

2006

QUARTERLY REPORT

III/2006



ENTERTAINMENT

Aktiengesellschaft

Key indicators (in million euros)	2006		2005	
	1/1/ - 30/9/	1/7/ - 30/9/	1/1/ - 30/9/	1/7/ 30/9/
Sales	1.4	0.4	1.0	0.5
EBIT	-2.8	0.3	4.3	-0.9
Net result for the period	- 2.8	0.3	3.0	-1.0
Earnings per share	- 0.22	0.02	0.26	-0.08
Average number of employees	7		10	

Key data for the share

ISIN	ISIN: DE0006223605
Share capital	
Share capital at the start of the period	15,005,155.09 euros
Capital increase July 2006	1,500,512.00 euros
Share capital 30/9/2006	16,505,667.09 euros
Number of shares	
Number of shares at the start of the period	11,739,013
Capital increase July 2006	1,172,275
Number of shares 30/9/2006	12,911,288
Issue price 8/2/1999	36.00 euros
	after split (1:2) 18.00 euros
Closing price* at 29/9/2006	1.15 euros
High* 1st nine months 2006 (8/5/2006)	1.57 euros
Low* 1st nine months 2006 (2/2/2006)	0.38 euros

* Closing prices in Xetra electronic trading

Corporate calendar

Publication of 1st quarterly report 2006	5/3/2007
Publication of 2nd quarterly report 2006	5/3/2007
Publication of 3rd quarterly report 2006	5/3/2007
Publication of Annual Report 2006	30/4/2007
Annual General Meeting	July 2007
Publication of 2nd quarterly report 2007	31/8/2007

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Intertainment AG Group: Situation Report

for the first nine months of 2006

A. Insolvency and events surrounding the insolvency

Following withdrawal of the insolvency applications for Intertainment AG and INTERTAINMENT Licensing GmbH at the close of the second quarter for 2006, the management of Intertainment focused in particular on further stabilizing the company during the third quarter of 2006. One of the measures implemented in this context was the resolution on the capital increase adopted at the end of June 2006.

1. Proceeding for documentary evidence

The reason for the temporary insolvency of Intertainment AG and INTERTAINMENT Licensing GmbH was the tentative ruling rendered at the Munich State Court I (Landesgericht München I) on December 22, 2005 in a proceeding for documentary evidence brought by HypoVereinsbank (HVB) against both companies. HVB had filed a claim against Intertainment for payment of 10 million euros. The judgment rendered by the State Court (Landgericht) confirmed the claim by HVB and also granted the bank the right to enforce the judgment.

The partial claim filed by HVB related to a residual loan amounting to some 14 million euros - on the date when the claim was filed - taken out by INTERTAINMENT Licensing GmbH, for which Intertainment AG had given a surety. Some of this residual debt resulted from finance provided for

films by Franchise Pictures, the US production company subsequently found liable for budgetary fraud.

In the opinion of Intertainment, HVB and Intertainment had already reached an arrangement to reschedule settlement of the debt in 2003. The rescheduling provided for HVB issuing a debt waiver on a deferred debt basis. Within the scope of this deferred debt, the loan originally due on June 30, 2004 was written down in the balance sheet for the business year 2003 in the amount of 13.6 million euros and reported under reserves. A legal opinion was obtained for appraisal of the facts. This formed the basis for the assessment by the management of Intertainment.

HVB had called in the loan by two letters in March and at the end of June 2004, despite the new arrangement and the bank filed a partial claim in a proceeding for documentary evidence in September 2005. No witness testimonies are taken in a proceeding for documentary evidence and only documentary evidence is permissible. (We refer to our statements in Section B.2 in the Management Report 2005 for further information on the proceeding.)

2. Insolvency applications and events surrounding the insolvency in the first quarter of 2006

After the judgment rendered by the Munich State Court I (Landgericht München I), Intertainment was subject to a very high risk

of insolvency. Negotiations with all the parties involved were commenced immediately after the judgment was rendered, but they did not result in a successful outcome. The management of Intertainment was therefore compelled to file an application for insolvency to the Munich Local Court (Amtsgericht München) for Intertainment AG and for INTERTAINMENT Licensing GmbH on January 12, 2006.

On January 17, 2006, the Local Court appointed the Munich lawyer Michael Jaffé in connection with the ongoing opening of insolvency proceedings to draw up an expert opinion. This expert opinion was intended to clarify whether the two companies were overindebted and unable to meet their financial obligations, or whether there was a threat of impending insolvency, further to ascertain what prospects there were for continuing the indebted company as a going concern, and whether the assets were sufficient to cover the costs of insolvency proceedings.

Even before the expert opinion had been drawn up, Dr. Jaffé requested the court to release him from this function in order to avoid possible conflicts of interest in advance. Dr. Jaffé had only just become aware of new circumstances that related to a possible conflict of interests with another insolvency proceeding.

The Munich Local Court then appointed the Munich Lawyer Dr. Martin Prager as the new expert lawyer. In mid-March 2006, the Munich Local Court (Amtsgericht München) ordered the preliminary insolvency administration for Intertainment AG and INTERTAINMENT Licensing GmbH. The Munich lawyer, Dr. Martin Prager, was appointed as the preliminary insolvency administrator.

