

Media & Entertainment

A Research Publication by DZ BANK AG

Studio Babelsberg⁶⁾

Year *	Sales EUR bn	GER GAAP- Earnings p.sh. ** EUR	Cash flow per share EUR	PER **	PCF	Dividend per share EUR
2008	0.1	0.24	0.29	10.9	9.0	0.10
2009e	0.1	0.23	0.32	9.1	6.5	0.10
2010e	0.1	0.25	0.33	8.4	6.1	0.15
2011e	0.1	0.29	0.38	7.1	5.4	0.20

* Fiscal year end December ** before goodwill amortization

Hollywood goes to Studio Babelsberg

- Studio Babelsberg AG operates the oldest and at the same time one of the largest European large-scale film studios near Berlin. Since being acquired by the investors Dr. Carl Woebcken and Christoph Fisser the company has developed into a full service provider in the area of big-budget feature film production. A number of big-budget international productions, such as "The Reader", "Inglourious Basterds", "The International" or "Valkyrie", were realised at the company's studio complex with comprehensive service support in 2007 and 2008 in particular.
- The company generates its revenues with the rental of stage capacities and the offer of complementary production services in the areas of production service and management, as well as set construction and props warehouse. Demand for the company's offer comes in particular from producers who want to produce feature films with a large share of green and blue screen photography, who need large set constructions or who want to produce projects with time- and/or geography-related content regarding Europe in the first half of the 20th century.
- Not least thanks to the support of the major expansion of the German Federal Film Fund, Studio Babelsberg was able to raise the level of revenues in 2007 and 2008 to over EUR 87.1m and EUR 65.0m, respectively, and increase net profit to EUR 6.0m and EUR 3.0, respectively. Based on its improved price competitiveness and greater production experience, the company should succeed in realising the stable utilisation of capacities and an interesting earnings level in the medium term.

Studio Babelsberg is in a good competitive position compared to the international studio companies. Although the business model has to live with fluctuating capacity utilisation on account of its strongly project-driven nature, we believe that Studio Babelsberg has interesting earnings potential the possible exhaustion of which is not yet adequately reflected in the current share price. We calculate a Fair Value per share of EUR 4.00 and therefore we initiate the coverage of the stock with a Buy rating.

Selected Companies	Price on		PER		EV / EBITDA		EBITDA marg. 09e	Re- com.
	15 Jul 2009		09e	10e	09e	10e		
Studio Babelsberg	2.05	EUR	9.1	8.4	4.3	3.9	7.0%	↑
Pinewood Shepperton	1.47	GBP	15.3	14.4	9.1	8.5	29.5%	–
Lions Gate Entert Corp	6.14	USD	30.0	17.3	15.7	12.7	4.3%	–
Village Roadshow Ltd	0.92	AUD	4.0	3.4	4.4	4.0	18.5%	–
Regal Entertainment Group	13.50	USD	16.7	14.2	6.1	5.6	19.7%	–
Median for all peer group companies			15.2	12.1	12.4	10.6	24.6%	–

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

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

Equities

Company Report 16 Jul 2009

Buy

Closing price 15 Jul 2009

(in EUR): 2.05

Fair value: 4.04

Risk classification: 5

Financial ratios 2009e:

Book value per share (in EUR): 2.47

Equity ratio (in %): 47.0

Net margin (in %): 4.3

ROE (in %): 9.0

Dividend yield (in %): 4.9

Free cash flow (EUR m): -4.9

Net debt (EUR m): -7.8

Number of shares

(million units): 15.7

Market cap

(in EUR bn): 0.03

Free float (in %): 24.5

SIN: A0D9UR

ISIN: DE000A0D9UR4

Datastream: D:BG1

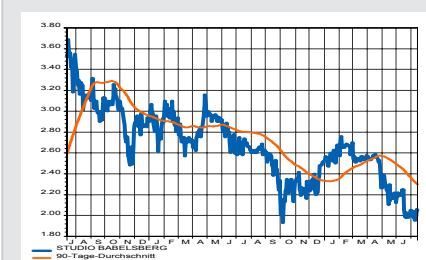
Reuters: BG1D.DE

Bloomberg: BG1

Next Newsflow:

Annual accounts 2010

May 2010



Author: Harald Heider, Analyst

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

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Investment Case

Studio Babelsberg was set up in 1912 and is today one of the largest film studios in Europe. Since the company was acquired by a group of investors under the management of Dr. Carl Wobcken and Christoph Fisser, Studio Babelsberg has been consistently and successfully positioned as an optimum production location for big-budget international feature film projects. The studio has comprehensive stage and back lot capacities which enable the production of three big-budget feature film projects at the same time as well as the parallel realisation of up to two long-running TV formats.

