> | <b>72,627</b>                                |
| <b>Fixed assets</b>                             |                                |              |               |  |
| Other equipment, operating and office equipment | 2,441                          | 33           | -110          | 366  |
|   | <b>2,441</b>                   | <b>33</b>    | <b>-110</b>   | <b>366</b>                                   |
| <b>Financial assets</b>                         |                                |              |               |  |
| 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  |
|   | <b>7,451</b>                   | <b>665</b>   | <b>-1,165</b> | <b>1,118</b>                                 |
| <b>Total non-current assets</b>                 | <b>493,960</b>                 | <b>4,288</b> | <b>-2,547</b> | <b>74,111</b>                                |

\* thereof extraordinary 5,479,000 euros



# Financial Statements

## Movements

| C O S T S | Balance<br>Dec 31, 2006 | Brought forward<br>Jan 1, 2006<br>adjusted | Additions     | Disposals     | D E P R E C I A T I O N | Currency<br>translation<br>adjustments (CTA) | Balance<br>Dec 31, 2006 | B O O K        | V A L U E      |
|-----------|-------------------------|--|---------------|---------------|-------------------------|--|-------------------------|----------------|----------------|
|           |                         |  |               |               |                         |  |                         |                |                |
|           | 486,028                 | 358,407                                    | 40,423 *      | 0             |                         | -38,898                                      | 359,932                 | 126,096        | 134,470        |
|           | 59,302                  | 66,107                                     | 0             | 0             |                         | -6,805                                       | 59,302                  | 0              | 0              |
|           | 27                      | 29   | 1             | 0             |                         | -4   | 26                      | 1              | 0              |
|           | <b>545,357</b>          | <b>424,543</b>                             | <b>40,424</b> | <b>0</b>      |                         | <b>-45,707</b>                               | <b>419,260</b>          | <b>126,097</b> | <b>134,470</b> |
|           | 932                     | 2,372                                      | 150           | -1,525        |                         | -177   | 820                     | 112            | 358            |
|           | <b>932</b>              | <b>2,372</b>                               | <b>150</b>    | <b>-1,525</b> |                         | <b>-177</b>                                  | <b>820</b>              | <b>112</b>     | <b>358</b>     |
|           | 588                     | 1,754                                      | 393           | -1,429        |                         | -131   | 587                     | 1              | 34             |
|           | 0                       | 128  | 0             | -121          |                         | -7   | 0                       | 0              | 6,153          |
|           | <b>588</b>              | <b>1,882</b>                               | <b>393</b>    | <b>-1,550</b> |                         | <b>-138</b>                                  | <b>587</b>              | <b>1</b>       | <b>6,187</b>   |
|           | <b>546,877</b>          | <b>428,797</b>                             | <b>40,967</b> | <b>-3,075</b> |                         | <b>-46,022</b>                               | <b>420,667</b>          | <b>126,210</b> | <b>141,015</b> |

| C O S T S | Balance<br>Dec 31, 2005 | Brought forward<br>Jan 1, 2005<br>adjusted | Additions<br>adjusted | Disposals     | D E P R E C I A T I O N | Currency<br>translation<br>adjustments (CTA) | Balance<br>Dec 31, 2005<br>adjusted | B O O K        | V A L U E      |
|-----------|-------------------------|--|-----------------------|---------------|-------------------------|--|-------------------------------------|----------------|----------------|
|           |                         |  |                       |               |                         |  |                                     |                |                |
|           | 492,877                 | 299,808                                    | 13,817*               | 0             |                         | 44,782                                       | 358,407                             | 134,470        | 125,646        |
|           | 66,107                  | 58,589                                     | 0                     | -1,211        |                         | 8,729  | 66,107                              | 0              | 0              |
|           | 29                      | 23   | 2                     | 0             |                         | 4  | 29                                  | 0              | 2              |
|           | <b>559,013</b>          | <b>358,420</b>                             | <b>13,819</b>         | <b>-1,211</b> |                         | <b>53,515</b>                                | <b>424,543</b>                      | <b>134,470</b> | <b>125,648</b> |
|           | 2,730                   | 1,830                                      | 354                   | -99           |                         | 287  | 2,372                               | 358            | 611            |
|           | <b>2,730</b>            | <b>1,830</b>                               | <b>354</b>            | <b>-99</b>    |                         | <b>287</b>                                   | <b>2,372</b>                        | <b>358</b>     | <b>611</b>     |
|           | 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          |
|           | <b>8,069</b>            | <b>2,010</b>                               | <b>467</b>            | <b>-875</b>   |                         | <b>280</b>                                   | <b>1,882</b>                        | <b>6,187</b>   | <b>5,441</b>   |
|           | <b>569,812</b>          | <b>362,260</b>                             | <b>14,640</b>         | <b>-2,185</b> |                         | <b>54,082</b>                                | <b>428,797</b>                      | <b>141,015</b> | <b>131,700</b> |

## I. General

### DESCRIPTION OF GROUP ACTIVITIES

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

The present consolidated financial statements were authorized to be released on March 30, 2007 by the Management and Supervisory Boards.

### PRELIMINARY NOTE TO ACCOUNTING POLICIES

IM Internationalmedia AG's group financial statements for the financial year January 1, 2006 to December 31, 2006 were prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) in accordance with Art. 315a of the HGB (German Commercial Code), pursuant to the European Community's Accounting Directives Act. Since IM Internationalmedia AG is traded 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 further detail under the corresponding reference number in the notes. The consolidated income statement was drawn up using the cost of sales method according to international standards. In the cash flow statement, the flows of payments are formatted according to IAS 7, conforming to international practice, and 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 the affiliates in which it has a majority holding.





## USE OF ESTIMATES

The preparation of final statements in accordance with regulations of IFRS requires the use of estimates and assumptions that 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. The business activities of the Internationalmedia group require the use of estimates and assumptions mainly in the area of amortization of film assets. The company must therefore make assumptions regarding future revenue over a period of 20 years. These estimates also are required to determine accruals for participations of producers, actors and directors. Furthermore, if a realization of a capitalized asset or project is reasonable, in order to rate their inventories in compliance with IAS 2 the company must constantly evaluate the net residual value of such capitalized projects and/or assets. Based on anticipated utilization of tax losses brought forward deferred tax assets are capitalized.

## FIRST-TIME APPLICATION OF REGULATIONS

The following regulations, effective for the current balance sheet date, were applied for the first time in the 2006 fiscal year: Amendment to IAS 1 ("Presentation of Financial Statements – Capital Disclosures"); Amendment to IAS 21 ("Net Investment in a Foreign Operation"); Amendment to IAS 39 ("Cash Flow Hedge Accounting of Forecast Intragroup Transactions"); Amendment to IAS 39 ("The Fair Value Option"); Amendment to IAS 39 and IFRS 4 ("Financial Guarantee Contracts"); Amendment to IFRS 1 ("First-time Adoption of International Financial Reporting Standards"); and Amendment to IFRS 6 ("Exploration for and Evaluation of Mineral Resources").

Additionally, the following regulations were adopted early in fiscal year 2006: IFRIC 8 ("Scope of IFRS 2"); IFRIC 7 ("Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"); and IFRIC 9 ("Reassessment of Embedded Derivatives").

The implementation of these new, changed, and amended regulations, to the extent applicable to the Internationalmedia group, did not have any material impact on the consolidated financial statements as of December 31, 2006.

The company will apply IFRIC 10 ("Interim Financial Reporting and Impairment"); IFRIC 11 ("Group and Treasury Share Transactions"); IFRIC 12 ("Service Concession Arrangements"); and IFRS 8 ("Operating Segments") in the upcoming fiscal years.

## **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 (including, in particular, film and merchandising rights) were capitalized in these consolidated IFRS financial statements and amortized on the basis of the film-forecast-computation-method. The relevant IFRS principles require 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. They are therefore treated as expenses when incurred.



Under the IFRS, the diverging valuation of assets and liabilities at the year-end in the consolidated balance sheet is relevant, and assets and liabilities in foreign currencies in 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 is respectively used.

Accrued liabilities and other liabilities that are either low interest or non-interest bearing are reported under IFRS at their present value, whereas 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 distributors, as opposed to being triggered by the release of the applicable picture by the Internationalmedia group in one of the territories in which distribution rights are owned as prescribed by the International Accounting Standards.

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

## CONSOLIDATED GROUP

51 companies are fully consolidated in the financial statements of the Internationalmedia group. Two joint ventures are valued according to the equity method. Five companies were founded in 2006 and are included in the consolidated financial statements for the first time in the current financial year. One company was merged and one company located in Los Angeles, I.S. Film Distribution, LLC, was divested.

The Internationalmedia group's shares in the two joint ventures amount to 6,300 euros (p.y. 918,800 euros) in current assets, 0 euros (p.y. 1,000 euros) in non-current assets, 0 euros (p.y. 231,100 euros) in current liabilities, 0 euros (p.y. 0 euros) in non-current liabilities, 115,700 euros (p.y. 695,500 euros) of income, and 29,400 euros (p.y. 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 (23).

| Subsidiaries  | Equity interest | Shareholders' equity <sup>1)</sup><br>[in K €] | Result after taxes <sup>1)</sup><br>[in K €] |
|---|-----------------|--|--|
| Intermedia Film Equities Ltd., London <sup>2)</sup>           | 100%            | 47,443   | -15,544                                      |
| Intermedia Film Equities USA, Inc., Los Angeles <sup>2)</sup> | 100%            | -54,444  | -9,720                                       |
| Pacifica Film Distribution LLC, Los Angeles                   | 100%            | -15  | -1   |
| Pacifica Film Development, Inc., Los Angeles                  | 100%            | -4,068   | -2,095                                       |
| IM Filmproduktions GmbH, Munich                               | 100%            | -3,565   | -2,579                                       |

<sup>1)</sup> Information as of December 31, 2006 according to IFRS  
<sup>2)</sup> Subgroup

## FIRST-TIME FULLY-CONSOLIDATED SUBSIDIARIES

| Subsidiaries  | Equity interest | Time of first inclusion |
|---|-----------------|-------------------------|
| Magic Men Limited, UK, London                             | 100 %           | July 4, 2006            |
| SBIB Productions Limited, UK, London                      | 100 %           | Mai 12, 2006            |
| Stopping Power Productions Limited, UK, London            | 100 %           | July 25, 2006           |
| Intermedia Film Distribution 2006, Inc., USA, Los Angeles | 100 %           | July 21, 2006           |
| Intermedia Film Finances 2006, Inc., USA, Los Angeles     | 100 %           | September 7, 2006       |

All companies included in the consolidated financial statements for the first time were newly incorporated. They were primarily set up for film productions.



## 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 as of the balance sheet date.

### FULL CONSOLIDATION

Companies under the direct or indirect control of IM Internationalmedia AG are fully consolidated. Joint ventures and associated 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.

The purchase method is used for the acquisition of subsidiaries. According to this method, assets and liabilities of the acquired company are measured initially at their fair values at the acquisition date. Acquisition costs exceeding the share in equity are therefore assigned to the acquired assets and liabilities. Any residual amount is recorded as goodwill. The adjustments to fair values are enhanced during follow-up valuation according to corresponding assets and liabilities.