At the end of February 2006, Albis Finance AG based in Hamburg already informed

Intertainment that it had acquired the loan claim of HypoVereinsbank AG against INTERTAINMENT Licensing GmbH and the guarantee claim against Intertainment AG arising from this loan claim. The management of Intertainment immediately made contact with Albis Finance with the aim of achieving a settlement relating to the claims. These negotiations were successfully concluded in the second quarter of 2006. The agreement between Intertainment and Albis Finance was one of the requirements for Intertainment AG and INTERTAINMENT Licensing GmbH withdrawing the application for opening insolvency proceedings at the end of the second quarter of 2006.

On March 23, 2006, the Munich State Court I (Landgericht München I) confirmed the tentative ruling rendered on December 22, 2005 and declared this to be without reservation. Intertainment filed an appeal against the tentative ruling and against the judgment rendered in the subsequent proceeding.

3. Withdrawal of the insolvency applications and events surrounding the insolvency in the second quarter of 2006

On May 8, Rüdiger Baeres and Kinowelt GmbH, informed the Board of Management of Intertainment AG that Mr. Baeres had sold 50.05 percent of the shares in Intertainment AG to Kinowelt GmbH, its main shareholder MK Medien GmbH and to seven subsidiary companies of Kinowelt GmbH.

Completion of the contract of sale was subject to the condition precedent of granting a privilege for rehabilitation by the Federal Financial Supervisory Authority (BaFin). Grant of the privilege for rehabilitation would not entail the purchasing group having to submit a mandatory offer

to the independent shareholders of Intertainment AG for the takeover of the Intertainment shares held by these shareholders.

At the end of May 2006, Intertainment AG and INTERTAINMENT Licensing GmbH, and Albis Finance AG, Hamburg, reached agreement on repayment modalities relating to claims acquired by Albis Finance AG from HVB in February 2006. The total amount of the claims amounted to some 14 million euros. The agreement stated that Intertainment would pay Albis the sum of 9 million euros in several tranches by the end of 2008. The reimbursement of an additional amount of 5 million euros was linked to the level of income that Intertainment might achieve from the legal disputes being pursued in the USA.

The agreement between Intertainment and Albis Finance was subject to the suspensive condition that Intertainment AG and INTERTAINMENT Licensing GmbH withdraw the application for opening insolvency proceedings.

The agreement was also subject to the resolutive conditions that neither Intertainment AG nor INTERTAINMENT Licensing GmbH would file a renewed application for opening insolvency proceedings before September 30, 2006 and that the stock sale contract between the Kinowelt Group and Mr. Baeres would be closed within this period of time.

The agreement with Albis Finance also meant that the suspension was ordered of the two appeal proceedings being pursued by Intertainment against the tentative ruling and the judgment rendered in the subsequent proceeding in the context of the proceeding for documentary evidence pursued by HVB against Intertainment.

On June 29, 2006, Intertainment AG and INTERTAINMENT Licensing GmbH with-

drew their applications for opening an insolvency proceeding submitted in January. Immediately before withdrawing the insolvency applications, the Board of Management and Supervisory Board of Intertainment AG resolved to carry out a capital increase of nearly 10 percent of the capital stock of Intertainment AG, excluding the pre-emptive rights of the existing shareholders. The new shares for the capital increase were underwritten by Kinowelt GmbH, Leipzig.

4. Capital increase and other events surrounding the insolvency in the third quarter of 2006

At the beginning of July 2006, Intertainment AG implemented the capital increase resolved on June 29. Intertainment AG issued at total of 1,172,275 new shares at the price of 1.28 euros per share. The capital increase was underwritten by Kinowelt GmbH. Intertainment received approximately 1.5 million euros as a result of the capital increase. The issue price of the new shares corresponded to the permissible minimum amount under legislation regulating stocks. The capital increase raised the subscribed capital by 1,500,511.80 euros to 16,505,667.09 euros.

Although at this point in time, no decision had been made by BaFin on the application to grant a privilege for rehabilitation by the Federal Financial Supervisory Authority (BaFin), the Kinowelt Group acquired a tranche of the stock in Intertainment held by Rüdiger Baeres at the end of September 2006. This increased the shareholding held by the Kinowelt Group to 29.99% to make it the biggest shareholder in Intertainment AG.

On September 22, 2006 Albis Finance AG informed Intertainment that it had sold its claims for receivables acquired in February

to Kinowelt GmbH. The management of Intertainment immediately entered into negotiations relating to the receivables with Kinowelt GmbH.

At the end of September 2006, Ralf Schmitz was appointed General Representative of Intertainment AG. The industrial engineer is directly accountable to the Board of Management and he also manages the business of Epsilon Motion Pictures GmbH, Munich, a subsidiary company of Kinowelt GmbH.

B. Business performance

The Intertainment Group generated revenues amounting to 1.4 million euros in the first three quarters of 2006 compared with 1.0 million euros in the equivalent prior-year period. The sales originated from the sale of film rights from the film library of Intertainment.