In addition to rental income from the provision of studio capacities, the company generates additional revenues from the offer of complementary production services in the areas of production service and management as well as set construction, make-up studios and prop warehouse.

Demand for the company's offer comes in particular from producers who want to produce feature films with a large share of digital green and blue screen photography. The studio has the required know-how and the necessary technical infrastructure to realise these demanding projects.

Based on its experience in sophisticated set construction, the comprehensive make-up room and props warehouse as well as the authentic exterior locations in the studio's direct geographical environment, the company has a significant location and competitive advantage in the area of film projects with time- or geography-related content regarding Europe in the first half of the 20th century.

In the light of this several big-budget projects have been brought to the location and successfully realised in the past two years. Studio Babelsberg has been able to establish a good track record with productions such as "The Reader", "Operation Valkyrie", "The International" or "Inglourious Basterds". The introduction of the new DFFF film subsidy system has proven to be extremely helpful in this context. Supplemented by the regional subsidy, the films produced in Babelsberg can anticipate a price advantage in the region of around 20.0% of the production costs in Germany.

The business model pursued by Studio-Babelsberg is based primarily on the acquisition and realisation of big-budget film projects. From experience, there can be significant fluctuations in capacity workload. The company tries to counteract these by concluding longer running co-production agreements with well-known international film producers. The company expects from these agreements not only an interesting return on investment via participation in exploitation revenues, but also the steadying of the capacity workload in the operating business via the additional contractual obligation of producers to realise suitable projects at Studio Babelsberg AG's location. The co-production agreement for 15 films with Dark Castle Entertainment, a company owned by the producer Joel Silver, is to be mentioned as one example. Further agreements of this kind are expected to follow in future and lastingly secure the workload of the stages and production service capacities.

Studio Babelsberg has made a name for itself through the realisation of internationally successful feature films and in-depth production know-how. These are good prerequisites for a lastingly successful business model which should allow the maxing out of interesting future profit margins.

Studio Babelsberg is one of Europe's largest film production studios

In addition to rental income the company generates revenues from complementary services

Co-production agreements are expected to steady the capacity workload

The company has a very good track record

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SWOT analysis

SWOT analysis of Studio Babelsberg AG

Strengths	<ul style="list-style-type: none"> ▪ Studio Babelsberg has a significant competitive advantage in the genre of historical films with time- or geography-related content regarding Europe in the first half of the 20th century owing to the location, the authentic exterior locations and the comprehensive make-up studio and props warehouse ▪ Cheap hotel accommodation costs for actors and film crews in a European comparison ▪ Studio Babelsberg is in a solid financial position with a high equity ratio and is also completely free of debt ▪ Former owner Vivendi Universal already carried out far-reaching investments in the modernisation of the studio capacities and technical equipment ▪ Studio Babelsberg has the technical infrastructure and the production know-how for the realisation of green and blue-screen photography and is therefore well positioned for the growth in digital film production 	<ul style="list-style-type: none"> ▪ With regard to the wage cost level of the freelance contributors the Eastern European studio locations in particular can offer a personnel cost advantage ▪ As a result of the cyclical nature of the film production business, fluctuations in capacity utilisation can only be avoided with difficulty ▪ The business model is highly dependent on the acquisition of individual big-budget projects ▪ The further expansion of capacities in Babelsberg is possible only to a very limited extent ▪ An alternative use for the existing real estate capacities in the event of a decline in demand from the area of feature film production can scarcely be realised without margin losses 	Weaknesses
Opportunities	<ul style="list-style-type: none"> ▪ Thanks to the German Federal Film Fund production costs for international film productions in Germany can be lowered by up to 20% ▪ Growing demand for cinema films worldwide should also suggest stable demand for studio capacities ▪ Trend towards international film productions is growing ▪ The German film industry is becoming increasingly competitive on the international market. This could stimulate demand for Studio Babelsberg AG's studio capacities ▪ The revenues and earnings base could be extended by expanding strategic partnerships in the areas of co-production and film financing ▪ US unions' strong position of power makes shifting production to Europe attractive ▪ The know-how of the filmmakers and the attractiveness of the location increases with every further project realised in Babelsberg 	<ul style="list-style-type: none"> ▪ Significant depreciation of the US dollar versus the euro would counteract the cost advantage from the German film subsidy ▪ The depreciation of European currencies could have an adverse effect on competitiveness ▪ Studio Babelsberg is also competing with the production locations of the American major studios alongside the European film studios ▪ The introduction of competing promotional measures in other countries could also have a negative impact on competitiveness ▪ The expiry or reduction of the film subsidies in Germany from 2012 would significantly limit the ability to compete in particular for big-budget film productions ▪ The construction of two larger studio complexes in Cape Town and near Paris is currently in the advanced stage of planning. This is associated with additional competition. ▪ The Dark Castle film slate, in which Studio Babelsberg has acquired a co-production share, is part-financed by the CIT Group. In the event of insolvency of the CIT Group Dark Castle would have to tap an alternative source of outside capital. In the worst case film productions could be delayed or stopped 	Risks

