QUARTERLY REPORT
II/2006

INTERTAINMENT
Aktiengesellschaft

Key indicators
(in million euros)

	2006 1/1/ - 30/6/	2006 1/4/ - 30/6/	2005 1/1/ - 30/6/	2005 1/4/ - 30/6/
Sales	1.1	0.8	0.5	0.4
EBIT	**-3.1**	**-1.8**	**5.3**	**2.7**
Net result for the period	-3.1	-1.8	4.0	1.9
Earnings per share	-0.26	-0.15	0.34	0.16

	2006	2005
Average number of employees	8	10

Key data for the share

ISIN		ISIN: DE0006223605
Share capital		15,005,155.09 euros
Number of shares		11,739,013
Issue price 8/2/1999		36.00 euros
	after split (1:2)	18.00 euros
Closing price* at 30/6/2006		1.21 euros
High* 1st six months 2006 (8/5/2006)		1.57 euros
Low* 1st six 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 six months of 2006

A. Insolvency and events surrounding the insolvency

In the second quarter of 2006, the Intertainment Group created the conditions for withdrawing the insolvency applications submitted in January 2006 for Intertainment AG and INTERTAINMENT Licensing GmbH. The insolvency applications for both companies were withdrawn on June 29, 2006. Previously, Intertainment had reached agreement with Albis Finance AG on repayment modalities relating to liabilities and had also resolved to carry out a capital increase at Intertainment AG of nearly 10 percent of the capital stock. This capital increase was underwritten by Kinowelt GmbH, Leipzig.

1. Proceeding for documentary evidence
The reason for the insolvency 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 INTERTAINMENT Licensing GmbH and Intertainment AG. 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 INTERTAIMENT 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 resolutory 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 withdrew 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. We refer to our statements on this matter in Section F.1 of this Situation Report.

B. Business performance

The Intertainment Group generated revenues amounting 1.1 million euros in the first six months of 2006 compared with 0.5 million euros in the equivalent prior-year period. The sales originated from the sale of film rights from the film library of Intertainment.

Despite the rise in revenues, the earnings of Intertainment deteriorated in a comparison with the equivalent prior-year period. The Intertainment Group posted a loss of 3.1 million euros for the period. In the first six months of 2005, the Intertainment Group had reported a profit of 4.0 million in the first half of 2005. However, this was due in particular to exchange-rate effects. Earnings before Interest and Taxes (EBIT) amounted to -3.1 million euros following +5.3 million euros in the first six months of

2005. Earnings per share amounted to -0.26 (prior-year period: +0.34) euros.
A significant increase in other operating expenses impacted particularly negatively on the result for the first six months of 2006. This expenditure went up to 4.7 million euros after 3.0 million euros in the comparable prior-year period.
Liquid assets amounted to 0.6 million euros on June 30, 2006 and had therefore increased by around 0.5 million euros to 0.6 million euros compared with December 31, 2005.
0.8 million euros out of the revenues for the first six months of 2006 were generated in the second quarter. In the second quarter of 2005, Intertainment had posted revenues of 0.4 million euros. Earnings for the period in the second quarter of 2006 amounted to -1.8 million euros after +1.9 million euros in the comparable prior-year quarter. EBIT amounted to -1.8 (prior-year quarter +2.7) million euros.

C. Legal disputes in the USA

INTERTAINMENT Licensing GmbH continued to be involved in complex legal disputes in the USA throughout the first six 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 six months of 2006, Franchise Pictures continued to receive protection from their creditors under Chapter 11 of the US Insolvency Law. The Chief Restructuring Officer had not yet submitted a restructuring plan by June 2006. In addition, the Restructuring Officer was also unable to provide a reliable asset and debt status of Franchise Pictures.

2. Arbitration proceeding against Comerica Bank
In the first six months of 2006, the arbitration proceeding against Comerica Bank was still in the discovery phase. 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.

D. 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 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.

E. Staff and personalities

1. 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.

2. Staff
The Intertainment Group employed an average staff of 8 people in the first six months of 2006. Intertainment had employed an average staff of 10 people between January and the end of June 2005.

F. 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 second quarter 2006 and preparation of this Situation Report.

1. Events surrounding the insolvency

1.1 Capital increase
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.

1.2 Albis sells to Kinowelt GmbH
On September 22, 2006 Albis Finance AG informed Intertainment that it had sold its claims for receivables acquired in February to Kinowelt GmbH.