Goodwill and other intangible assets with undefined useful life are tested for impairment at least once a year (IAS 38). As of December 31, 2006 the company does not show any other intangible assets with undefined useful life.

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. Accordingly the consolidated financial statements were also prepared in US-dollars. However, the Internationalmedia group is required to present its consolidated financial statements in euros. According to IAS 21, which pertains to the conversion of the functional currency to 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 because to date, 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. In addition, no reasonable regional segment reporting for results and assets can be provided.

Based on timing differences applicable to the implementation of the Company's new strategy in the area of TV movies and series, this segment will not, until the upcoming financial year at the earliest, exceed the reportable threshold of IAS 14.35. The company was able to implement the reporting structure for this second segment. However, the report for 2006 would have been without conclusion and has therefore not been provided.

## 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 control distribution rights (because it produced the underlying film), the group obtains the necessary licenses from the licensor for particular countries and time periods.

On the basis of the produced and 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 to which the Internationalmedia group has the distribution rights.

## 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 of the relating asset according to the film-forecast-computation method described in the regulation of US-GAAP. This internationally-recognized method prescribes that amortization is applied by comparing 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.

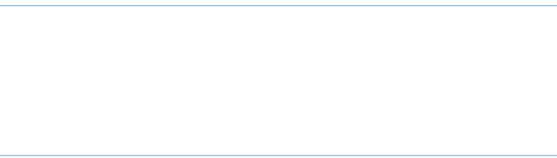
In general, all directly attributable expenses of production or the purchase of film assets are capitalized until the start of exploitation. Capitalized production costs include external costs for acquisition of screenplays and film production, as well as actors' fees, etc. In addition, directly attributable debt interest expenses are included according to IAS 23. In total, interest on debt was capitalized in the amount of 3,144,400 euros (p.y. 174,300 euros).

In 2006, film production costs of 40,740,000 euros (p.y. 3,415,700 euros) were capitalized.

The company applies IAS 36 for the first time in 2006 with respect to the valuation of film assets. The recoverability of all films was therefore assessed using the discounted cash flow method. For discounting, a risk-adjusted interest rate of 11 percent was used. Based on a comparative analysis for December 31, 2005, the one-time cumulative impairment was allocated to current and prior years. The current portion expensed in 2006 amounts to 7,776,400 euros. The residual amount was treated according to IAS 8 and therefore adjusted to the figures of prior years. The adjustments had the following impacts:

| Balance Sheet<br><i>[in K €]</i> | Dec 31, 2005 | Dec 31, 2005<br>adjusted |
|----------------------------------|--------------|--------------------------|
| Film and license assets          | 144,067      | 134,470                  |
| Net retained earnings            | -188,274     | -197,871                 |





| Income Statement<br><i>[in K€]</i> | 2005   | 2005<br>adjusted |
|------------------------------------|--------|------------------|
| Costs of goods sold                | 11,410 | 16,889           |
| Gross profit                       | 11,594 | 6,115            |
| Operating result (EBIT)            | -1,408 | -6,887           |
| Result before tax                  | -4,674 | -10,153          |
| Result after tax                   | 2,735  | -2,744           |
| Earnings per share                 | 0.08   | -0.08            |

| Net Retained Earnings<br><i>[in K€]</i>        |          |
|--|----------|
| Net retained earnings Dec 31, 2004             | -167,797 |
| Adjustment according to IAS 8                  | -4,118   |
| Net retained earnings Jan 1, 2005 adjusted     | -171,915 |
| Net income                                     | 2,735    |
| Adjustment according to IAS 8 (current result) | -5,479   |
| Translation differences                        | -23,212  |
| Net retained earnings Dec 31, 2005 adjusted    | -197,871 |

## INTANGIBLE ASSETS

Acquired intangible assets are reported at acquisition or production cost. 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. As of balance sheet date of December 31, 2006, the company does not hold any intangible assets with an undefined useful life. 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 in 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 its 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). Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. The obligation to reverse the impairment arises if the recoverable amount has increased. The maximum amount to be reversed is determined by the acquisition or production cost less the cumulative regular depreciation that would have been accounted for if no impairment had been recognized in previous years. The reversal is shown in the corresponding functional area of the income statement.

## FINANCIAL ASSETS

Financial assets include investments in associated companies and other securities.

Financial assets are classified in the following categories: loans, receivables, and investments that are held to maturity. 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 are then 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, 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 cost or net realizable value. Inventories mainly consist of 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. Acquisition costs, based on their short-term nature, correspond to the nominal value. Appropriate allowances for doubtful receivables are recorded.

## **OTHER ASSETS**

Other assets and prepaid expenses are valued at their amortized acquisition costs. Individual risks are accounted for by appropriate allowances. Prepaid expenses are stated if payments are performed for expenses of future periods. Other securities are recognized initially at fair value and subsequently measured at amortized cost.

## **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.

## **EQUITY**

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. Capital reserve amounts to 261,730,000 euros as of the balance sheet date (p.y. 261,450,000 euros).

## 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 and a bond with warrants 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 such deductible temporary differences to the extent that it is probable that taxable profit will be available for offset against the deductible temporary difference. In accordance with IAS 12.47, these deferred taxes are calculated using tax rates that will be valid when the differences are expected to 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 has entered into five sale-and-leaseback transactions that were reported 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 28,722,500 euros (p.y. 32,448,100 euros) receivables and payables shown net in the balance sheet, 2,273,200 euros (p.y. 2,115,000 euros) mature within one year, 12,264,100 euros (p.y. 11,558,400 euros) mature in between one and five years, and 14,185,200 euros (p.y. 18,774,700 euros) mature in more than five years. The benefits of the sale/leaseback transactions include a reduction of the capitalized production cost of the applicable production and accordingly of 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 of such expense 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 any revision of the original estimates in the income statement, with a corresponding adjustment to equity. When options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and capital reserve.

## II. Notes to the Consolidated Income Statement

### (1) REVENUES

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

| Revenues by geographical markets<br>[in K €] | 2006          | 2005          |
|--|---------------|---------------|
| Europe                                       | 34,957        | 11,576        |
| Asia   | 4,711         | 2,449         |
| North America                                | 870           | 6,549         |
| Other regions                                | 4,630         | 2,430         |
| <b>Total</b>                                 | <b>45,168</b> | <b>23,004</b> |

Among others, one of the primary reasons for the yearly differences in revenue between the various geographical markets is the fact that the registered office of the licensee is used to determine its applicable geographical market, and not the geographical markets in which the licensee generates revenues. Revenue figures for 2006 mainly consisted of revenue from the release of BASIC INSTINCT 2. Unlike the other geographical markets, this film was licensed through a straight distribution deal with no upfront license fee in North America.

### (2) COSTS OF GOODS SOLD

Production costs relating to the generation of revenues amounted to 49,198,300 euros. Costs of goods sold include the following items:

| Costs of goods sold<br>[in K €]   | 2006          | 2005<br>adjusted |
|---|---------------|------------------|
| Film rights amortization  | 40,423        | 13,817           |
| Other costs of materials<br>(residuals, participations, repatriation<br>of share capital) | 8,775         | 3,072            |
| <b>Total</b>  | <b>49,198</b> | <b>16,889</b>    |

The film rights amortization includes an extraordinary component of 7,776,400 euros (p.y. 5,479,000 euros).



### ( 3 ) OTHER OPERATING INCOME

Other operating income amounting to 196,900 euros mainly consisted of the following items:

| <b>Other operating income</b><br><i>[in K€]</i>              | <b>2006</b> | <b>2005</b>  |
|--|-------------|--------------|
| Foreign exchange gains                                       | 196         | 119          |
| Income from disposal<br>of subsidiaries/associated companies | 0           | 1,082        |
| Other  | 1           | 405          |
| <b>Total</b>   | <b>197</b>  | <b>1.606</b> |

### ( 4 ) PROJECT DEVELOPMENT COSTS

A write-off in the amount of 8,325,400 euros (p.y. 4,988,300 euros) for inactive or abandoned film development projects is included in project development costs.

### ( 5 ) DISTRIBUTION COSTS

In 2006, no distribution costs were incurred (p.y. 57,600 euros).

### ( 6 ) GENERAL ADMINISTRATION COSTS

In 2006, general administration costs amounted to 7,315,500 euros (p.y. 9,317,800 euros).

They consisted of the following items:

| General administration costs<br>[in K €] | 2006         | 2005         |
|--|--------------|--------------|
| Personnel expenses                       | 3,938        | 5,167        |
| Consulting expenses                      | 1,114        | 1,536        |
| Costs related to premises                | 754          | 1,107        |
| Representation and travel expenses       | 334          | 305          |
| Depreciation                             | 151          | 355          |
| Expenses for stock options               | 123          | 24           |
| Other costs                              | 902          | 824          |
| <b>Total</b>                             | <b>7,316</b> | <b>9,318</b> |

Consulting expenses include German auditors' fees in the amount of 130,000 euros (p.y. 144,000 euros) for the audit of the statutory and consolidated financials. There was no other consulting or due diligence work performed by the German auditor in 2006 (p.y. 422,000 euros).

## EXPENSES BY NATURE

| Expenses by nature<br>[in K €]  | 2006          | 2005<br>adjusted |
|---|---------------|------------------|
| Depreciation/amortization of fixed and intangible assets and impairment | 40,574        | 14,172           |
| Other costs of materials  | 8,775         | 3,048            |
| Personnel expenses  | 4,061         | 5,247            |
| <b>Total</b>  | <b>53,410</b> | <b>22,467</b>    |





## (7) OTHER OPERATING COSTS

Other operating costs amounting to 279,100 euros (p.y. 244,000 euros) comprise the following items:

| Other operating costs<br><i>[in K €]</i>   | 2006       | 2005       |
|--|------------|------------|
| Foreign exchange losses                    | 279        | 77         |
| Losses on disposal of fixed assets         | 0          | 11         |
| Allowance for bad and doubtful receivables | 0          | 156        |
| <b>Total</b>                               | <b>279</b> | <b>244</b> |

## (8) FINANCIAL RESULT

The financial result for the fiscal year 2006 came to -2,727,400 euros (p.y. -2,799,400 euros) and is comprised of:

| Financial result<br><i>[in K €]</i>          | 2006          | 2005          |
|--|---------------|---------------|
| Other interest receivable and similar income | 267           | 112           |
| Other interest payable and similar costs     | -2,994        | -2,911        |
| <b>Total</b>                                 | <b>-2,727</b> | <b>-2,799</b> |

## (9) TAXES ON INCOME AND ON PROFITS

The tax result for the financial year 2006 consists of income from the release of accruals for deferred taxes of 1,605,300 euros and current tax expenses of 17,900 euros. Tax income is calculated by applying the German tax rate of 40.86 percent.