Source: DZ BANK AG

Shareholder structure and management

Shareholder structure

Studio Babelsberg AG has share capital of around EUR 16.5m divided into 16.5 million ordinary bearer shares. The shares of Studio Babelsberg AG have been traded on the unofficial market of the Frankfurt Stock Exchange since April 2005. The average trading volume in the 2008 financial year came to 7,000 shares per day. At the day of the annual general meeting on June 16th Studio Babelsberg owned 0.891m treasury shares. Roughly 9.1m stocks which corresponds to 55.2% of the share capital are held by people or companies connected to the management. Hence, the company's free-float is roughly 40.0%

The management

The Board of Directors of Studio Babelsberg AG is made up of three members.

The **President and Chief Executive Officer** Dr. Carl L. Woebcken worked from 1988 to 1990 as strategic advisor for the Boston Consulting Group after studying and completing his doctorate. He moved in 1995 to Roland Berger & Partner where he worked until 1999 as advisor and temporary member of the management. In 1999 Dr. Woebcken was appointed CFO and vice president of the animation company TV Loonland AG. At the same time he managed the subsidiary Sunbow Entertainment as CEO. Dr. Woebcken gained in-depth experience as a film producer in this period.

The **Vice President** Christoph Fisser has been an independent entrepreneur since 1984 specialising on the event segment and media facility management. From 1992 he headed up among others the Alabama-Halle in Munich from which the well-known Bayerische Rundfunk programme "Live aus dem Alabama" was broadcast. From 1994 he developed former German armed forces barracks into one of the leading media locations in Munich. Mr. Fisser also holds various participating interests in companies in the media segment and is managing director of Studio- und Atelierbetriebe Schwabing für Film- und Fernsehen GmbH.

The **Chief Financial Officer** of Studio Babelsberg AG Mr. Marius Schwarz first worked in the area of tax consultancy and accounting after completing his studies. From 1988 he worked for the Kirch Group in the production department (Glücksrad-Fernsehproduktions GmbH; Plazamedia). From 1995 to 1998 Mr. Schwarz took on various leading functions within the Kirch media group (i.a. managing director of the holding companies TaurusFilm and BetaFilm at that time). After working as commercial manager of Sat.1 from 1998 to 2000, Marius Schwarz moved to CinemaxX AG as CFO. He finally returned to the Kirch Group in 2001 at times taking on the role of CFO at EM.TV AG (today: EM.Sport Media AG). He has been CFO of the company since 2005.

Dr. Woebcken is an experienced media businessman with production know-how

Mr. Fisser is a specialist for media facility management

Mr. Schwarz is responsible for the financial management of the company

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Valuation

We typically base our valuations on a combination of the comparison of the valuation multiples of a group of comparable companies (peer group) and discounted cash flow analysis. While the cash flow analysis is determined to a greater extent by the longer-term revenue and earnings prospects and regularly reflects the view of an industrial investor, the comparison of ratios primarily focuses as a snapshot on the short-term assessment of the capital market-oriented financial investors. The valuation based on a comparison of ratios is therefore regularly subject to major fluctuations which in most cases move around the far more stable value based on cash flow analysis.

Comparison of ratios

The listed company Studio Babelsberg AG operates a studio complex specialised on film production not far from Berlin. No company with comparable business is listed on the capital market in Germany at present. According to our knowledge, there is only one company, Pinewood Shepperton Plc., with a directly comparable business model in the area of rental and use of film studio capacities internationally as well. In addition, we have put together a sample of companies with business models in the same general economic situation. We have taken into consideration media companies operating in the areas of production, financing and distribution.