In particular on account of lower other operating income – this amounted to 1.7 million euros compared with 9.4 million euros in the first nine months of 2005 – the earnings of Intertainment deteriorated in a comparison with the equivalent prior-year period. The Intertainment Group posted a loss of 2.8 million euros for the period. At the end of September 2005 Intertainment had reported a profit of 3.0 million euros. Earnings before Interest and Taxes (EBIT amounted to -2.8 million euros following +4.3 million euros at the end of September 2005. Earnings per share amounted to -0.22 (prior-year period: +0.26) euros.

Personnel expenses totaled 0.9 (prior-year period 1.1) million euros. Other operating expenses rose to 4.3 million euros following 3.6 million euros in the first nine months of 2005.

Liquid assets amounted to 1.1 million euros on September 30, 2006. At the end of December 2005, they were 0.1 million euros.

In the third quarter of 2006, Intertainment generated revenues amounting to 0.4 million euros after 0.5 million euros in the period between July 1 and September 30, 2005. Earnings for the period in the third quarter of 2006 amounted to +0.3 million euros after -1.0 million euros in the comparable prior-year quarter. EBIT amounted to +0.3 (prior-year quarter -0.9) million euros.

C. Legal disputes in the USA

INTERENTAINMENT Licensing GmbH continued to be involved in complex legal disputes in the USA during the first nine months of 2006. We refer to Section B.1 in the Management Report for 2005 for an overview of the background to the legal disputes.

1. Insolvency proceeding of Franchise Pictures

In the first nine months of 2006, Franchise Pictures continued to receive protection from their creditors under Chapter 11 of the US Insolvency Law. At the beginning of October, the Chief Restructuring Manager in charge of the insolvency administration sold the film rights held by the estate to a group headed by former Franchise Pictures investor David Bergstein and production company Morgan Creek Productions. The purchase was retrospective to September 1, 2006.

2. Settlement with Elie Samaha

In mid-August 2006, Intertainment concluded a settlement with former CEO of Franchise Pictures, Elie Samaha, and the production company Sidonian Holdings LLC (formerly Glickson Investments International LLC). Under the settlement, Samaha and Sidonian undertook to pay to Intertainment a total of 3.0 million US dollars. The sum was to be paid in two installments by mid-December 2006. The first installment amounting to 2.2 million US dollars was paid in September 2006. In the context of the settlement, Samaha also transferred to Intertainment his ownership rights vested in around 100 film production and film distribution companies that were attributed to him before August 18, 2004. The value of these holdings cannot be determined because third parties have registered claims with many of the companies. These parties also include the Chief Restructuring Manager in the Franchise Pictures case. A number of these companies have also filed for insolvency protection.

Under the settlement, Intertainment has agreed to waive all further claims against Samaha and Sidonian arising from the judgment entered in the trial against Franchise Pictures in the summer of 2004.

3. Arbitration proceeding against Comerica Bank

In the first nine months of 2006, the arbitration proceeding against Comerica Bank was still in the discovery phase. Following withdrawal of the insolvency applications, arrangements were again made for purposes of carrying out the inspection by Comerica Bank of all email correspondence of Intertainment as ordered by the arbitrators in this context. In order to comply with German data protection regulations, the

relevant emails are being prepared by an independent third party for analysis. They will then be made available to Comerica Bank.

In mid-March 2006, the witness testimony phase started in the arbitration proceeding. Comerica Bank and Intertainment each have the right to cross-examine seven witnesses under oath in advance of the actual oral proceedings. The first three witnesses to be cross-examined were Rüdiger Baeres, the former Chairman of the Board of Management of Intertainment AG, Achim Gerlach, the sole Member of the Board of Management of Intertainment AG, and former Member of the Intertainment Board of Management Stephen Brown.

In March 2006, the arbitrators had provisionally scheduled the start of the oral proceedings for January 9, 2007. However, this date was cancelled due to delays in the discovery phase caused by the insolvency of Intertainment. A new date had not yet been set when this Situation Report was prepared.

4. Arbitration proceeding for the film "Viva Las Nowhere"

In mid-July 2006, the parties involved in the arbitration proceeding agreed not to pursue this arbitration proceeding further and to waive their respective claims. Intertainment's aim with this step was to focus personnel and financial resources on the main proceeding, in particular the arbitration proceeding against Comerica Bank.

D. Lawsuit against AIG Europepe

On May 31, 2005, Intertainment AG had filed a claim against insurance company AIG Europe S.A. before the State Court (Landgericht) Frankfurt. In October 1999, Intertainment had taken out a D&O policy (Directors and Officers policy) with AIG Europe. This policy insured the Members of the Board of Management of Intertainment AG and the Managing Directors of INTERENTAINMENT Licensing GmbH for the case that a claim was filed against them for financial loss in their capacity as an executive officer of Intertainment AG or INTERENTAINMENT Licensing GmbH on account of statutory liability provisions. In particular, the policy covered the costs of defense against claims filed against the insured person for compensation in court and out of court.