## Determination of the German tax rate

|                                   |               |
|-----------------------------------|---------------|
| Corporate income tax rate         | 25.00%        |
| Solidarity surcharge              | 1.40%         |
| Trade tax rate                    | 14.46%        |
| <b>Calculated German tax rate</b> | <b>40.86%</b> |

## Reconciliation of tax result

[in K €]

|  | 2006           | 2005<br>adjusted |
|--|----------------|------------------|
| <b>Result before tax</b>                                   | <b>-22,873</b> | <b>-10,153</b>   |
| Calculated tax income/expenditure<br>at tax rate of 40.86% | 9,346          | 4,149            |
| Non-deductible tax losses                                  | -18,168        | -7,179           |
| Used tax losses carried forward                            | 10,650         | 10,740           |
| Non-deductible operating expenses                          | -80            | -110             |
| Result from equity investments                             | -161           | -191             |
| <b>Actual tax income</b>                                   | <b>1,587</b>   | <b>7,409</b>     |

Deferred taxes amounting to 1,605,300 euros were calculated as follows:

## Deferred taxes

[in K €]

|   | 2006         | 2005         |
|---|--------------|--------------|
| Temporary differences in film assets                                      | 2,047        | 7,423        |
| Exchange rate changes   | -442         | 1,289        |
| Temporary accounting differences<br>from other provisions and liabilities | 0            | -1,283       |
| <b>Total</b>  | <b>1,605</b> | <b>7,429</b> |



| Temporary differences<br><i>[in K €]</i> | Dec 31, 2006        |                          | Dec 31, 2005        |                          |
|--|---------------------|--------------------------|---------------------|--------------------------|
|  | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Temporary differences in film assets     | 10,650              | 13,542                   | 10,740              | 15,679                   |
| <b>Total temporary differences</b>       | <b>10,650</b>       | <b>13,542</b>            | <b>10,740</b>       | <b>15,679</b>            |
| <b>Total (net)</b>                       | <b>0</b>            | <b>2,892</b>             | <b>0</b>            | <b>4,939</b>             |

## (10) EARNINGS PER SHARE

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

| Earnings per share  | 2006              | 2005<br>adjusted  |
|---|-------------------|-------------------|
| Net income / loss (in K €)  | -21,286           | -2,744            |
| Weighted average number of shares outstanding                                 | 42,603,331        | 32,504,760        |
| <b>Undiluted earnings per share (in €)</b>                                    | <b>-0.50</b>      | <b>-0.08</b>      |
| Net income / loss (in K €)  | -21,286           | -2,744            |
| Bond with warrants  | 115               | 33                |
| Zero coupon convertible bond  | 252               | 12                |
| Stock options   | 123               | 24                |
| <b>Diluted earnings</b>   | <b>-20,796</b>    | <b>-2,675</b>     |
| Weighted average number of shares outstanding                                 | 42,603,331        | 32,504,760        |
| 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                 |
| <b>Sum of weighted number and potential shares in units</b>                   | <b>42,603,331</b> | <b>32,504,760</b> |
| <b>Diluted earnings per share (in €)</b>                                      | <b>-0.50</b>      | <b>-0.08</b>      |





## 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, which amounted to 22,895,500 euros at the balance sheet date. The bulk of the amount is earmarked for current productions. The effective interest rates for short-term bank deposits varied between 2.1 percent and 4.8 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 direct third party costs for film development and pre-production. In the 2006 fiscal year development costs in the amount of 8,325,400 euros (p.y. 4,988,300 euros) were depreciated based on the 3-year rule.



## (14) OTHER AND FINANCIAL ASSETS

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

| Other and financial assets<br><i>[in K€]</i> | Dec 31, 2006  | Dec 31, 2005 |
|--|---------------|--------------|
| Other securities                             | 5,666         | 0            |
| Pre-payments for film productions            | 3,210         | 7,060        |
| VAT refund claims                            | 706           | 512          |
| Bond warrants                                | 253           | 0            |
| Deposits                                     | 128           | 12           |
| Prepaid expenses                             | 122           | 212          |
| Accrued interest                             | 13            | 14           |
| Miscellaneous other assets                   | 102           | 256          |
| <b>Total</b>                                 | <b>10,200</b> | <b>8,066</b> |

The book value of the other assets approximates the fair market value. Other securities include a zero coupon bond, which was pledged as security for the film loan of SUSPECT ZERO granted by the State of New Mexico. Because of its term, the zero coupon bond was included in non-current financial assets as of December 31, 2005.

## NON - CURRENT ASSETS

### (15) FIXED ASSETS

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



## (16) FILM ASSETS AND OTHER INTANGIBLE ASSETS

Intangible assets are comprised mainly of film and license assets. Film rights amortization includes an impairment loss in the amount of 17,373,400 euros, 9,597,000 euros of which were allocated to prior years. This extraordinary impact is the result of management's decision to follow the regulations of IAS 36 for the first time in 2006. Correspondingly, all film assets were revaluated for the first time using the discounted cash flow method. Based on a comparative analysis for December 31, 2005, the one-time cumulative impairment was allocated to current and prior years. The current portion expensed in 2006 amounts to 7,776,400 euros. The residual amount was treated according to IAS 8 and therefore incorporated in the figures of prior years. The analysis also identified material hidden reserves. Those reserves exceed the impairment by far but can only be realized over the term of exploitation of the related film assets.

## (17) FINANCIAL ASSETS

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

## (18) DEFERRED TAX ASSETS

The company's reporting of capitalized deferred taxes is explained in greater detail 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 254,788,000 euros (p.y. 247,232,000 euros), which can be offset against future taxable income.



## SHAREHOLDERS' EQUITY AND LIABILITIES

### (19) LIABILITIES

Liabilities to banks are secured by assignments of certain specified cash flows resulting from film licensing activities. Liabilities to banks include a non-interest bearing loan from the State of New Mexico amounting to 5.7 million euros, that is adequately secured by a zero coupon bond. The zero coupon bond is capitalized in other current financial assets. The loan was borrowed in December 2002 and repaid in January 2007.

In the 2005 fiscal year, IM Internationalmedia AG 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 post-issuance valuation of the bond resulted in expenses of 367,000 euros (p.y. 45,000 euros),

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

In the 2006 fiscal year, the company issued a bond with warrants with a nominal value of up to 3,016,200 euros. 252,800 euros of such bond warrant were placed on December 29, 2006. The instrument is accounted for in accordance to the revised standards of IAS 32 and IAS 39. Any post-issuance valuation will impact the profit and loss statement starting 2007. The bond with warrants is divided into up to 75,405 bond notes with warrants with a nominal value of 40.00 euros per note and with a term ending November 30, 2011 (inclusive). Each bond note with warrants is combined with a separable option issued by the company providing entitlement to the acquisition of 120 voting bearer ordinary shares at a price of 1.00 euro each. The options become exercisable on March 30, 2007. Interest will be paid on a quarterly basis in arrears. The pecuniary claim from the issuance (253,000 euros) is shown in other assets.



The liabilities are made up as follows:

| Liabilities<br>[in K €]                         | Maturity Dec 31, 2006 |                  |               | Maturity Dec 31, 2005 |                  |               |
|---|-----------------------|------------------|---------------|-----------------------|------------------|---------------|
|   | Up to 1 year          | More than 1 year | Total         | Up to 1 year          | More than 1 year | Total         |
| Bank loans and overdrafts                       | 33,180                | 19,462           | 52,642        | 38,876                | 18,806           | 57,682        |
| Liabilities from issuance of equity instruments | 0                     | 2,312            | 2,312         | 0                     | 1,907            | 1,907         |
| Payments received on account of orders          | 2,914                 | 0                | 2,914         | 5,810                 | 0                | 5,810         |
| Trade accounts payable                          | 1,065                 | 0                | 1,065         | 1,551                 | 0                | 1,551         |
| Other liabilities                               | 55                    | 0                | 55            | 163                   | 0                | 163           |
| <b>Total</b>                                    | <b>37,214</b>         | <b>21,774</b>    | <b>58,988</b> | <b>46,400</b>         | <b>20,713</b>    | <b>67,113</b> |

The book value of the liabilities approximates the fair value. The interest rates for liabilities range from 4.8 percent to 14.0 percent. 1,628,300 euros of the liabilities from issuance of equity instruments relate to the zero coupon convertible bond.

## (20) OTHER ACCRUED LIABILITIES

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

Other accrued liabilities are set out in the following table:

| Other accrued liabilities<br>[in K €]                | Dec 31, 2006  |                  | Dec 31, 2005  |                  |
|--|---------------|------------------|---------------|------------------|
|  | Up to 1 year  | More than 1 year | Up to 1 year  | More than 1 year |
| Accrued liabilities for residuals and participations | 18,361        | 63,726           | 20,643        | 66,351           |
| Accrued liabilities for personnel                    | 186           | 0                | 268           | 0                |
| Other accrued liabilities                            | 489           | 0                | 1,741         | 0                |
| <b>Total</b>   | <b>19,036</b> | <b>63,726</b>    | <b>22,652</b> | <b>66,351</b>    |





## ( 21 ) SCHEDULE OF ACCRUED LIABILITIES

| Accrued liabilities<br>schedule<br><i>[in K €]</i> | Accrued liabilities for: |            |              |               |
|--|--------------------------|------------|--------------|---------------|
|  | Residuals                | Personnel  | Other        | Total         |
| <b>Balance on Jan 1, 2006</b>                      | <b>86,994</b>            | <b>268</b> | <b>1,741</b> | <b>89,003</b> |
| Additions  | 11,884                   | 108        | 515          | 12,507        |
| Utilization  | -8,166                   | -175       | -1,643       | -9,984        |
| Releases   | -9                       | 0          | 0            | -9            |
| CTA  | -8,616                   | -15        | -124         | -8,755        |
| <b>Total Dec 31, 2006</b>                          | <b>82,087</b>            | <b>186</b> | <b>489</b>   | <b>82,762</b> |

## ( 22 ) DEFERRED TAX LIABILITIES

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

## EQUITY

### ( 23 ) SUBSCRIBED CAPITAL

The subscribed capital of IM Internationalmedia AG amounting to 42,603,813 euros on the balance sheet date consists of 42,603,813 no-par value bearer shares with a mathematical interest in capital of 1 euro each. Subscribed capital was fully paid in.

### AUTHORIZED CAPITAL

The Authorized Capital (Authorized Capital 2004/I) amounts to 5,325,062 euros after partial utilization.

## CONTINGENT CAPITAL

The Contingent Capital 2000 was partly repealed by a shareholder resolution at the Annual General Meeting on August 23, 2005. Additionally, 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 has been reduced to an amount of up to 300,000 euros. Moreover, the Contingent Capital 2004/1 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 was therefore reduced to an amount of up to 13,975,185 euros.

In the Annual General Meeting on August 23, 2005, the shareholders 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 available to secure rights in connection with stock options, which can be issued between August 24, 2005 and August 23, 2009 based on the shareholder authorization for the Stock Option Plan 2005 resolved in such Annual General Meeting.