Pinewood Shepperton Plc: The company operates comprehensive film studio capacities close to London with a total of 39 stages covering a total area of more than 40,000². Film producers can hire the studios for shooting cinema or TV productions. Like Studio Babelsberg, the group also offer complementary services.

Village Roadshow Ltd.: The company is an internationally-oriented media group with activities in the area of production, marketing and distribution of cinema feature films. The company owns and operates theme parks and film studio capacities in Australia. Warner Roadshow Studios in Australia has a total of 8 stages covering an overall area of 10,835m².

Lions Gate Entertainment Corp.: The company is an independent internationally-oriented film production studio with activities in the production of cinema films, TV services, home entertainment products and family entertainment programmes. The company distributes both its own productions and third-party products. Lionsgate Gate has a comprehensive film library.

Regal Entertainment Group: The company is one of the largest owners and operators of cinemas in America with 549 cinema theatre complexes and 6,782 screens. These are typically special properties which are dependent on the demand for entertainment products.

Europacorp: The independent media company develops, produces and co-produces feature films both in France and internationally. The company is also active in the exploitation of the content. Together with partners Europacorp is planning to build a studio complex near Paris with capex of around EUR 140.0m.

We base the valuation on a comparison of ratios and DCF analysis

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Comparable ratios of the peer group for EV/sales and EV/EBITDA

Peers	Price	Market Cap. In EUR m	EV/Sales			EV/EBITDA		
			2009e	2010e	2011e	2009e	2010e	2011e
Pinewood Shepperton	1.72	78.86	2.68	2.55	2.42	9.08	8.50	7.87
Lions Gate Entert Corp	4.36	510.19	0.68	0.65	0.43	15.68	12.70	8.61
Village Roadshow Ltd	0.52	97.86	0.81	0.76	0.66	4.37	3.96	3.32
Regal Entertainment Group	9.59	1,247.36	1.21	1.11	1.03	6.14	5.60	5.08
Europacorp	7.30	148.27	0.97	0.75	0.67	6.88	4.92	5.26
Mean			1.27	1.16	1.04	8.43	7.14	6.03
Median			0.97	0.76	0.67	6.88	5.60	5.26
Studio Babelsberg (DZ BANK estimates)			0.31	0.32	0.28	4.38	3.96	3.61

Source: Factset of 16.07.2009; DZ BANK estimates

Applying the average comparable ratios of the peers to the estimated earnings ratios of Studio Babelsberg AG gives an indication of the company's ratio-based fair value.

Ratio-based fair value estimate based on EV/sales and EV/EBITDA

Studio Babelsberg	Sales (value added sales)			EBITDA		
	2009e	2010e	2011e	2009e	2010e	2011e
In EUR m	33.0	38.0	40.0	5.67	6.24	7.08
Comparable multiple	1.27	1.16	1.04	8.43	7.14	6.03
Enterprise value	41.9	44.3	41.6	47.8	44.5	42.7
Net debt	7.8	7.9	7.1	7.8	7.9	7.1
Market capitalisation	49.7	52.2	48.7	55.6	52.4	49.8
Number of shares	15.71	15.71	15.71	15.71	15.71	15.71
Fair value per share	3.16	3.32	3.10	3.54	3.34	3.17

Source: Factset of 16.07.2009; DZ BANK estimates

Based on the EV/sales and EV/EBITDA multiples the fair value is in the range of EUR 3.10 to EUR 3.54 per share. Turning exclusively to the multiples of Pinewood Shepperton Plc, the closest comparable, there is a significantly higher range per share of EUR 3.89 to 7.04.

Comparable figures of the peer group for EV/EBIT and P/E

Peers	Prices	Market cap.	EV/EBIT			PER		
			2009e	2010e	2011e	2009e	2010e	2011e
Pinewood Shepperton	1.72	78.86	13.41	12.35	11.32	15.3	14.4	12.7
Lions Gate Entert Corp	4.36	510.19	17.67	12.61	8.78	30.0	17.3	18.9
Village Roadshow Ltd	0.52	97.86	6.37	5.67	4.62	4.0	3.4	2.4
Regal Entertainment Group	9.59	1,247.36	10.90	9.62	8.24	16.7	14.2	13.7
Europacorp	7.30	148.27	6.89	4.92	5.27	7.1	5.2	6.5
Mean			11.05	9.03	7.64	14.6	10.9	10.9
Median			10.90	9.62	8.24	15.3	14.2	12.7
Studio Babelsberg (DZ Bank estimate)			5.86	5.10	4.47	9.3	8.5	7.2

Source: Factset of 16.07.2009; DZ BANK estimates

Quite similar results are obtained turning to EV/EBIT and P/E ratios as well.