1.3 Ralf Schmitz new General Representative
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.

1.4 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. The restructuring package replaced the repayment agreement concluded 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.

1.5 Kinowelt increases shareholding in Intertainment

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.

1.6 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%.

1.7 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 (see E.1.5 and E.1.13). 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. At the beginning of October 2006, a group headed by former Franchise Pictures investor David Bergstein and production company Morgan Creek Productions purchased the film rights held by the estate. The purchase was retrospective to September 1, 2006.

2.2 Arbitration proceeding against Comerica Bank

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 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.

2.3 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. Following discussion with 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.

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.

2.4 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.

3. Lawsuit against AIG Europe

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

4. 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.

5. Miscellaneous

5.1 Changes in the 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).

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

5.3 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. Furthermore, PSP Peters Schönberger was also appointed by the Munich Local Court (Amtsgericht München) as auditor for the year 2006 on February 5, 2007.

5.4 Audit by the Financial Reporting Enforcement Panel

In the business year 2006, 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.

G. 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 June 30, 2006 in Accordance with IFRS

ASSETS			in TEuros
		30/6/2006	31/12/2005
A. CURRENT ASSETS			
I. Cash on hand and bank balances	II.1.1	550	99
II. Receivables and other assets			
1. Trade receivables	II.1.2	15	65
2. Miscellaneous	II.1.3	54,006	57,986
III. Inventories	II.1.4		
Film rights and licenses		2,233	2,624
		56,804	**60,774**
B. NON-CURRENT ASSETS			
I. Property, plant and equipment	II.2.1		
Business and office equipment		71	79
II. Intangible assets	II.2.1		
Payments made on account		2,147	2,147
III. Financial assets	II.2.1		
Participations		0	0
IV. Deferred tax assets	II.2.2	9,628	9,628
		11,846	**11,854**
TOTAL ASSETS		**68,650**	**72,628**

EQUITY & LIABILITIES			in TEuros
		30/6/2006	31/12/2005
A. CURRENT LIABILITIES			
I. Trade accounts payables	II.3.1	2,112	1,552
II. Other liabilities	II.3.2	3,141	88
III. Tax provisions		40	40
IV. Other provisions	II.3.3	13,550	24,081
		18,843	**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	II.5		
I. Subscribed capital		15,005	15,005
II. Capital reserve		44,135	44,089
III. Revenue reserve			
Statutory reserve		116	116
IV. Group retained earnings		-34,532	-31,435
V. Currency differences		-85	-76
		24,639	**27,699**
TOTAL EQUITY & LIABILITIE		**68,650**	**72,628**

Intertainment Group: Income Statement

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

in TEuros	Tz.	1/1/-30/6/2006	1/1/-30/6/2005
1. Sales revenues	III.1	1,066	484
2. Other operating income	III.2	1,531	8,707
		2,597	**9,191**
3. Cost of materials			
a) Cost of film rights and associated performances		-390	-232
b) Expenses for bought-in merchandise and services		-21	-9
		-411	**-241**
4. Personnel expenses			
a) Salaries		-576	-588
b) Social security contributions		-28	-38
		-604	**-626**
5. Depreciation and amortization			
Amortization on intangible fixed assets depreciation on property, plant & equipment		-8	-76
6. Other operating expenses	III.3	-4,671	-2,998
7. Net interest		1	2
8. Result of ordinary business activities		**-3,096**	**5,252**
9. Taxes on income and earnings		0	-1,201
10. Other taxes		-1	-2
11. Net loss (compared with income) for the period		**-3,097**	**4,049**
12. Accumulated loss		-31,435	-24,158
13. Group retained earnings		**-34,532**	**-20,109**
Basic earnings per share		**-0.26**	**0.34**
Diluted earnings per share		**-0.26**	**0.34**

Intertainment Group: Income Statement

For the Period from April 1, 2006 to June 30, 2006 in Accordance with IFRS

in TEuros	1/4/-30/6/2006	1/4/-30/6/2005
1. Sales revenues	781	417
2. Other operating income	1,159	4,740
	1,940	**5,157**
3. Cost of materials		
a) Cost of film rights and associated performances	-390	-231
b) Expenses for bought-in merchandise and services	-13	-8
	-403	**-239**
4. Personnel expenses		
a) Salaries	-323	-226
b) Social security contributions	-17	-18
	-340	**-244**
5. Depreciation and amortization		
Amortization on intangible fixed assets depreciation on property, plant & equipment	-4	-64
6. Other operating expenses	-2,945	-1,954
7. Net interest	1	3
8. Result of ordinary business activities	**-1,751**	**2,659**
9. Taxes on income and earnings	0	-731
10. Other taxes	0	-1
11. Net loss for the period	**-1,751**	**1,927**