Neither Contingent Capital 2000 (300,000 euros) nor Contingent Capital 2005/I (1,700,000 euros) was used in the fiscal year 2006. From the Contingent Capital 2004/I 3,320 euros were used, so 13,971,865 euros remain available as of December 31, 2006.

As of balance sheet date, 84,688 convertible bonds with a nominal value of 20.00 euros from the zero coupon convertible bond 2005, and 6,320 bond notes with warrants with a nominal value of 40.00 euros from the 2006 bond with warrants are outstanding. 166 out of 83,965 bond notes with warrants issued in 2005 were converted and an additional 889 bond notes with warrants of the zero coupon convertible bond were issued.

## EQUITY

Equity has decreased by 24,836,000 euros compared to the year before. This change is based on the result after tax (-21,286,000 euros) and the accounting for equity instruments (71,000 euros), stock options (123,000 euros) and translation differences (-3,744,000 euros).



## ( 2 4 ) C O N T I N G E N C I E S

As of December 31, 2006, no guarantees or contingencies are outstanding (p.y. 33,855,400 euros).

## ( 2 5 ) O T H E R C O N T I N G E N T L I A B I L I T I E S

As of the balance sheet date, the following financial obligations were outstanding as a result of services, rentals and lease obligations:

| <b>Other contingent liabilities</b><br><i>[in K €]</i> | <b>Up to 1 year</b> | <b>Between 1 and 5 years</b> | <b>More than 5 years</b> | <b>Dec 31, 2006 Total</b> | <b>Dec 31, 2005 Total</b> |
|--|---------------------|------------------------------|--------------------------|---------------------------|---------------------------|
| Rental and leasing contracts                           | 394                 | 1,356                        | 0                        | 1,750                     | 1,193                     |
| Producer and writer contracts                          | 183                 | 0                            | 0                        | 183                       | 457                       |
| <b>Total</b>   | <b>577</b>          | <b>1,356</b>                 | <b>0</b>                 | <b>1,933</b>              | <b>1,650</b>              |

The schedule for previous year shows the following:

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

## IV. Notes to the Cash Flow Statement

### (26) CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities increased to 31,731,000 euros due to higher business volume and the related higher inflow of minimum guarantee payments during the reporting year. The non-cash element of interest expenses and income is recognized under changes in other liabilities and accrued liabilities and under other current assets.

### (27) CASH FLOW FROM INVESTING ACTIVITIES - INVESTMENT IN INTANGIBLE ASSETS

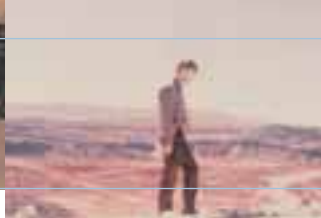
Investments in film and related intellectual property assets, including payments on account, are shown under investing activities within the cash flow statement.

### (28) CASH FLOW FROM FINANCING ACTIVITIES

Based on repayments of short- and medium-term borrowings and proceeds from new production loans, cash flow from financing activities was -4,634,000 euros.

### (29) CASH AND CASH EQUIVALENTS

The cash and cash equivalents consist of checks, cash on hand, and bank-held deposits.



## V. Risk Management

The Internationalmedia group is exposed to a number of risks that may influence the financial condition, assets and operating results of the group. The company has therefore implemented a risk management system for the entire group that provides management with early indicators and benchmarks necessary to take appropriate measures to avoid risks and reduce the negative consequences stemming therefrom. The Internationalmedia group's management focuses on the company's liquidity, profitability, and revenue growth, among others, as the primary indicators of financial performance. 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 money market securities. This balances the need to safeguard the group's liquidity by achieving the best possible return on its money.

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

Liabilities connected with film productions are generally secured by the film itself, as well as by a completion bond, which is a completion guarantee issued by an insurance company. There is usually no or only limited recourse to the company under such arrangements.

Net liquidity of the Internationalmedia group appears to have stabilized over the last few quarters. This is a result of reduced investments and significantly reduced overhead costs resulting from the company's restructuring program. Furthermore, liquidity was enhanced by the capital restructuring finalized in 2005, and the bond notes with warrants issued in 2006 and fully placed after the closing date. However, the Internationalmedia group's going concern status continues to depend on management's ability to finance the continued operations of the group through the reinvestment of revenues from operations and/or through raising debt or equity financing.



Thus, the going concern status of the company ultimately depends on the success of its business activities (i.e. to what extent financing and producer fees that result from the production of motion pictures and TV projects and library income can cover overhead, film development costs, and interest and principal repayment with respect to the company's debt financing). Because the production and exploitation of feature films is basically a project-related business, it is prone to postponements and cancellations of planned projects. The short- and mid-term cash forecast of the Internationalmedia group builds upon the premise that the company achieves a certain number of production starts and a certain level of revenue from the re-licensing of library titles. If some or all of these planned projects or re-licensings were not realized due to external (market environment) or internal (management) reasons, and further management does not succeed in acquiring adequate alternative financing, this could result in cash shortages within the Internationalmedia group, that could, in a worst-case scenario, threaten its existence or going concern status.



## Exchange Rate Risks

The main transaction currency of the Internationalmedia group is the US-dollar, as international sales revenues and most of its operating expenses are executed in US-dollars. Therefore, the Internationalmedia group's exposure to a possible euros/US-dollar exchange rate risk is minimal and only affects the company's reporting. To the external reader, the reported financials appear either better or worse, depending on the euro/US-dollar exchange rate. For IM Internationalmedia AG, exchange rate risk exists due to the requirement under the German Commercial Code (HGB) that statutory accounts strictly reflect the lesser of either cost or market principle. Additionally, the Internationalmedia group may be affected indirectly by the effect that exchange rates have on regional film buyers.

## VI. Details of the Stock Option Plan

### (30) DETAILS OF THE STOCK OPTION PLAN

The objectives of the program are 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 between May 16, 2000 and May 21, 2006. One third of the options are reserved for members of the Management Board, a second 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, another 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 2000                  | Number of options |
|---|-------------------|
| Balance at beginning of financial year  | 301,000           |
| Granted                                 | 0                 |
| Exercised                               | 0                 |
| Expired                                 | - 67,500          |
| <b>Balance at end of financial year</b> | <b>233,500</b>    |
| <b>Of which may be exercised</b>        | <b>157,167</b>    |





The weighted average contract lifespan of the outstanding options with an exercise price of 35.20 euros amounts to 0.9 years. It is 2.95 years for the options with an exercise price of 1.02 euros; 3.24 years for the options with an exercise price of 1.00 euro; and 4.02 years for the options with an exercise price of 1.42 euros.

By a shareholder resolution adopted at the Annual General Meeting on August 23, 2005, the Stock Option Plan 2000 was replaced 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 based upon share price. 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 closing on the date of grant. 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 closing on the date of grant. For all other cases, the exercise price equals the share price at closing on the date of grant. The minimum exercise price in 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, unexercised options expire. In the 2006 fiscal year, 250,000 of these options were granted. The share price as of grant date was 1.16 euros. They have a remaining lifespan of 5.2 years.

Both plans are designed as equity-settled transactions, to which IFRS 2 is applied. Valuation of the options was calculated by applying a binomial model incorporating the above described assumptions. The anticipated volatility of the share price was deduced from bank estimates. Because of current estimates no dividend payments were assumed for the calculation. The risk-free interest rate was determined based on reference securities such as federal bonds.



## VII. Other Information

### (31) MEMBERS OF THE MANAGEMENT BOARD DURING THE FINANCIAL YEAR 2006:

#### Management Board

|   |                   |
|---|-------------------|
| Mr. Martin Schürmann<br>(since April 15, 2005)              | Only Board Member |
| Mr. Christian Böhmer<br>(from March 16 to October 31, 2006) |                   |
| Mr. Andreas Konle<br>(until March 31, 2006)                 |                   |

### (32) MEMBERS OF THE SUPERVISORY BOARD DURING THE FINANCIAL YEAR 2006:

| Supervisory Board                                   |               | Profession             | Other Supervisory Board Duties  |
|---|---------------|------------------------|---|
| Mr. Prof. Dr. Helmut Thoma<br>(since March 8, 2006) | Chairman      | Media consultant       | Chairman:<br>freenet.de AG, Hamburg<br>Member:<br>mobilcom AG, Büdelsdorf<br>PrimaCom AG, Mainz |
| Mr. Oliver Kächele                                  | Vice chairman | CPA and<br>Tax advisor | Member:<br>PTI Proton Therapy<br>Institute AG,<br>Munich  |
| Mr. Konstantin Thoeren                              |               | Producer               | None  |
| Mr. Christian Böhmer<br>(until March 15, 2006)      |               | Media consultant       | n.a.  |



### ( 3 3 ) SHAREHOLDING BY SENIOR MEMBERS OF THE COMPANY

| Members of the<br>Management Board<br>and the Supervisory Board | Dec 31, 2006<br><i>[in units]</i> |                    | Dec 31, 2005<br><i>[in units]</i> |         |
|---|-----------------------------------|--------------------|-----------------------------------|---------|
|   | Shares                            | Options            | Shares                            | Options |
| Mr. Martin Schürmann  | 2,000,000                         | 0                  | 2,000,000                         | 0       |
| Mr. Christian Böhmer  | n.a. <sup>1)</sup>                | n.a. <sup>1)</sup> | 0                                 | n.a.    |
| Mr. Andreas Konle   | n.a. <sup>1)</sup>                | n.a. <sup>1)</sup> | 0                                 | 150,000 |
| Mr. Prof. Dr. Helmut Thoma                                      | 0                                 | n.a.               | 0                                 | n.a.    |
| Mr. Oliver Kächele  | 0                                 | n.a.               | 0                                 | n.a.    |
| Mr. Konstantin Thoeren  | 0                                 | n.a.               | 0                                 | n.a.    |

1) No longer a member of the Management Board

### ( 3 4 ) CORPORATE GOVERNANCE STATEMENT

IM Internationalmedia AG supports the efforts of the Government Commission on the German Corporate Governance Code aimed at enforcing financial market and investor trust in listed German companies through the issuance of numerous recommendations combined with strict compliance with disclosure requirements.

IM Internationalmedia AG has issued a 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](http://www.internationalmedia.de).

### ( 3 5 ) STRUCTURE OF THE MANAGEMENT BOARD COMPENSATION SYSTEM

The overall compensation of the Management Board members is comprised of both a fixed salary and a variable component. The fixed components are linked to the responsibilities and tasks of the respective member of the Management Board and his performance, taking into account the Board's peer companies and the regional environment. Variable compensation





includes bonus payments and stock options. Bonus payments are granted to the Management Board members based upon both achieving personal goals and corporate objectives. Personal goals are attributed to the individual responsibilities and 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 2005 of IM Internationalmedia AG.

Martin Schürmann received his fixed salary in the amount of 478,000 euros from Intermedia Film Equities USA, Inc., Los Angeles. Christian Böhmer (member of the Management Board from March 16 to October 31, 2006) received for his management duties a fixed component of 130,000 euros in the 2006 fiscal year, and for his duties as a Supervisory Board member (until March 15, 2006) a fixed component of 4,000 euros. Furthermore, the company made an additional payment to Christian Böhmer in the amount of 119,000 euros. Andreas Konle (member of the Management Board until March 30, 2006) received a fixed component of 62,000 euros and 250,000 share options.