During the Franchise Pictures proceeding, the opposing parties asserted counterclaims against Intertainment. They had also filed claims against Rüdiger Baeres, at the time Chairman of the Board of Management of Intertainment, in person. This counterclaim was rejected unanimously by the jury of nine. In the opinion of Intertainment, AIG should have been responsible for paying the costs of the legal defense of Mr. Baeres. However, the insurance company refused to make any payment. Intertainment believed there was no alternative to filing a claim. It involved a claim amounting to 2.7 million euros plus interest.

At the end of September 2006, Intertainment obtained the assistance of Allianz ProzessFinanz GmbH, Munich in financing the court costs in the proceeding against AIG Europe. Allianz ProzessFinanz GmbH will bear the costs of the proceeding as a result. In return, it will receive a percentage

share in the possible payments made by AIG arising from the proceeding. The court set February 23, 2007 as the date for the oral proceeding.

E. Participation in SightSound Technologies Inc.

In the fourth quarter of 2005, the American Intertainment participation SightSound Technologies Inc. sold its US patents for digital downloading of audio and video files from the Internet to a subsidiary company of the American Group General Electric. The company intends to exploit the patents under the agreement. In return, SightSound will receive 50% (less costs) of the proceeds from exploitation of the patents. However, in the reporting period 2006 there continued to be uncertainty about the validity of the patents because they were again subject to a renewed investigation by the US Patent Office from 2005 as a result of an application by a company from the download sector.

F. Staff and personalities

1. Board of Management

At the beginning of July 2006, the Intertainment Supervisory Board extended the contract with Sole Member of the Board of Management Achim Gerlach until June 30, 2008. The aim of the contract extension is to ensure that the rehabilitation concept of the company can be implemented.

3. Supervisory Board

On March 6, 2006, Rüdiger Baeres resigned his office for personal reasons as Chairman of the Supervisory Board of Intertainment AG with immediate effect.

At the beginning of May 2006, the Munich Local Court (Amtsgericht München) confirmed Dr. Ernst Pechtl as the new Member of the Supervisory Board. Dr. Pechtl had already been a Member of the Supervisory Board of Intertainment from December 2000 to September 2003. On May 15, the Supervisory Board elected Dr. Matthias Heisse as the new Chairman. Dr. Heisse had previously held the position of Deputy Chairman of the Supervisory Board. Dr. Pechtl took over Dr Heisse's previous position of Deputy Chairman of the Supervisory Board.

G. Stock exchange and accounting

1. Change to the General Standard

On September 6, 2006, Intertainment AG submitted an application to the regulatory authority for the Frankfurt Stock Exchange to revoke the listing of its shares in the segment of the regulated market with additional consequent listing obligations (Prime Standard). A few days later, the stock exchange issued a notification of revocation. This meant that Intertainment was able to change from the Prime Standard to the General Standard stock-market segment on December 14, 2006.

2. Change in auditor

On August 7, 2006, the Munich Local Court (Amtsgericht München) confirmed PSP Peters Schönberger GmbH as the new auditor of Intertainment. This rendered void the resolution by the most recent Annual General Meeting to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft as auditor.

3. Audit by the Financial Reporting Enforcement Panel

After the withdrawal of the insolvency applications, an audit was carried out by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) at Intertainment for the business year 2004. When the annual financial statements for 2005 were prepared, the Financial Reporting Enforcement Panel informed Intertainment in a statement that the claims for compensation arising from legal disputes (see item II.1.3 of the Notes to the Group financial statements) were overvalued. The management does not share this view and will not accept the finding because the reasons put forward by the Financial Reporting Enforcement Panel do not justify, in the opinion of the management, the writedown of claims for compensation. In order to clarify the facts of the case, the notice issued by the Federal Financial Supervisory Authority (BaFin) on December 21, 2006 ordered an audit pursuant to Article § 37p (1) Sentence 2 No. 1 Securities Trading Law (WpHG) in conjunction with Article § 37o (1) WpHG. The audit had not started by the time this Situation Report was drawn up.

H. Events after the balance sheet date

In this section, we present the key events that took place in the period between the balance sheet date for the third quarter 2006 and preparation of this Situation Report.

1. Events surrounding the insolvency

1.1 Agreement with Kinowelt GmbH

On October 5, 2006, Intertainment AG and INTERTAINMENT Licensing GmbH reached an agreement with Kinowelt GmbH about restructuring liabilities with Kinowelt GmbH. The restructuring package replaced the repayment agreement concluded by Intertainment with Albis Finance AG, Hamburg, at the end of May 2006. Under the new agreement, Kinowelt GmbH waived the cancellation condition that a stock purchase contract had to be concluded between the Kinowelt Group and major Intertainment shareholder Rüdiger Baeres by September 30, 2006. The two parties also agreed that Intertainment would pay the tranches due for repayment in each case three months later than originally scheduled. The first tranche is hence due for payment on September 30, 2007 and the last on March 31, 2009.

Kinowelt also has the right to serve notice on the agreement effective January 1, 2007 with a period of notice of three months. If Kinowelt asserted this right, the legal disputes associated with the liabilities between Intertainment and Hypo Vereinsbank/Albis and with Kinowelt GmbH, due to enter the proceedings, would be resumed.