Intertainment Group: Consolidated Cash Flow Statement

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

in TEuros	30/6/2006	30/6/2005
Period result prior to extraordinary items, interest and taxes	-3,097	4,047
Personnel expenses share options for Board of Management and employees	46	-91
Amortization & depreciation of fixed assets	8	76
Losses from the disposal of fixed assets	0	5
Valuation of claims for compensation arising from legal disputes	4,000	-7,757
Valuation of provisions for contractual disputes	-30	-850
Valuation of provision for litigation revenue participations	-1,360	1,880
Change in other provisions	-141	-206
Change in inventories	391	155
Change in trade receivables	51	270
Change in other assets	-19	899
Change in trade payables as well as other liabilities	611	282
Interest received	0	15
Interest paid	0	-13
Inflow (compared with Outflow) of funds from current business activities	**460**	**-1,288**
Outgoing payments for investments in fixed assets	0	-42
Outflow of funds from investment activities	**0**	**-42**
Change in liabilities to banks	0	23
Inflow of funds from financing activities	**0**	**23**
Changes in cash and cash equivalents	**460**	**-1,307**
Changes in cash and cash equivalents resulting from exchange rate and other influences	-9	-12
Cash and cash equivalents at beginning of period	99	1,694
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**550**	**375**

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 30/6/2006				-3,097		-3,097
Share options		46				46
Currency difference					-9	-9
AS AT 30/6/2006	**15,005**	**44,135**	**116**	**-34,532**	**-85**	**24,639**

Intertainment Group: Notes

Nto the Consolidated Financial Statements for the period to June 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 INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc. The balance sheet date for the Consolidated Financial Statements is June 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 provided for purposes of comparison. The comparative date in the balance sheet is December 31, 2005 and in the income statement June 30, 2005.

II. Notes to the consolidated balance sheet

1. Current assets

1.1 Cash on hand, bank balances

Liquid assets totaling 550 (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.

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 54,006 (31/12/2005: 57,986) TEuros. These assets are comprised as follows:

II. 1.3 OTHER ASSETS	in TEuros	
	30/6/2006	31/12/2005
Damages receivable from legal disputes	53,880	57,880
Miscellaneous	126	106
Total	**54,006**	**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 in August 2004, 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.

1.4 Inventories

The film rights and licenses are valued at 2,233 (31/12/2005: 2,624) TEuros. The change is based on scheduled amortization amounting to 390 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 71 (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 2,112 (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 3,141 (31/12/2005: 88) TEuros and include loan obligations amounting to 3,000 (31/12/2005: 0) TEuros, liabilities for salaries amounting to 35 TEuros, liabilities for wages and church tax amounting to 16 TEuros, liabilities for social security amounting to 28 TEuros, and value added tax liabilities amounting to 32 TEuros.

The loan obligation reported for the first time in the second quarter of 2006, resulted from the agreement concluded at the end of May 2006 with Albis Finance AG, Hamburg, which had acquired the receivables of HypoVereinsbank from Intertainment in February 2006. In this connection, the provision for litigation revenue participations and the provision for contractual disputes were reallocated to Other liabilities. In connection with the acquisition of the receivables by Albis Finance AG and the agreement between Albis Finance AG and Intertainment, we refer our statements under item E.1.2 and item E.1.6 of the Management Report for 2005.

3.3 Provisions

Other provisions developed as follows in the first six months of 2006:

On the basis of the new agreement with Albis Finance AG, Hamburg, referred to in item II.3.2, reporting of the repayment claims in the balance sheet changed on account of the new legal structure. In this connection, 5,000 TEuros from the Provision for litigation revenue participations and 4,000 TEuros from the Provision for contractual disputes were allocated to Other liabilities. A tranche of 5,000 TEuros will continue to be reported in Provision for litigation revenue participations, since this depends on cash inflows from the legal disputes in the USA.

The utilization of the provision for legal and consultancy fees resulted from payments in conjunction with the legal disputes against Franchise Pictures, Comerica Bank and other parties.