## ( 3 6 ) S T R U C T U R E O F T H E S U P E R V I S O R Y B O A R D C O M P E N S A T I O N S Y S T E M

Pursuant to Article 14 of the Articles of Association of IM Internationalmedia AG, dated February 19, 2007, Supervisory Board compensation consists of fixed and variable components. The fixed component amounts to a net of 20,000.00 euros for a complete fiscal year. The Chairperson of the Supervisory Board receives a net of 40,000.00 euros. The variable component consists of amounts of up to 0.25 percent of the group's EBIT for that complete fiscal year and is conditioned upon the participation of the member in all ordinary and extraordinary Supervisory Board meetings.

In the 2006 fiscal year, the compensation of the Supervisory Board amounted to a total of 75,000 euros (p.y. 45,000 euros).

## ( 3 7 ) 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 "related parties". In 2006, no transactions with related parties were consummated.



### ( 3 8 ) N U M B E R O F E M P L O Y E E S

In the 2006 fiscal year, the Internationalmedia group employed an average of 25 people.  
On December 31, 2006, there were a total of 22 employees.

### ( 3 9 ) S U B S E Q U E N T E V E N T S

In January 2007, IM Internationalmedia AG completed the sale to a potential strategic partner of the remaining unsubscribed bond notes following the close of the IMAG shareholder subscription offering period. The investor purchased the 69,083 bond notes with warrants for a total nominal value of 2,763,320.00 euros.

Effective March 15, 2007, the Supervisory Board of IM Internationalmedia AG appointed Mr. Sascha Konzack as a member of the company's Management Board. He is responsible for the areas of finance, investor relations, and corporate communication and administration. Mr. Konzack joined the company as Manager of Finance and Controlling in December 2004.

Munich, March 28, 2007

IM Internationalmedia AG  
Management Board

Martin Schürmann  
*Chairman*

Sascha Konzack

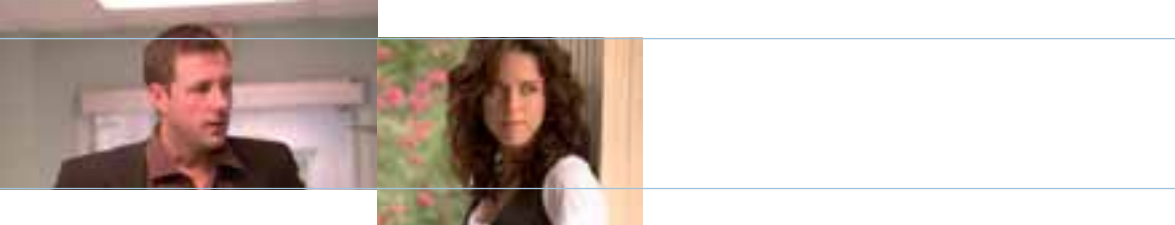


## Auditor's report

(Translation - only German text is authoritative)

"We have audited the consolidated financial statements prepared by the IM International-media 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, 2006. 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 on 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 those entities included in consolidation, the determination of the entities 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 has not led to any reservations.

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 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 Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and 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 risk 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 forecast could lead to a cash shortage which would threaten the existence of the company unless financing can be secured from another source."

Munich, March 29, 2007

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Krawietz  
(German Public Auditor)

ppa. Deni  
(German Public Auditor)





## Report of the Supervisory Board

During the 2006 fiscal year, the Management Board reported the status of the company to the Supervisory Board in seven ordinary meetings (March 27, 2006, June 1, 2006, June 29, 2006, July 11, 2006, August 3, 2006, September 12, 2006, and November 28, 2006), as well as in numerous individual meetings and calls, and the Supervisory Board passed the required resolutions pursuant to its statutorily-established duties.

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

Necessary resolutions were passed in 2006 during Supervisory Board meetings, as well as via circulars. No special committees were required. The full Supervisory Board gave advice and made decisions on all important topics of 2006.

The Supervisory Board regularly evaluates the application and development of company's corporate governance principles and during 2006 determined that IM Internationalmedia AG complied with the requirements of the German Corporate Governance Codex. The corporate governance statement adopted by the Supervisory Board includes only three variations, which are explained in detail within the statement. The corporate governance statement is published on the company's web site ([www.internationalmedia.de](http://www.internationalmedia.de)).

The consolidated financial statements, as well as the statutory accounts of IM Internationalmedia AG as of December 31, 2006, have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which expressed unqualified opinions for both the consolidated financial statements and for the statutory accounts. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft's auditors' report, reflecting both the financial





and the individual statements, was made available to the Supervisory Board and was discussed in detail with the auditors at the Supervisory Board meeting on March 30, 2007. Based on our examination of the documents made available by the auditors and the Management Board, we have no reservations and agree with the auditors' opinion.

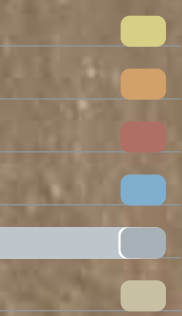
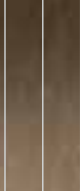
The Supervisory Board approves the consolidated financial statements as well as the statutory accounts of IM Internationalmedia AG for the year 2006, and both are hereby ratified pursuant Art. 172 German Corporation Act (AktG).

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 2006.

Munich, March 2007

Prof. Dr. Helmut Thoma  
*Chairman*





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# GROUP



Group Data



# DATA

ONE MISSED CALL

Shannyn Sossamon  
Ed Burns





## Locations (including significant subsidiaries)

### Germany

**IM Internationalmedia AG**

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80539 Munich  
Tel.: +49 (89) 98 107-100  
Fax: +49 (89) 98 107-199  
[www.internationalmedia.de](http://www.internationalmedia.de)  
[info@internationalmedia.de](mailto:info@internationalmedia.de)

### USA

**Pacifica Film Development, Inc.**

9242 Beverly Blvd.  
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Beverly Hills, CA 90210  
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**Intermedia Film Equities USA, Inc.**

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Tel.: +1 (310) 777-0007  
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[www.intermediafilm.com](http://www.intermediafilm.com)

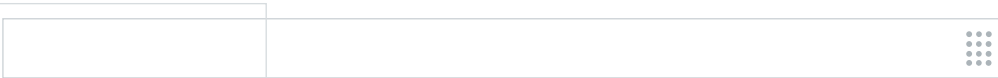
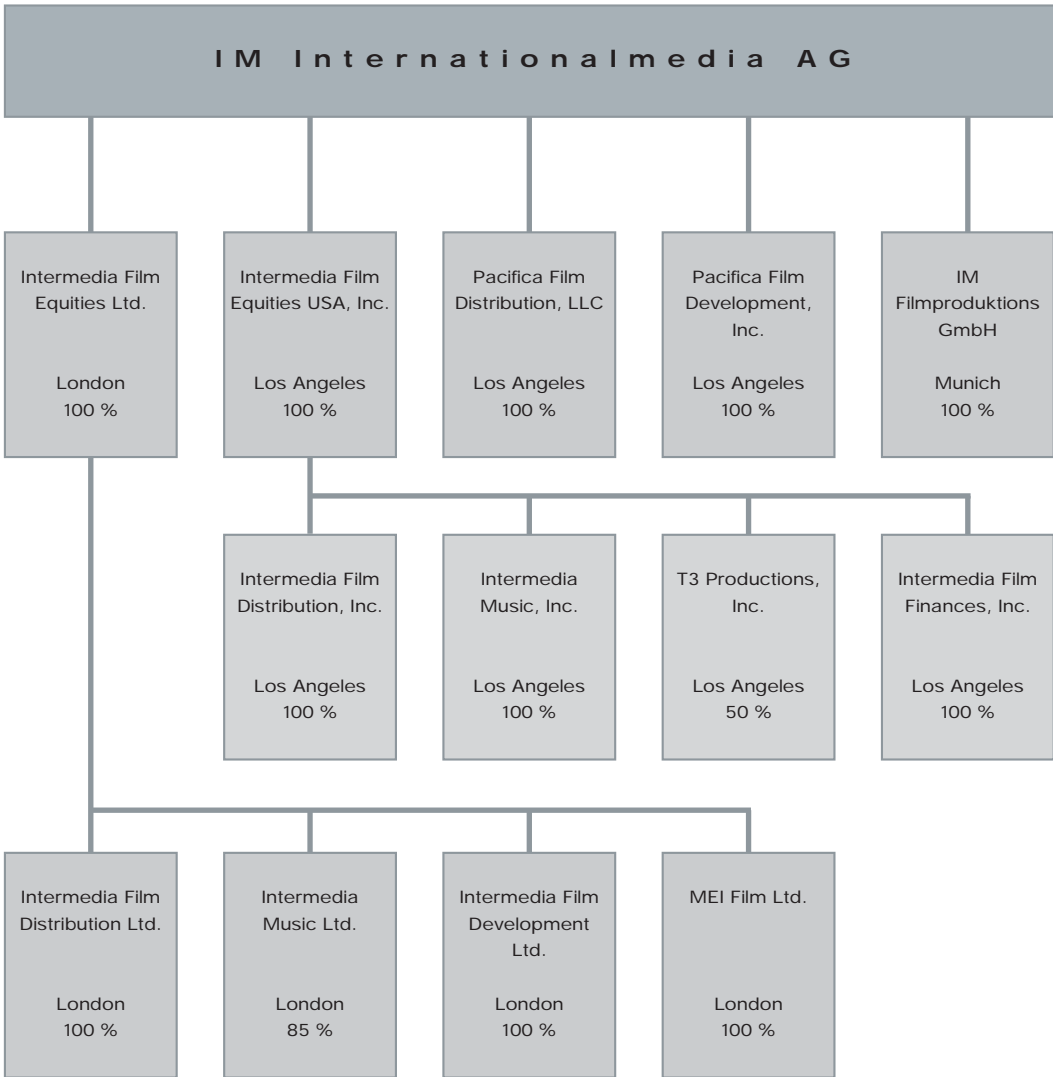
### United Kingdom