1.2 Kinowelt becomes majority shareholder in Intertainment

With effect from October 27, 2006, the Kinowelt Group increased its share in Intertainment AG from 29.99% to 53.61%. On this date, a decision by the Federal Financial Supervisory Authority (BaFin) on the granting of a privilege for rehabilitation had not yet been rendered. The shares were sold by Rüdiger Baeres. The transaction reduced Mr. Baeres' shareholding in Intertainment to 0%.

1.3 BaFin grants privilege for rehabilitation to the Kinowelt Group

On December 12, 2006, the Federal Financial Supervisory Authority (BaFin) granted the Kinowelt Group the privilege for rehabilitation it had applied for. This privilege is subject to reservation of revocation such that (a) the Kinowelt Group must consolidate Epsilon Motion Pictures GmbH in Intertainment AG within the scope of a capital increase by September 30, 2007 and that (b) the existing film assets of Epsilon Motion Pictures GmbH, including the advances, receivables, and cash and cash equivalents must not amount to less than 30 million euros on the date of the consolidation and on the basis of the underlying valuation.

2. Legal disputes in the USA

2.1 Insolvency proceeding of Franchise Pictures

Up to the completion of this Situation Report, Franchise Pictures continued to receive protection from their creditors under Chapter 11 of the US Insolvency Law.

2.2 Settlement with Elie Samaha

Following discussion with former Franchise Pictures CEO Elie Samaha, Intertainment agreed to postponement of the transfer of the second installment amounting to 0.8 million US dollars until February 2007. Originally, it had been agreed that this installment would be paid in December 2006. In mid-January 2007, Samaha paid part of the second installment amounting to 0.5 million US dollars.

2.3 Arbitration proceeding against Comerica Bank

The arbitration proceeding continued in the discovery phase until the final date of this quarterly report.

3. Lawsuit against AIG Europe

On February 21, 2007, the date for the oral proceeding was moved to March 23, 2007 for operational reasons.

4. Miscellaneous

4.1 Changes in shareholder structure

During the course of the current business year 2006, changes have taken place in the shareholder structure of Intertainment. Rüdiger Baeres gradually reduced his proportion of the voting shares in Intertainment AG to 0% over the course of the year.

After the capital increase was carried out, the Kinowelt Group announced that it held a shareholding of 11.05% in Intertainment. Kinowelt then increased its share to 29.99%. With effect from November 16, the Kinowelt Group assumed the position of majority shareholder in Intertainment with a share of 53.61% (6,921,910 shares).

4.2 Change to the General Standard

On December 14, 2006, Intertainment changed from the Prime Standard stock-market segment to the General Standard.

4.3 Auditor

On February 5, 2007, the Munich Local Court (Amtsgericht München) also appointed PSP Peters Schönberger GmbH as auditor of Intertainment for the year 2006.

I. Risks and opportunities of the Intertainment AG Group

In connection with the risks in future development at Intertainment, we refer you expressly to the annual financial statements and management report for 2005 and to the notes to this quarterly report.

Munich, March 5, 2007
Intertainment AG

Board of Management

Intertainment Group: Consolidated Balance Sheet

as at September 30, 2006 in Accordance with IFRS

ASSETS		in TEuros	
		30/9/2006	31/12/2005
A. CURRENT ASSETS			
I. Cash on hand and bank balances	II.1.1	1,106	99
II. Receivables and other assets			
1. Trade receivables	II.1.2	15	65
2. Miscellaneous	II.1.3	52,982	57,986
III. Inventories			
Film rights and licenses	II.1.4	1,981	2,624
		56,084	60,774
B. NON-CURRENT ASSETS			
I. Property, plant and equipment			
Other plant, business and office equipment	II.2.1	69	79
II. Intangible assets			
1. Licenses, commercial property rights and similar rights as well as licenses to such rights			
		1	0
2. Payments made on account			
		2,147	2,147
III. Financial assets			
Participations	II.2.1	0	0
IV. Deferred tax assets			
	II.2.2	9,628	9,628
		11,845	11,854
TOTAL ASSETS		67,929	72,628

EQUITY & LIABILITIES		in TEuros	
		30/9/2006	31/12/2005
A. CURRENT LIABILITIES			
I. Trade accounts payables	II.3.1	637	1,552
II. Other liabilities	II.3.2	3,030	88
III. Tax provisions		40	40
IV. Other provisions	II.3.3	12,586	24,081
		16,293	25,761
B. NON-CURRENT LIABILITIES			
I. Other liabilities			
	II.4.1	6,000	0
II. Deferred taxes			
	II.4.2	19,168	19,168
		25,168	19,168
C. EQUITY			
I. Subscribed capital			
	II.5	16,506	15,005
II. Capital reserve			
		44,158	44,089
III. Revenue reserve			
Statutory reserve			
		116	116
IV. Group retained earnings			
		-34,225	-31,435
V. Currency differences			
		-87	-76
		26,468	27,699
TOTAL EQUITY & LIABILITY		67,929	72,628