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

Ratio-based fair value estimate based on EV/EBIT and P/E

Studio Babelsberg	EBIT			EPS		
	2009e	2010e	2011e	2009e	2010e	2011e
In EUR m	4.21	4.84	5.71	3.49	3.86	4.56
Comparable multiple	11.05	9.03	7.64	14.6	10.9	10.9
Enterprise value	46.5	43.7	43.6	--	--	--
Net debt	7.8	7.9	7.1	--	--	--
Market capitalisation	54.3	51.6	50.7	51.0	42.1	49.5
Number of shares	15.71	15.71	15.71	15.71	15.71	15.71
Fair value per share	3.46	3.29	3.23	3.25	2.68	3.15

Source: Factset of 16.07.2009, DZ BANK estimates

Based on these ratios the value ranges between EUR 2.68 and 3.46 per share. The application of the multiples of Pinewood Shepperton would lead to a significantly higher range of EUR 3.66 to EUR 4.89 per share here as well.

Discounted cash-flow analysis

We use the discounted cash flow approach as a valuation method. This is based on the company's future success relevant for the valuation. We use the entity method for the DCF calculation. We have based the valuation on an explicit estimate of the future free cash flow for the years from 2009 to 2013 and then taken into consideration, as a basis for the perpetual annuity, a forecast for the 2014 financial year.

DCF-based fair value

EURm	2009e	2010e	2011e	2012e	2013e	TV/2014e
EBIT	4.2	4.8	5.7	6.2	6.3	6.3
+ Interest expense pension provisions	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EBIT	4.2	4.8	5.7	6.2	6.3	6.3
- Adjusted income tax	-0.8	-0.9	-1.1	-1.2	-1.2	-1.2
- Investor's income tax	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Profit After Tax (NOPAT)	3.4	3.9	4.6	5.0	5.1	5.1
+ Write-downs on fixed assets/intangible assets	1.5	1.4	1.4	1.3	1.3	1.3
- Invest./divest. fixed assets/intangible assets	-0.9	-1.0	-1.0	-1.0	-1.1	-1.4
+/- Change in provisions/exceptional items	0.0	0.0	0.0	0.0	0.0	0.0
+/- Change in working capital	-0.9	-1.7	-2.6	0.0	0.0	1.0
+/- Change in other current assets	-3.2	-1.0	-1.0	-2.0	-1.0	-1.0
Free cash flow	-0.1	1.7	1.4	3.4	4.3	5.1
Present value of free CF at valuation date 07/2009	-0.1	1.5	1.2	2.6	3.0	35.3
Sum of present value of free cash flows	43.5					
+ Market value of non-operating assets	5.8					
+ Liquid funds/securities/interest-bearing financial assets	14.2					
Enterprise value	63.5					
- Debts/pension provisions	0.0					
Equity value (inc. minority interests)	63.5					
- Value of minority interests	0.0					
Equity value (exc. minority interests)	63.5					
Equity value per share, diluted (euro)	4.04					

Source: DZ BANK estimates

We have also assumed very conservatively that following the explicit valuation period the free cash flows will remain constant on the level reached, in other words will develop

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further at a growth rate of 0.0%. The weighted average cost of capital (WACC) was determined at 9.91 based on a risk-free interest rate of 3.38%, a market risk premium of 5.00% as well as an unlevered beta factor of 1.55. On this basis the **DCF-based fair value is EUR 4.04 per share**. This expresses the company's stable longer-term prospects to a slightly greater extent than the ratio-based analysis. This is in line with the empirical assessment that at around 9.0 the current average EV/EBIT multiple of the peers for 2009 is way below the long-year historical average level.

Compared to the current share price this gives significant upside potential based on both the ratio-based valuation result and on the DCF-based approach. We therefore recommend the shares as a Buy.