**Intermedia Film Equities Ltd.**

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# Group Structure





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# IM INTER MEDIA FI



IM AG Financials



# NATIONAL FINANCIALS

RV

Robin Williams  
Cheryl Hines





# IM Internationalmedia AG Balance Sheet

AS OF DECEMBER 31, 2006 AS PER HGB

| <b>Assets</b>  | Notes      | Dec 31, 2006         | Dec 31, 2005          |
|--|------------|----------------------|-----------------------|
| <i>[in €]</i>  |            |                      |                       |
| <b>A. Non-current assets</b>   |            |                      |                       |
| Intangible assets  |            |                      |                       |
| Franchises, trademarks, patents,<br>licenses and similar rights                              |            | 1,176.33             | 485.81                |
| <b>Total intangible assets</b>   | <b>(1)</b> | <b>1,176.33</b>      | <b>485.81</b>         |
| Fixed assets   |            |                      |                       |
| Other fixed assets, fixtures and fittings  |            | 37,179.29            | 70,278.34             |
| <b>Total fixed assets</b>  | <b>(2)</b> | <b>37,179.29</b>     | <b>70,278.34</b>      |
| Financial assets   |            |                      |                       |
| Investments in subsidiaries  |            | 56,326,868.34        | 99,410,943.84         |
| <b>Total financial assets</b>  | <b>(3)</b> | <b>56,326,868.34</b> | <b>99,410,943.84</b>  |
| <b>Total non-current assets</b>  |            | <b>56,365,223.96</b> | <b>99,481,707.99</b>  |
| <b>B. Current assets</b>   |            |                      |                       |
| Accounts receivable and other assets   |            |                      |                       |
| Trade accounts receivable  |            | 4,615.89             | 4,615.89              |
| Intercompany receivables   |            | 13,318,036.35        | 12,108,542.85         |
| Other current assets<br>thereof against subsidiary companies € 3,246,898.95 (prev. year € 0) |            | 3,940,536.34         | 488,782.82            |
| <b>Total accounts receivable<br/>and other assets</b>  | <b>(4)</b> | <b>17,263,188.58</b> | <b>12,601,941.56</b>  |
| Other marketable securities  | (4)        | 5,666,127.71         | 0.00                  |
| Checks, cash on hand and in banks  | (5)        | 848,276.59           | 6,872,772.76          |
| <b>Total current assets</b>  |            | <b>23,777,592.88</b> | <b>19,474,714.32</b>  |
| <b>C. Prepaid expenses</b>   |            | <b>15,006.00</b>     | <b>14,600.00</b>      |
| <b>Total assets</b>  |            | <b>80,157,822.84</b> | <b>118,971,022.31</b> |



| <b>Shareholders' equity and liabilities</b><br><i>[in €]</i>  | Notes      | Dec 31, 2006         | Dec 31, 2005          |
|---|------------|----------------------|-----------------------|
| <b>A. Shareholders' equity</b>  |            |                      |                       |
| Subscribed capital  |            | 42,603,813.00        | 42,600,493.00         |
| Capital reserve   |            | 211,316,046.61       | 211,315,658.96        |
| Loss carried forward  |            | -195,731,055.22      | -190,594,246.29       |
| Contingent capital € 15,971,865.00  |            |                      |                       |
| <b>Total shareholders' equity</b>   | <b>(6)</b> | <b>58,188,804.39</b> | <b>63,321,905.67</b>  |
| <b>B. Accrued liabilities</b>   |            |                      |                       |
| Deferred tax liabilities  | (7)        | 2,891,715.40         | 4,939,851.81          |
| Other accrued liabilities   | (8)        | 478,075.00           | 447,124.00            |
| <b>Total accrued liabilities</b>  |            | <b>3,369,790.40</b>  | <b>5,386,975.81</b>   |
| <b>C. Liabilities</b>   |            |                      |                       |
| Bonds<br>of which convertible € 3,082,260.38 (prev. year € 2,698,925.58)  | (9)        | 3,082,260.38         | 2,698,925.58          |
| Bank loans  | (10)       | 5,680,527.15         | 0.00                  |
| Trade accounts payable  | (10)       | 49,920.78            | 336,336.89            |
| Intercompany liabilities<br>of which € 0 (prev. year € 47,208,916.40)<br>with a remaining term of over one year                 | (10)       | 9,781,327.98         | 47,208,916.40         |
| Other liabilities<br>of which taxes € 5,191.76 (prev. year € 13,354.80)<br>of which social security € 0 (prev. year € 3,704.60) | (10)       | 5,191.76             | 17,961.96             |
| <b>Total Liabilities</b>  |            | <b>18,599,228.05</b> | <b>50,262,140.83</b>  |
| <b>Total shareholders' equity and liabilities</b>   |            | <b>80,157,822.84</b> | <b>118,971,022.31</b> |





# IM Internationalmedia AG

## Income Statement

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006 AS PER HGB



| [in €]   | Notes | 2006                   | 2005                   |
|--|-------|------------------------|------------------------|
| <b>Revenues</b>  | (12)  | <b>237,924.98</b>      | <b>139,902.34</b>      |
| Other operating income   | (13)  | 834,146.81             | 1,385,655.71           |
| <b>Total services and revenue</b>  |       | <b>1,072,071.79</b>    | <b>1,525,558.05</b>    |
| Cost of materials  | (14)  | -1,443,041.77          | 0.00                   |
| Personnel expenses   | (15)  | -568,012.39            | -514,576.78            |
| Depreciation on intangible and fixed assets  |       | -43,198.84             | -24,311.44             |
| Other operating expenses   | (16)  | -2,202,516.39          | -3,648,448.50          |
| Other interest and similar income of which from subsidiary companies<br>€ 886,365.99 (prev. year € 586,421.87)           | (17)  | 1,098,619.28           | 602,745.25             |
| Expenses from transfer of losses   | (18)  | -11,008,935.63         | 0.00                   |
| Other interest and similar expenditures of which from subsidiary companies<br>€ -168,236.88 (prev. year € -1.792,636.07) | (17)  | -421,699.04            | -1,833,136.14          |
| <b>Result from ordinary business activities</b>  |       | <b>-13,516,712.99</b>  | <b>-3,892,169.56</b>   |
| Extraordinary income   | (18)  | 37,455,860.48          | 0.00                   |
| Extraordinary expenses   | (19)  | -31,109,075.50         | 0.00                   |
| <b>Extraordinary result</b>  |       | <b>6,346,784.98</b>    | <b>0.00</b>            |
| <b>Result before taxes</b>   |       | <b>-7,169,928.01</b>   | <b>-3,892,169.56</b>   |
| Taxes on income  |       | 2,033,119.08           | -113,387.72            |
| <b>Net loss</b>  |       | <b>-5,136,808.93</b>   | <b>-4,005,557.28</b>   |
| Loss brought forward from last year  |       | -190,594,246.29        | -186,588,689.01        |
| <b>Loss carried forward</b>  |       | <b>-195,731,055.22</b> | <b>-190,594,246.29</b> |





## Schedule of Fixed Asset Movements

FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2006 AS PER HGB

| [in €]  | Brought Forward<br>Jan 1, 2006 | A C Q U I S I T I O N |                      |
|---|--------------------------------|-----------------------|----------------------|
|   |                                | Additions             | Disposals            |
| <b>Intangible assets</b>  |                                |                       |                      |
| Franchises, trademarks,<br>patents, licenses and similar rights | 38,193.98                      | 1,441.00              | 530.00               |
|   | <b>38,193.98</b>               | <b>1,441.00</b>       | <b>530.00</b>        |
| <b>Fixed assets</b>   |                                |                       |                      |
| Other fixed assets,<br>fixtures and fittings                    | 231,022.20                     | 9,417.02              | 28,730.35            |
|   | <b>231,022.20</b>              | <b>9,417.02</b>       | <b>28,730.35</b>     |
| <b>Financial assets</b>   |                                |                       |                      |
| Investments in subsidiaries                                     | 127,780,070.29                 | 25,000.00             | 12,000,000.00        |
|   | <b>127,780,070.29</b>          | <b>25,000.00</b>      | <b>12,000,000.00</b> |
| <b>Total fixed assets</b>                                       | <b>128,049,286.47</b>          | <b>35,858.02</b>      | <b>12,029,260.35</b> |

| C O S T                 |                                |                      | D E P R E C I A T I O N |                         | B O O K V A L U E    |                      |
|-------------------------|--------------------------------|----------------------|-------------------------|-------------------------|----------------------|----------------------|
| Balance<br>Dec 31, 2006 | Brought Forward<br>Jan 1, 2006 | Additions            | Disposals               | Balance<br>Dec 31, 2006 | Dec 31, 2006         | Dec 31, 2005         |
| 39,104.98               | 37,708.17                      | 750.48               | 530.00                  | 37,928.65               | 1,176.33             | 485.81               |
| <b>39,104.98</b>        | <b>37,708.17</b>               | <b>750.48</b>        | <b>530.00</b>           | <b>37,928.65</b>        | <b>1,176.33</b>      | <b>485.81</b>        |
| 211,708.87              | 160,743.86                     | 42,448.36            | 28,662.64               | 174,529.58              | 37,179.29            | 70,278.34            |
| <b>211,708.87</b>       | <b>160,743.86</b>              | <b>42,448.36</b>     | <b>28,662.64</b>        | <b>174,529.58</b>       | <b>37,179.29</b>     | <b>70,278.34</b>     |
| 115,805,070.29          | 28,369,126.45                  | 31,109,075.50        | 0.00                    | 59,478,201.95           | 56,326,868.34        | 99,410,943.84        |
| <b>115,805,070.29</b>   | <b>28,369,126.45</b>           | <b>31,109,075.50</b> | <b>0.00</b>             | <b>59,478,201.95</b>    | <b>56,326,868.34</b> | <b>99,410,943.84</b> |
| <b>116,055,884.14</b>   | <b>28,567,578.48</b>           | <b>31,152,274.34</b> | <b>29,192.64</b>        | <b>59,690,660.18</b>    | <b>56,365,223.96</b> | <b>99,481,707.99</b> |





# Notes to the Financial Statements



## I. General

**IM Internationalmedia AG's objective is to manage its assets, including its own library of film rights, to acquire, establish, hold and manage interests and render services within the group, as well as to develop, finance, produce and distribute media products of all kind. The subscribed capital of IM Internationalmedia AG amounts to 42,603,813.00 euros.**

As of December 12, 2005, the Frankfurt Stock Exchange (FWB Frankfurter Wertpapierbörse) has authorized 10,650,123 new no-par value bearer shares for a capital increase for cash, up to 3,190,000 new no-par value bearer shares to secure the exercise of rights granted in connection with a convertible bond issuance, and up to 10,650,120 new bearer shares to secure the conversion of rights and obligations in connection with an outstanding zero coupon convertible bond. From the exercise of conversion rights in connection with the zero coupon convertible bond, 3,320 new shares were issued in the year 2006.

Effective January 31, 2006, the subsidiary IM Filmproduktions- und Vertriebs GmbH & Co. KG was merged into IM Internationalmedia AG. The merger is based on the contract between IM Internationalmedia AG and IM Filmproduktions- und Vertriebs-Verwaltungs GmbH regarding the transfer of the position as personally liable shareholder of IM Filmproduktions- und Vertriebs GmbH & Co. KG and the resignation of IM Filmproduktions- und Vertriebs-Verwaltungs GmbH.

IM Internationalmedia AG prepares consolidated financial statements under Art. 315a of the German Commercial Code in accordance with the regulations set out in International Financial Reporting Standards (IFRS), as required for companies listed in the Prime Standard Segment of the German stock exchange.



## 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

Regarding the development of non-current assets and further details to financial assets, we refer to the schedule of fixed asset movements above and the summary of affiliated companies under note (23).

### (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 depreciated using the straight-line method only. The useful life for other fixed assets, 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 ) FINANCIAL ASSETS

Financial assets are generally recorded at acquisition cost less depreciation.