Intertainment Group: Income Statement

For the Period from January 1, 2006 to September 30, 2006 in Accordance with IFRS

in TEuros	Tz.	1/1/-30/9/2006	1/1/-30/9/2005
1. Sales revenues	III.1	1,423	1,002
2. Other operating income	III.2	1,694	9,428
		3,117	10,430
3. Cost of materials	III.3		
a) Cost of film rights and associated performances		-643	-1,351
b) Expenses for bought-in merchandise and services		-27	-18
		-670	-1,369
4. Personnel expenses			
a) Salaries		-861	-1,010
b) Social security contributions		-38	-53
		-899	-1,063
5. Depreciation and amortization			
Amortization on intangible fixed assets depreciation			
on property, plant & equipment		-13	-39
6. Other operating expenses	III.4	-4,330	-3,617
7. Net interest		7	2
8. Result of ordinary business activities		-2,788	4,344
9. Taxes on income and earnings		0	-1,301
10. Other taxes		-2	-3
11. Net loss (compared with income) for the period		-2,790	3,040
12. Accumulated loss		-31,435	-24,158
13. Group retained earnings		-34,225	-21,118
Basic earnings per share		-0.22	0.26
Diluted earnings per share		-0.22	0.26

Intertainment Group: Income Statement

For the Period from July 1, 2006 to September 30, 2006 in Accordance with IFRS

in TEuros	1/7/-30/9/2006	1/7/-30/9/2005
1. Sales revenues	357	518
2. Other operating income	163	721
	520	1,239
3. Cost of materials		
a) Cost of film rights and associated performances	-253	-1,119
b) Expenses for bought-in merchandise and services	-6	-9
	-259	-1,128
4. Personnel expenses		
a) Salaries	-285	-422
b) Social security contributions	-10	-15
	-295	-437
5. Depreciation and amortization		
Amortization on intangible fixed assets depreciation		
on property, plant & equipment	-5	37
6. Other operating expenses	341	-619
7. Net interest	6	0
8. Result of ordinary business activities	308	-908
9. Taxes on income and earnings	1	-100
10. Other taxes	-2	-1
11. Net loss for the period	307	-1,009

Intertainment Group: Consolidated Cash Flow Statement

For the Period from January 1, 2006 to September 30, 2006 in Accordance with IFRS

in TEuros	30/9/2006	30/9/2005
Period result prior to extraordinary items, interest and taxes	-2,790	3,038
Personnel expenses share options for Board of Management and employees	69	30
Amortization & depreciation of fixed assets	12	39
Losses from the disposal of fixed assets	0	22
Valuation of claims for compensation arising from legal disputes	3,331	-8,494
Valuation of provisions for contractual disputes	-110	-830
Valuation of provision for litigation revenue participations	-1,360	2,070
Change in other provisions	-1,025	-366
Change in inventories	643	1,274
Change in trade receivables	51	73
Change in other assets	1,674	961
Change in trade payables as well as other liabilities	-975	584
Interest received	0	15
Interest paid	0	-13
Outflow of funds from current business activities	-480	-1,597
Incoming payments on the disposal of fixed assets	0	28
Outgoing payments for investments in fixed assets	-3	-48
Outflow of funds from investment activities	-3	-20
Change in liabilities to banks	0	2
Cash inflows from capital increase	1,501	0
Inflow of funds from financing activities	1,501	2
Changes in cash and cash equivalents	1,018	-1,615
Changes in cash and cash equivalents resulting from exchange rate and other influences	-11	-12
Cash and cash equivalents at beginning of period	99	1,694
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,106	67

Intertainment Group: Schedule of Nominal Capital

in Accordance with IFRS

in TEuros	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency	Total
AS AT 31/12/2004	15,005	46,989	116	-24,158	-85	37,867
Result 31/12/2005				-10,307		-10,307
Share options		130				130
Withdrawals from capital reserve		-3,030		3,030		0
Currency difference					9	9
AS AT 31/12/2005	15,005	44,089	116	-31,435	-76	27,699
Result 30/9/2006				-2,790		-2,790
Share options		69				69
Capital increase	1,501					1,501
Currency difference					-11	-11
AS AT 30/9/2006	16,506	44,158	116	-34,225	-87	26,468

Intertainment Group: Notes

to the Consolidated Financial Statements

for the period to September 30, 2006 in Accordance with the IFRS

I. General information

Intertainment AG (referred to as Intertainment below) and the subsidiaries included in the Consolidated Financial Statements have used the same accounting, valuation and consolidation policies for the Interim Report as were applied for the Consolidated Financial Statements of the business year 2005. A detailed explanation of these policies will not be repeated here and we refer to the Annual Financial Statements for 2005.

The Consolidated Financial Statements relate to Intertainment AG and its subsidiaries IN-TERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc. The balance sheet date for the Consolidated Financial Statements is September 30, 2006.

The figures in these explanatory notes are stated in thousand euros (TEuros). Alongside the current figures for the period under review, the corresponding figures for the prior year are given for purposes of comparison. The comparative date in the balance sheet is December 31, 2005 and in the income statement September 30, 2005.