Company profile

Studio Babelsberg AG operates the world’s oldest and at the same time one of the largest European large-scale film studios just outside Berlin

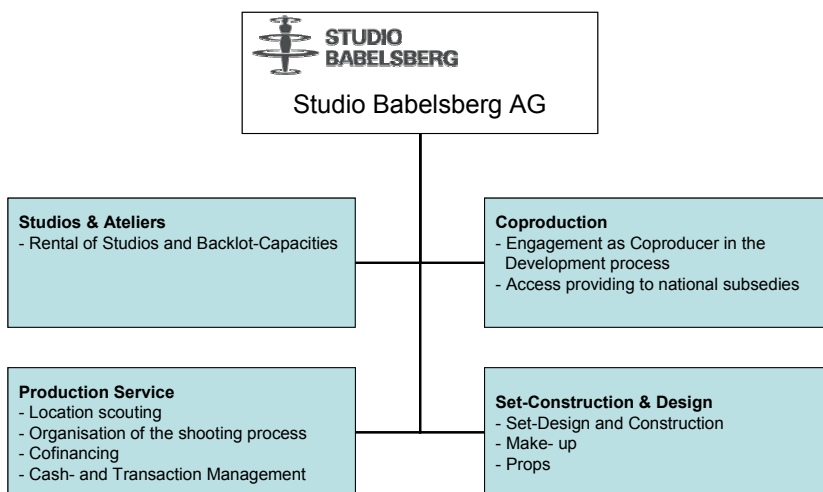
Studio Babelsberg AG is a full service provider in the area of the production of national and international feature films. The Babelsberg film studio was set up in 1912 and was initially one of the leading locations for the production of feature films and TV productions in Europe with a land area of over 420,000 m². After being acquired by the investors Dr. Carl Woebcken and Christoph Fisser in 2004 the company has traded since April 2005 under the name Studio Babelsberg AG. With 16 sound stages with a total of 25,000 m² of combined floor space the company operates the largest cohesive studio complex in Europe. In addition, the company also has two back lots with an area of 7,000 m² and 10,000 m², respectively, for exterior filming.

Before being acquired by today’s main shareholders, Studio Babelsberg was owned for around twelve years by the French Vivendi group. Over this period Vivendi invested around EUR 250m in expanding and modernising this special real estate and also made the location attractive as a film production studio for big-budget American productions. This means that the most important stages of the value chain of physical film production can be carried out centrally at one production location. In addition to the rental of comprehensive studio capacities, Studio Babelsberg offers complementary services from production service, set construction, costumes, make-up and props to co-financing film projects. Studio Babelsberg AG does not take on its own production and exploitation risk as a rule. As at 31 December 2008 there were 84 permanent employees at the Studio Babelsberg group. The group also had an annual average of 284 temporary employees for individual film projects.

Studio Babelsberg operates one of the largest film studio complexes in Europe

Vivendi Universal made comprehensive investments in modernising the location

The business divisions of Babelsberg AG



Source: Studio Babelsberg; DZ BANK AG

Production Service

The subsidiary Studio Babelsberg Motion Pictures GmbH (SBMP) offers all the services required within the scope of the realisation of a film project as a line producer from location scouting in the pre-production phase to organising the shooting process including post-production management. SBMP also offers support in film financing, making use of

Studio Babelsberg handles all aspects of a film production

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subsidies and in all legal, tax or accounting matters relating to film production. The service offer also comprises a production's complete film and financial controlling. The Studio Babelsberg AG subsidiary had 7 employees as at 31 December 2008.

An independent subsidiary (Single Purpose Unit) is frequently set up for the realisation of a film project via whose books all relevant revenue and expenditure flows are explicitly recorded, entered and balanced. This service can comprise either looking after a film's entire budget, in other words including international spending, or only the part of the film budget spent in Germany (German spend). SBMP receives a generalized percentage commission fee for these project-accompanying services.

Stage Rental

The Stage Rental segment is responsible for the rental of the company's comprehensive studio facilities. Overall Babelsberg has 16 sound stages with a total of 25,000 m² of combined floor space. 12 studios are owned by Studio Babelsberg AG, including the Marlene Dietrich Halle with total floor space of 5,400 m². In addition to the main 2,100 m² stage with a 14 m ceiling, two additional stages offering 1,650 m² each are integrated into the complex. These stages are suitable in particular for international big-budget film productions. With the fx.Center Studio Babelsberg has a modern post-production complex with three separate production studios which are suitable for green, blue screen and special effect photography. According to legal agreements Studio Babelsberg AG can repurchase the fx.Center in 2015 at a favourable price on basis of the historical cost less depreciation. The Tonkreuz sound stage houses four studios with a floor space of between 400 m² and 600 m² and is equipped with the latest recording and post-production technology. After the modernisation of the Tonkreuz sound stage in 2005 for just less than EUR 2.0m the four studios are specially designed around the needs of long-running formats such as telenovelas and daily soaps. The owned stage offer is supplemented by two additional stages each with a floor space of 1,300 m².