Shares in affiliated companies include all shares in Intermedia Film Equities Ltd., 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 GmbH, Munich, and IM Filmproduktions- und Vertriebs-Verwaltungs GmbH, Munich.

In 2006 book values of financial assets were corrected by 31,109,076 euros to be in accordance with the discounted present value of the business plan.

The disposal in the amount of 12,000,000 euros and the addition in the amount of 25,000 euros are both the result of the performed merger of the subsidiary IM Filmproduktions- und Vertriebs GmbH & Co. KG into IM Internationalmedia AG.

### ( 4 ) RECEIVABLES , OTHER ASSETS AND OTHER MARKETABLE SECURITIES

Receivables, other assets and other marketable securities 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 marketable securities include a zero bond pledged for the SUSPECT ZERO film loan borrowed from the US state of New Mexico Tax and shown under bank loans. The company has combined securities and loan to one valuation unit. Securities and prepayments for development projects are a result from the merger of IM Filmproduktions- und Vertriebs GmbH & Co. KG.

| Other receivables, other assets<br>and other marketable securities<br><i>[in €]</i> | Dec 31, 2006      | Thereof with<br>a remaining<br>term of more<br>than 1 year | Dec 31, 2005      | Thereof with<br>a remaining<br>term of more<br>than 1 year |
|---|-------------------|--|-------------------|--|
| Trade accounts receivable   | 4,616             | 0  | 4,616             | 0  |
| Intercompany receivables  | 13,318,036        | 0  | 12,108,543        | 0  |
| Other current assets  |                   |  |                   |  |
| Prepayments for development projects  | 3,246,899         | 0  | 0                 | 0  |
| Taxes   | 427,367           | 0  | 488,699           | 0  |
| Others  | 266,270           | 0  | 84                | 0  |
| Other marketable securities   | 5,666,128         | 0  | 0                 | 0  |
|   | <b>22,929,316</b> | <b>0</b>   | <b>12,601,942</b> | <b>0</b>   |

#### (5) CHECKS, CASH ON HAND AND IN BANKS

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

#### (6) SHAREHOLDERS' EQUITY

The subscribed capital of IM Internationalmedia AG consists of 42,603,813 no-par value bearer shares with an interest in capital of one euro each. Subscribed capital was fully paid in.

The authorized capital (Authorized Capital 2004/I) amounts to 5,325,062 euros after partial utilization.

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.

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.

Neither the Contingent Capital 2000 (300,000 euros) nor the Contingent Capital 2005/I (1,700,000 euros) were used in the fiscal year 2006. From the Contingent Capital 2004/I 3,320 euros were used, so 13,971,865 euros remain as of December 31, 2006.

As of balance sheet date 84,688 convertible bonds with a nominal value of 20.00 euros from the zero coupon convertible bond 2005 and 6,320 warrant bond notes with a nominal value of 40.00 euros are issued.

| <b>Development of shareholders' equity</b><br><i>[in €]</i> | <b>Subscribed capital</b> | <b>Capital reserve</b> | <b>Loss carried forward</b> | <b>Total</b>      |
|---|---------------------------|------------------------|-----------------------------|-------------------|
| <b>Balance at Jan 1, 2005</b>                               | <b>31,950,370</b>         | <b>211,315,659</b>     | <b>-186,588,68</b>          | <b>56,677,340</b> |
| Capital Increase for Cash                                   | 10,650,123                |                        |                             | 10,650,123        |
| Net Loss  |                           |                        | -4,005,557                  | -4,005,557        |
| <b>Balance at Dec 31, 2005</b>                              | <b>42,600,493</b>         | <b>211,315,659</b>     | <b>-190,594,246</b>         | <b>63,321,906</b> |
| <b>Balance at Jan 1, 2006</b>                               | <b>42,600,493</b>         | <b>211,315,659</b>     | <b>-190,594,246</b>         | <b>63,321,906</b> |
| Conversion of convertible zero bond                         | 3,320                     | 388                    |                             | 3,708             |
| Net Loss  |                           |                        | -5,136,809                  | -5,136,809        |
| <b>Balance at Dec 31, 2006</b>                              | <b>42,603,813</b>         | <b>211,316,047</b>     | <b>-195,731,055</b>         | <b>58,188,805</b> |



**( 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 Internationalmedia AG and IM Filmproduktions GmbH.

**( 8 ) OTHER ACCRUED LIABILITIES**

| <b>Other accrued liabilities</b><br><i>[in €]</i>  | <b>Dec 31, 2006</b> | <b>Dec 31, 2005</b> |
|--|---------------------|---------------------|
| Provision for costs of annual financial statements | 151,000             | 167,000             |
| Provision for employee expenses                    | 69,000              | 60,000              |
| Provision for outstanding invoices                 | 78,075              | 7,124               |
| Other accrued liabilities                          | 180,000             | 213,000             |
|  | <b>487,075</b>      | <b>447,124</b>      |

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

**( 9 ) BONDS**

In the financial year 2006 the company issued a bond warrant with a nominal value of up to 3,016,200 euros. 252,800 euros of that were placed on December 29, 2006. The warrant bond is divided in up to 75,405 warrant bond notes with a nominal value of 40.00 euros per note and with a term ending November 30, 2011 (inclusive). Each warrant bond note is combined with a separable option issued by the company providing entitlement to the acquisition of 120 voting bearer ordinary shares with a proportion of the company's subscribed capital of 1.00 euro each at a price of 1.00 euro each. The options can be exercised for the first time on March 30, 2007.

The bond with warrants issued in 2005 with a nominal value of 1,000,000 euros exists unchanged. From the zero coupon convertible bond with a nominal value of 1,679,300 euros also issued in 2005 166 partial notes were converted into 3,320 new shares in 2006.

The schedule shows the development of the bonds:

| <b>Bonds</b>   |                  |
|--|------------------|
| <i>[in €]</i>  |                  |
| <b>Balance at December 31, 2005</b>                      | <b>2,698,926</b> |
| Additional subscriptions of zero coupon convertible bond | 19,558           |
| Interest expenses of zero coupon convertible bond        | 148,712          |
| Subscription of bond warrant                             | 252,800          |
| Other changes  | -37,736          |
| <b>Balance at December 31, 2006</b>                      | <b>3,082,260</b> |

Bonds in foreign currencies were valued at the higher rates prevailing at closing or transaction date.

## (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. All liabilities have a remaining term of up to one year.

Bank loans are secured by marketable securities. 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.

## (11) CONTINGENCIES

There were other financial liabilities in the form of rental and leasing liabilities in the amount of 151,000 euros.



## IV. Notes to the Income Statement

### (12) REVENUES

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

### (13) OTHER OPERATING INCOME

The other operating income essentially relates to foreign exchange rate gains amounting to 833,000 euros (p.y. 1,073,000 euros).

### (14) COST OF MATERIALS

The cost of materials includes solely received services in connection with film productions.

### (15) PERSONNEL EXPENSES

| <b>Personnel expenses</b><br><i>[in €]</i>              | <b>2006</b>    | <b>2005</b>    |
|---|----------------|----------------|
| Salaries and wages                                      | 534,439        | 481,657        |
| Contributions and expenses<br>for pensions and benefits | 33,573         | 32,920         |
|   | <b>568,012</b> | <b>514,577</b> |
| Average number of employees<br>during the year          | 4              | 4              |
| Number of employees at year end                         | 3              | 4              |

The overall compensation of the Management Board members is comprised of both a fixed salary and a variable component. The fixed components are linked to the tasks of the respective member of the Management Board and his performance, taking into account the Board's peer companies and the regional environment. Variable compensation includes bonus payments and stock options. Bonus payments are granted to the Management Board members based upon both achieving personal goals and corporate objectives. Personal goals are attributed 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 2005 of IM Internationalmedia AG.

Martin Schürmann receives his salary from Intermedia Film Equities USA, Inc., Los Angeles. In the financial year 2006 Christian Böhmer (member of the Management Board from March 16 to October 31, 2006) received a fixed component of 130,000 euros for his management duties and a fixed component of 4,000 euros for his duties as Supervisory Board member until March 15, 2006. Furthermore, the company made an additional payment to Christian Böhmer in the amount of 119,000 euros. Andreas Konle (member of the Management Board until March 31, 2006) received a fixed component of 62,000 euros and 250,000 share options.

#### (15) OTHER OPERATING EXPENSES

| Other operating expenses<br><i>[in €]</i>         | 2006             | 2005             |
|---|------------------|------------------|
| Foreign exchange losses resulting from operations | 1,145,012        | 47,151           |
| Legal and capital market consulting               | 428,125          | 2,928,890        |
| Annual General Meeting                            | 126,642          | 155,001          |
| Advertising and representation                    | 123,961          | 120,691          |
| Insurance fees                                    | 91,222           | 116,233          |
| Supervisory Board                                 | 74,630           | 45,475           |
| Travel and accommodation                          | 64,885           | 33,560           |
| Premises (rent, heating, lighting, etc.)          | 38,075           | 88,435           |
| Annual and quarterly report                       | 24,677           | 35,709           |
| Other   | 85,287           | 77,304           |
|   | <b>2,202,516</b> | <b>3,648,449</b> |

Other operating expenses include auditor's fees in the amount of 130,000 euros (p.y. 144,000 euros) for the audit of the statutory and consolidated financials. There was no other consulting or due diligence work performed by the German auditor in 2006 (p.y. 422,000 euros).



## (17) INTEREST RESULT

| Interest result<br>[in €]               | 2006           | From<br>affiliated<br>companies | 2005              | From<br>affiliated<br>companies |
|---|----------------|---------------------------------|-------------------|---------------------------------|
| Income from short-term loans            | 886,366        | 886,366                         | 586,422           | 586,422                         |
| Other interest and similar income       | 212,253        | 0                               | 16,323            | 0                               |
| Other interest and similar expenditures | -421,699       | -168,237                        | -1,833,136        | -1,792,636                      |
|   | <b>676,920</b> | <b>718,129</b>                  | <b>-1,230,391</b> | <b>-1,206,214</b>               |

## (18) EXTRAORDINARY INCOME AND EXPENSES FROM TRANSFER OF LOSSES

Extraordinary income is a result of the completed merger of the subsidiary IM Filmproduktions- und Vertriebs GmbH & Co. KG into IM Internationalmedia AG on January 31, 2006.

Being the legal successor of IM Filmproduktions- und Vertriebs GmbH & Co. KG, IM Internationalmedia AG steps into the fiscal unity with IM Filmproduktions GmbH based on the profit pooling contract signed on November 22, 2004 between IM Filmproduktions- und Vertriebs GmbH & Co. KG and IM Filmproduktions GmbH. For the financial year 2006 IM Filmproduktions GmbH transfers a loss of 11,008,935.63 euros.