II. Notes to the consolidated balanced sheet

1. Current assets

1.1 Cash on hand, bank balances

Liquid assets totaling 1,106 (31/12/2005: 99) TEuros result from current accounts and cash on hand. Fixed-term deposits have short terms and are due in the business year 2006. The increased liquidity in the third quarter of 2006 is due to the capital increase implemented.

1.2 Trade receivables

Trade receivables amount to 15 (31/12/2005: 65) TEuros and all have a residual term of less than one year. The change is based in particular on balancing open items.

1.3 Other assets

Other assets amount to 52,982 (31/12/2005: 57,986) TEuros. These assets are comprised as follows:

II. 1.3 OTHER ASSETS		in TEuros	
	30/9/2006	31/12/2005	
Damages receivable from legal disputes	52,840	57,880	
Miscellaneous	142	106	
Total	52,982	57,986	

The damages receivable from legal disputes relate to the claims of Intertainment against Franchise Pictures and other parties. The valuation is based on the claims of Intertainment arising from the successful litigation amounting to the sum cited in the judgment less risk reduction.

Despite the fact that Franchise Pictures and other parties instituted insolvency proceedings, the management still regards this asset as valuable. The value derives on the one hand from the fact that part of the claims can be met by the insolvency settlement. On the other hand, the management also regards the prospects for success in the impending arbitration proceedings against Comerica Bank as extremely positive. If Intertainment succeeds in asserting its claims against Comerica Bank, in the opinion of the management of Intertainment, Comerica Bank would also be liable for the damages sustained which were already successfully asserted in the trial against Franchise Pictures and other companies. We also refer in this connection to the explanations in our Annual Financial Statements for 2005.

The change in damages receivable compared with December 31, 2005 results in particular from the change in the exchange rate between the euro and the US dollar.

1. Inventories

The film rights and licenses are valued at 1,981 (31/12/2005: 2,624) TEuros. The change is based on scheduled amortization amounting to 643 TEuros on account of disposal of film rights.

2. Non-current assets

2.1 Fixed assets

Payments on account for intangible assets amount to 2,147 (31/12/2005: 2,147) TEuros and relate to the acquisition of film rights and licenses.

Property, plant and equipment amount to 69 (31/12/2005: 79) TEuros. This figure includes office and business equipment.

The financial assets consist of the participation in the US company SightSound Technologies Inc, Pittsburgh, USA which has been written down in full.

2.2 Capitalized deferred taxes

The deferred tax assets include an amount of 9,628 (31/12/2005: 9,628) TEuros. Apart from valuation differences between HGB and IFRS, they relate in particular to the capitalization of deferred taxes and loss carry-forwards in the amount expected from realization.

3. Current liabilities**3.1 Trade liabilities**

The trade liabilities amount to 637 (31/12/2005: 1,552) TEuros and result in particular from repayment obligations for related services.

3.2 Other liabilities

The other liabilities amount to 3,030 (31/12/2005: 88) TEuros. They essentially include loan obligations amounting to 3,000 (31/12/2005: 0) TEuros.

3.3 Provisions

The other provisions developed as follows in the first nine months of 2006:

II. 3.3 PROVISIONS						in TEuros
	Balance at 1/1/2006	Utilization	Release	Transfer	Allocation	Balance at 30/9/2006
Litigation revenue participations	14,750	-474	-126	-5,000	0	9,150
Contractual disputes	5,360	0	-1,360	-4,000	0	0
Legal/consultancy costs	2,600	-624	0	0	0	1,976
Reorganization	1,120	0	-100	0	0	1,020
Outstanding invoices	218	-62	0	0	251	407
Miscellaneous	33	0	0	0	0	33
Total	24,081	-1,160	-1,586	-9,000	251	12,586

We refer to the Notes to the Annual Financial Statements for 2005 for an explanation of the content of the individual provision items and the explanations in the Interim Financial Statements for the quarter ended 31/3/2006.

4. Non-current liabilities**4.1 Other liabilities**

The non-current other liabilities amount to 6,000 TEuros (p.y. 0) TEuros and comprise long-term settlement shares of the interest-bearing loan obligation.

4.2 Deferred tax liabilities

Deferred tax liabilities amount to a value of 19,168 (31/12/2006: 19,168) TEuros and were formed for consolidation measures with effect on income that will probably be cancelled out in the subsequent periods and also valuation differences between HGB and IFRS.

5. Equity

We refer in particular to the statement on changes in consolidated equity for details of the development of equity capital. At the beginning of July 2006, Intertainment AG implemented the capital increase resolved on June 29. Intertainment AG issued a total of 1,172,275 new shares at the price of 1.28 euros per share. Intertainment received approximately 1.5 million euros as a result of the capital increase. The issue price of the new shares corresponded to the permissible minimum amount under legislation regulating stocks. The capital increase raised the subscribed capital of Intertainment by 1,500,512.00 euros to 16,505,667.09 euros.