Studio Babelberg also offers film and TV producers two back lots with a total area of 17,000 m². These include the "Berliner Straße" film set built on a 7,000 m² lot. This street setting, which includes 26 facades (3,200 m²), is modelled after a typical Berlin street setting of the early 20th century and can also be dressed to incorporate European cities such as Paris or London.

A further back lot with an area of around 10,000 m² which can be used for exterior filming can be found adjacent to the studio complex. With the development of this complex the open lot offer has not only been more than doubled, but the stage capacity of 12 owned stages to date also expanded by a total of four rented stages. The smallest stage has an area of 1,250 m², the two medium-sized stages 2,000 m² and 4,450 m², respectively, and the largest stage 7,335 m².

Today Studio Babelsberg AG has studio capacities which, after comprehensive expansion and reconstruction measures, enable the simultaneous production of up to three big-budget cinema films as well as the parallel production of two long-running TV formats.

Set-Construction & Equipment

The business carried out by the Art Department Studio Babelberg GmbH (ADSB) subsidiary is focused on set design and construction for film and TV projects. In collaboration with production designers the company is involved primarily in designing and constructing sets for film projects, talk-shows, series and made-for-TV movies. The sets for Germany's most successful daily soap "*Gute Zeiten, Schlechte Zeiten*", the telenovels "*Bianca-Wege*

The core business is the rental of studio capacities

The company has major know-how in complementary services

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zum Glück“ and for the spectacular TV movie *“Der Tunnel”* can be regarded as references. For the cinema film *“The International”* the company produced an almost life-like reconstruction of the interior architecture of the legendary New York *“Guggenheim Museum”* in Babelsberg. For this purpose the company operates its own workshops and employees around 32 permanent employees as well as numerous artists and specialist craftsmen for individual projects.

However, ADSB operates not only in the area of designing and constructing sets for cinema films and TV movies. The offer in the area of design and construction services can also be used by the operators of museums, trade fairs, theme parks or amusement parks in return for payment. In 2007 for example, ADSB generated revenues of EUR 14.2m on the basis of the individual financial statement according to the German Commercial Code (HGB). A further focus of the company’s business is the rental of costumes, make-up and props. The company has a comprehensive costume studio, make-up studio and props warehouse. The costume studio has around 250,000 costumes with a large number of original outfits dating back to the pre-war, war and GDR period. The make-up studio offers extensive services around wigs, toupees, beards and hair pieces. In addition, special effect make-up pieces such as facial and body prosthetics, dummies or puppets of animals and fantastic creatures can be produced upon request. The props warehouse has collected more than a million props. ADSB was able to generate revenues of EUR 14.2m in the 2007 financial year based on the HGB individual financial statements.

Co-production

Studio Babelsberg AG has identified the co-production segment as a future growth area and intends to strengthen its involvement here even further in future. Living true to its motto *“act global, spend local”*, Studio Babelsberg invests reference subsidy funds, which are state grants for the studio’s participation in successful international productions, in smaller German and European projects. Examples of this approach are the films *“Tage des Zorns”* starring Mads Mikkelsen as well as *“Machan”* by Uberto Pasolini, which was produced with a budget of around USD 2.0m. Co-production activities are focused on productions that can be filmed completely or in part at the Babelsberg studio and thus contribute to ensuring a constant influx of new projects into the existing studio infrastructure. Thanks to the new incentive system for the German film industry valid from 1 January 2007 introduced by the by German Federal Film Fund (DFFF), Studio Babelsberg has been able to get involved in numerous productions as co-producer.

The co-production *“Inglourious Basterds”* by cult director Quentin Tarantino was completed most recently in early 2009. The DFFF made available subsidies of around EUR 6.8m for this film. Studio Babelsberg was also involved as co-producer in the following international projects: *“The Reader”* with Kate Winslet, *“The International”* by Tom Tykwer, *“Valkyrie”* with Tom Cruise, and the Warner productions *“Speed Race”* as well as *“Ninja Assassin”* by the Wachowski brothers. Studio Babelsberg’s involvement in these co-productions provides the international producers with access to the German film subsidy. The co-production share is financed by Studio Babelsberg from its own equity capital in the first step.