To provide a better comparison the following shows the 2005 figures in balance sheet and profit and loss statement as if the merger was already performed in 2005.



| <b>Assets</b>                                     | <b>Dec 31, 2006</b>  | <b>Dec 31, 2005</b>   |
|---|----------------------|-----------------------|
| <i>[in €]</i>                                     |                      |                       |
| <b>A. Non-current assets</b>                      |                      |                       |
| Total intangible assets                           | <b>1,176.33</b>      | <b>485.81</b>         |
| Total fixed assets                                | <b>37,179.29</b>     | <b>70,278.34</b>      |
| Total financial assets                            | <b>56,326,868.34</b> | <b>87,435,934.84</b>  |
| Total non-current assets                          | <b>56,365,223.96</b> | <b>87,506,707.99</b>  |
| <b>B. Current assets</b>                          |                      |                       |
| Accounts receivable and other assets              |                      |                       |
| Trade accounts receivable                         | 4,615.89             | 4,615.89              |
| Intercompany receivables                          | 13,318,036.35        | 12,108,542.85         |
| Other current assets                              | 3,940,536.34         | 11,713,675.69         |
| <b>Total accounts receivable and other assets</b> | <b>17,263,188.58</b> | <b>23,826,834.43</b>  |
| Other marketable securities                       | 5,666,127.71         | 0.00                  |
| Checks, cash on hand and in banks                 | 848,276.59           | 6,872,772.76          |
| <b>Total current assets</b>                       | <b>23,777,592.88</b> | <b>30,699,607.19</b>  |
| <b>C. Prepaid expenses</b>                        | <b>15,006.00</b>     | <b>14,600.00</b>      |
| <b>Total assets</b>                               | <b>80,157,822.84</b> | <b>118,220,915.18</b> |



## Shareholders' equity and liabilities

[in €]

Dec 31, 2006

Dec 31, 2005

| <b>A. Shareholders' equity</b>                    |                      |                       |
|---|----------------------|-----------------------|
| Subscribed capital                                | 42,603,813.00        | 42,600,493.00         |
| Capital reserve                                   | 211,316,046.61       | 211,315,658.96        |
| Loss carried forward                              | -195,731,055.22      | -153,307,726.89       |
| <b>Total shareholders' equity</b>                 | <b>58,188,804.39</b> | <b>100,608,425.07</b> |
| <b>B. Accrued liabilities</b>                     |                      |                       |
|   | <b>3,369,790.40</b>  | <b>5,403,975.81</b>   |
| <b>C. Liabilities</b>                             |                      |                       |
| Bonds   | 3,082,260.38         | 2,698,925.58          |
| Bank loans  | 5,680,527.15         | 7,304,964.97          |
| Trade accounts payable                            | 49,920.78            | 336,725.72            |
| Intercompany liabilities                          | 9,781,327.98         | 1,849,936.07          |
| Other liabilities                                 | 5,191.76             | 17,961.96             |
| <b>Total liabilities</b>                          | <b>18,599,228.05</b> | <b>12,208,514.30</b>  |
| <b>Total shareholders' equity and liabilities</b> | <b>80,157,822.84</b> | <b>118,220,915.18</b> |

| <b>Income Statement</b>                         | 2006                  | 2005                 |
|---|-----------------------|----------------------|
| <i>[In €]</i>                                   |                       |                      |
| <b>Revenues</b>                                 | <b>237,924.98</b>     | <b>590,931.05</b>    |
| Other operating income                          | 834,146.81            | 2,360,233.21         |
| <b>Total services and revenue</b>               | <b>1,072,071.79</b>   | <b>2,951,164.26</b>  |
| Cost of materials                               | -1,443,041.77         | -583,498.62          |
| Personnel expenses                              | -568,012.39           | -514,694.38          |
| Depreciation on intangible and fixed assets     | -43,198.84            | -24,311.44           |
| Other operating expenses                        | -2,202,516.39         | -3,678,643.35        |
| Other interest and similar income               | 1,098,619.28          | 747,475.62           |
| Expenses from transfer of losses                | -11,008,935.63        | -1,812,812.88        |
| Other interest and similar expenditures         | -421,699.04           | -42,132.90           |
| <b>Result from ordinary business activities</b> | <b>-13,516,712.99</b> | <b>-2,957,453.69</b> |
| Extraordinary income                            | 37,455,860.48         | 32,813,144.13        |
| Extraordinary expenses                          | -31,109,075.50        | 0.00                 |
| <b>Extraordinary result</b>                     | <b>6,346,784.98</b>   | <b>32,813,144.13</b> |
| <b>Result before taxes</b>                      | <b>-7,169,928.01</b>  | <b>29,855,690.44</b> |
| Taxes on income                                 | 2,033,119.08          | 3,425,271.68         |
| <b>Net loss / income</b>                        | <b>-5,136,808.93</b>  | <b>33,280,962.12</b> |

#### (19) EXTRAORDINARY EXPENSES

Extraordinary expenses include required adjustments regarding the book values of financial assets.



## V. Other Information

### (20) SHARE OWNERSHIP

| Company  | Share<br>[in %] | Shareholders' equity<br>[in K €] | Result<br>[in K €] |
|--|-----------------|----------------------------------|--------------------|
| Intermedia Film Equities Ltd.,<br>London <sup>1)</sup>                       | 100             | 47,443                           | -15,554            |
| Intermedia Film Equities USA, Inc.,<br>Los Angeles <sup>1)</sup>             | 100             | -54,444                          | -9,720             |
| Pacifica Film Distribution LLC,<br>Los Angeles <sup>2)</sup>                 | 100             | -15                              | -1                 |
| Pacifica Film Development, Inc.,<br>Los Angeles <sup>2)</sup>                | 100             | -4,068                           | -2,095             |
| IM Filmproduktions GmbH,<br>Munich <sup>3)</sup>                             | 100             | 25                               | 0                  |
| IM Filmproduktions- und Vertriebs-<br>Verwaltungs GmbH, Munich <sup>3)</sup> | 100             | 22                               | -2                 |

1) Amounts for the financial year 2006 according to subgroup's financial statement acc. IFRS

2) Amounts for the financial year 2006 according to local financial statement acc. IFRS

3) Amounts for the financial year 2006 according to German GAAP (HGB)

### (21) EXECUTIVE BODIES

#### 21.1 MANAGEMENT BOARD

The Management Board consisted of:

| Manatement Board   | Supervisory Board duties  |
|--|---------------------------|
| Mr. Martin Schürmann<br>(since April 15, 2005)               | only Board member<br>none |
| Mr. Christian Böhmer<br>(from March 16, to October 31, 2006) | none                      |
| Herr Andreas Konle<br>(until March 31, 2006)                 | none                      |

As of December 31, 2006 Mr. Martin Schürmann owned 2,000,000 shares of IM Internationalmedia AG (p.y. 2,000,000).

## 21.2 SUPERVISORY BOARD

As of December 31, 2006, the Supervisory Board consists of three members:

| Supervisory Board                                   |               | Profession             | Other Supervisory Board Duties  |
|---|---------------|------------------------|---|
| Mr. Prof. Dr. Helmut Thoma<br>(since March 8, 2006) | Chairman      | Media consultant       | Chairman:<br>freenet.de AG, Hamburg<br>Member:<br>mobilcom AG, Büdelsdorf<br>PrimaCom AG, Mainz |
| Mr. Oliver Kächele                                  | Vice chairman | CPA and<br>Tax advisor | Member:<br>PTI Proton Therapy<br>Institute AG, Munich   |
| Mr. Konstantin Thoeren                              |               | Producer               | None  |
| Mr. Christian Böhmer<br>(until March 15, 2006)      |               | Media consultant       | n.a.  |

In the past financial year compensation paid to the Supervisory Board totaled 75,000 euros (p.y. 45,000 euros). None of the current Supervisory Board members owns shares or options of IM Internationalmedia AG.

## (22) DECLARATION OF CONFORMITY WITH GERMAN CORPORATE GOVERNANCE CODE

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



## (23) SUMMARY OF AFFILIATED COMPANIES OF IM INTERNATIONALMEDIA AG

|   | <b>Participation</b><br><i>[in %]</i> |
|---|---------------------------------------|
| 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                                 |
| 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                                  |
| Dovestart 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-Verwaltungs GmbH, Germany, Munich*) | 100.0                                 |
| IM Filmproduktions GmbH, Germany, Munich*)                            | 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                                 |
| Magic Men Limited, UK, London   | 100.0                                 |
| SBIB Productions Limited, UK, London                                  | 100.0                                 |
| Stopping Power Productions Limited, UK, London                        | 100.0                                 |
| Intermedia Film Distribution 2006, Inc., USA, Los Angeles             | 100.0                                 |
| Intermedia Film Finances 2006, Inc., USA, Los Angeles                 | 100.0                                 |

\*) Direct participations, all other are indirect participations

## ( 2 4 ) S U B S E Q U E N T E V E N T S

Already in January 2007 IM Internationalmedia AG was able to complete the sale of the bond notes with warrants that were unsubscribed following the close of IMAG shareholder subscription offering period to a potential strategic partner. The investor purchased the remaining 69,083 bond notes with warrants for a total nominal value of 2,763,320.00 euros.

Effective March 15, 2007, the Supervisory Board of IM Internationalmedia AG has appointed Mr. Sascha Konzack as a new member of the company's Management Board. He is responsible for the areas finance and investor relations, as well as communication and administration. Mr. Konzack joined the company as Manager of Finance and Controlling in December 2004.

## ( 2 5 ) A P P R O P R I A T I O N O F P R O F I T S

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

Munich, March 28, 2007

Management Board



Martin Schürmann  
Chairman



Sascha Konzack



## 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, 2006. 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 ("Handelsgesetzbuch": "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 risk 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 forecast could lead to a cash shortage which would threaten the existence of the company unless financing can be secured from another source."

Munich, March 29, 2007

PricewaterhouseCoopers - Aktiengesellschaft - Wirtschaftsprüfungsgesellschaft

Krawietz  
(German Public Auditor)

ppa. Deni  
(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)
- Blu-Ray Disc**  
Another format succeeding the DVD along with HD DVD.
- Box Office**  
Proceeds from the sale of cinema tickets.
- Completion Bond**  
Completion Guarantee of a film granted by an insurance company.
- Copyright**  
An exclusive right to publish and sell literary, 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 Amortization
- 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 comprise the exploitation rights for cinema, video/DVD, pay-TV, free-TV, merchandising 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, comedies (with a budget usually below 20 million US-dollars)
- HD**  
High Definition (TV, DVD)
- Home Entertainment**  
DVD and Video (sale and rental)
- IFRS (International Financial Reporting Standards)**  
Accounting standards promulgated by the International Accounting Standards Committee (IASC). They were previously also 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.
- LoI**  
Letter of Intent
- 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) theaters 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, special effects etc.

**Pre-sales**

License 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 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

### **Publisher**

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### **Concept and content**

IM Internationalmedia AG

### **Editors**

Catherine Reitzle  
Sascha Konzack

### **Design**

pskdesign - Petra Kull

### **Photos**

Title: pskdesign - Petra Kull

Content: © 2007

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Kadokawa Pictures, Alcon Entertainment,  
Universal Pictures, Sony Pictures Entertainment Inc.

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