The change in capital stock is as follows:

II. 5 CHANGE IN CAPITAL STOCK		
	Shares (no-par shares)	Capital stock (in TEuros)
Initial inventory	11,739,013	15,005
Capital increase July 2006	1,172,275	1,501
Current capital stock	12,911,288	16,506

The accrued loss amounts to -34,225 (31/12/2005: -31,435) TEuros on September 30, 2006. The increased accrued loss results from the consolidated deficit of -2,790 TEuros accrued in the first nine months of 2006.

A reduction in the authorized capital 2003/I from 3,203 TEuros to 1,702 TEuros was carried out on account of the capital increase implemented. The authorized and contingent capital did not change compared to December 31, 2005.

III. Explanations to the Group income statement**1. Sales revenues**

Sales revenues amount to 1,423 (30/9/2005: 1,002) TEuros and comprise in the first nine months in particular the sale of licenses for film rights.

2. Other operating income

Other operating income amounts to 1,694 (30/9/2005: 9,428) TEuros and comprises:

III. 2 OTHER OPERATING INCOME			in TEuros
	1/1/-30/9/2006	1/1/-30/9/2005	
Change in provisions for contractual disputes	1,376	0	
Exchange rate gains	166	92	
Release of other provisions	110	832	
Valuation of claims for damages	0	8,494	
Miscellaneous	42	10	
Total	1,694	9,428	

3. Cost of materials

The cost of materials amounts to 670 (30/9/2005 1,369) million euros and essentially comprises scheduled amortization of film rights amounting to 643 (30/9/2005: 784) TEuros.

4. Other operating expenses

Other operating expenses amount to 4,330 (30/9/2005: 3,617) TEuros and comprise:

III. 4 OTHER OPERATING EXPENSES		
	in TEuros	
	1/1/-30/9/ 2006	1/1/-30/9/ 2005
Valuation of claims for damages	3,331	0
Legal/consultancy fees	377	246
Rents and accommodation expenses	78	77
Change in provision for litigation revenue participations	0	2,095
Miscellaneous	544	1,199
Total	4,330	3,617

IV. Other information

1. Earnings per share

Earnings per share amounts to -0.22 euros, after 0.26 euros at September 30, 2005. The diluted earnings per share amounts to -0.22 (30/9/2005: 0.26) euros.

2. Other financial obligations

OTHER FINANCIAL OBLIGATIONS ARISING FROM RENTAL CONTRACTS

The obligations from the rental contracts relate to the business premises in Munich and in Los Angeles. Both contracts have a fixed term of 5 years in each case, with the rental contract for the offices in Los Angeles expiring at April 30, 2006. The payment obligations are as follows:

IV. 2 OTHER FINANCIAL OBLIGATIONS			
	in TEuros		
	Remaining term less than 1 year	Remaining term greater than 1 year	Total
Obligations arising from rental contracts	104 (345)*	260 (810)*	364 (1,155)*

* at 30/9/2005

We refer to our explanations in the Annual Financial Statements for 2005 for further information.

3. Employees

In the first nine months of 2006, the Group employed an average of 7 (p.y. 10) employees.

4. Shares and options held by members of the executive bodies

The share ownership and the option rights of the other members of the executive bodies have not changed since December 31, 2005.

5. Events after the balance sheet date

On account of the Annual Financial Statements for 2005 recently published, we refer to our explanations in the Management Report under item "E. Future Development of the Intertainment AG Group". Additional events subject to reporting requirements have not occurred during the period leading up to the preparation of these Interim Financial Statements for the quarter.

6. Risks relating to the ability to continue as a going concern

The Consolidated Financial Statements for the first nine months of 2006 were prepared on the assumption that the Intertainment AG Group still has the ability to continue as a going concern. The management of Intertainment has a positive assumption regarding its ability to continue as a going concern, so that the Group will in all probability be able to continue its business activities in the current and the subsequent business years and meet its payment obligations. The positive assumption of the Intertainment AG Group's ability to continue as a going concern is based on an integrated corporate plan, from which the detailed finance plan was derived. This is made up of the financing of future business activity, the planned investments and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by four main areas of uncertainty that cannot be judged definitively at the present time. In particular, these are:

- Outflows of funds arising from the exercise of the right of termination of Kinowelt GmbH with respect to Intertainment AG and INTERTAINMENT Licensing GmbH in connection with the failure in the search for an alternative investor
- Cash inflows arising from the settlement of legal disputes against Franchise Pictures, Comerica Bank and other parties
- No cash outflows from current arbitration proceedings for the payment of second installments of the disputed film rights
- Fulfillment of the other assumptions of the finance plan including cash inflows planned over the short term.

If the inflows of funds, the outflows of funds or the assumptions on which the financial plan is based fail to materialize as planned, the ability to continue as a going concern of Intertainment AG, INTERTAINMENT Licensing GmbH and Intertainment Animation & Merchandising GmbH is highly endangered because of being unable to fulfill their payment obligations and the associated risk of filing for insolvency proceedings. We refer in connection with risks to our explanations in item "F. Risk and opportunity report of the Intertainment AG Group" in the Management Report to the Annual Financial Statements for 2005.

Intertainment AG, March 5, 2007

Board of Management

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