II. 3.3 PROVISIONS in TEuros

	Balance at 1/1/2006	Utilization	Release	Transfer	Allocation	Balance at 30/6/2006
Litigation revenue participations	14,750	0	-30	-5,000	0	9,720
Contractual disputes	5,360	0	-1,360	-4,000	0	0
Legal/consultancy fees	2,600	-267	0	0	0	2,333
Reorganization	1,120	0	-100	0	0	1,020
Outstanding invoices	218	0	0	0	226	444
Miscellaneous	33	0	0	0	0	33
Total	**24,081**	**-267**	**-1,490**	**-9,000**	**226**	**13,550**

We refer to the Notes to the Annual Financial Statements for 2005 for an explanation of the content of the individual provision items. The following change occurred in the provisions during the first six months of 2006:

4. Non-current liabilities

4.1 Other liabilities

The non-current other liabilities amount to 6,000 TEuros (31/12/2005: 0) TEuros. They comprise long-term settlement shares of the interest-bearing loan obligation to Albis Finance AG.

4.2 Deferred tax liabilities

Deferred tax liabilities amount to a value of 19,168 (p.y. 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.

The nominal capital was unchanged and held in the form of 11,739,013 issued no-par shares. The accrued loss amounts to -34,532 (31/12.2005: -31,435) TEuros at June 30, 2006. The increased consolidated accrued loss compared to December 31, 2005 results from the consolidated deficit amounting to -3,097 TEuros. The authorized and contingent capital did not change compared with December 31, 2005.

III. Explanations to the Group income statement

1. Sales revenues

Sales revenues amount to 1,066 (30/06/2005: 484) TEuros and comprise in the first six months of 2006 in particular the sale of licenses for film rights.

2. Other operating income

Other operating income amounts to 1,531 (30/06/2005: 8,707) TEuros and comprises:

III. 2 OTHER OPERATING INCOME in TEuros

	1/1/-30/6/2006	1/1/-30/6/2005
Change in provision for contractual disputes	1,360	850
Exchange rate gains	100	91
Valuation of claims for damages	0	7,757
Miscellaneous	71	9
Total	**1,531**	**8,707**

3. Other operating expenses
Other operating expenses amount to 4,671 (30/6/2005: 2,998) TEuros and comprise:

III. 3 OTHER OPERATING EXPENSES		in TEuros
	1/1/-30/6/2006	1/1/-30/6/2005
Valuation of claims for damages	4,000	0
Legal/consultancy fees	248	164
Exchange rate losses	0	169
Change in provision for litigation revenue participations	0	1,855
Miscellaneous	423	810
Total	**4,671**	**2,998**

IV. Other information

1. Earnings per share
Earnings per share amounts to -0.26 euros, after 0.34 euros at June 30, 2005.
The diluted earnings per share amounts to -0.26 (30/6/2005: 0.34) euros.

2. Other financial obligations
OTHER 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	117 (544)*	284 (825)*	401 (1,369)*

* at 30/6/2005

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

3. Employees
In the first six months of 2006, the Group employed an average of 8 (p.y. 10) employees.

4. Executive bodies
BOARD OF MANAGEMENT
At the beginning of July 2006, the Intertainment Supervisory Board extended the contract of sole Board Member, Achim Gerlach, until June 30, 2008. The aim of the contract extension was to ensure that the rationalization concept of the company can be implemented.

5. 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.

6. Related persons
On May 8, Rüdiger Baeres and Kinowelt GmbH, Leipzig, 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. In this connection, we refer to our statements in the Situation Report for this quarterly report and to item E.1.5 in the Management Report for the Annual Financial Statements for 2005.

7. Insolvency and events in the area of insolvency
The tentative ruling handed down at the end of 2005 relating to the proceeding for documenttary evidence filed by HypoVereinsbank for payment of 10 million euros meant that Intertainment was subject to a high risk of insolvency as a result of the judgment at the end of the year. 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, Munich 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 Local Court Munich then appointed the Munich Lawyer Dr. Martin Prager as the new expert lawyer.
On June 29, 2006, Intertainment AG and INTERTAINMENT Licensing GmbH withdrew 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. The withdrawal of the applications for opening insolvency proceedings was also based on the agreement regulating repayment modalities agreed with Albis Finance AG for their claim (see E.1.6).

8. 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.

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

The Consolidated Financial Statements for the first six 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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