After the acquisition of the film studio by the current management, the strategic decision was made to take on production and exploitation risks only to a very limited extent and to base the business model primarily on the rental of studio capacities as well as the provision of complementary production services. A film’s exploitation risk typically has to be classified

The co-production activities make the studio attractive for international producers

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as very high owing to the major dependence on the public's taste which can only be foreseen with difficulty.

Based on empirical experience, of ten films only two on average can be exploited with a significantly positive return on capital while in statistical terms around five projects just reach break-even point and three films can probably only be exploited with a loss.

In the light of this, in order to avoid the exploitation risk Studio Babelsberg assigns the intellectual property rights to the films after completion of the productions to the original production firms in return for a fee which corresponds to the investments.

One exception to this is the strategic alliance with the Hollywood producer Joel Silver which was formed in December 2008. Joel Silver already produced together with Studio Babelsberg the cinema films *"V for Vendetta"*, *"Speed Race"* and *"Ninja Assassin"* in the past four years. The object of the agreement with Dark Castle Entertainment is a co-production agreement for a total of 15 films which will be completed under the successful genre label of the well-known producer. Studio Babelsberg provides a share of around USD 10.0m (EUR 7.8m) of the financing for up to 15 films with a planned cumulative overall production budget of around USD 250.0m.

Accordingly, each film has a projected budget of between USD 10.0m and USD 40.0m. The contribution from Studio Babelsberg will be invested on a revolving basis until completion of the last film from the production slate. The funds invested will be recouped to a large extent within the scope of "gross participation" in the box-office success of the films and to a smaller extent via net profit participation. The repayment risk for the invested funds of EUR 7.8m can be regarded as manageable against this backdrop.

After completion the films are acquired by Warner Bros. within the scope of a distribution arrangement for global exploitation. Warner Bros. receives a distribution fee for this and finances the P&A costs (Print & Advertising. In addition to the equity capital share the production slate is financed by the CIT Group Inc., New York, and further financial investors within the scope of a debt financing agreement dating back to October 2006 consisting of senior and junior loans with a volume of around USD 220.0m. The CIT Group is currently in a difficult financial situation with insolvency looming large. In the worst case, Dark Castle would have to tap alternative sources of financing as a result of which productions could be delayed or stopped.

The first project published from this slate was the moderately successful film *"Rock 'N' Rolla"* directed by Guy Richie with an estimated production budget of USD 18.0m and box-office takings of around USD 5.7m in the USA and around EUR 0.25m in Germany. Four films from this production slate have been completed so far.

Completed projects from the Dark Castle slate

Project	Director	Cast	Estimated budget in USD m	Premiere USA
Rock'n'Rolla	Guy Richie	Gerard Butler	18.0	Oct. 2008
Whiteout	Dominic Sena	Kate Beckunsale	40.0	Sep. 2009
Orphan	Jaume Collet-Serra	Peter Sarsgaard	--	Nov. 2009
The Factory	Morgan O'Neil	John Cussak	25.0	Oct. 2010

Source: IMDB

The co-financing of the Dark Castle Entertainment film slate secures part of basic utilisation

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For Studio Babelsberg this co-production agreement results in addition in a positive effect on booking rates as it is stipulated by contract that around 10.0% of the cumulative overall budget of USD 250.0m is to be spent on services provided by Studio Babelsberg AG. Correspondingly, part of the films will probably be realised at the Studio Babelsberg site. This secures the company a certain basic utilisation of the studio capacities as well as of the complementary services in the next five years. Preparations are currently being made for the production of one of the projects in the Studio Babelsberg complex towards the end of 2009.

The return-oriented participation in a production slate of a well-known film producer in conjunction with a contractual clause that means that at least part of the productions is to be realised at the Babelsberg site can also lead in future to the studio capacities being operated at a certain basic booking rate and gaining a competitive advantage over rival studio locations. However, this participation is typically associated with an exploitation risk that can turn out to be very low (gross participation in box-office takings) or very high (in the event of net profit participation) depending on the position and the ranking in the servicing of repayment claims. According to the management the recoupment claims under the agreement with Dark Castle Entertainment are prior-ranking which means that the repayment of the funds invested is possible even given the below-average performance of the films.

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Market environment

The film industry has developed into a globally operating sector. In the ideal case, the commercial exploitation of a cinema film has already taken place for many years not only via the complete audio-visual value chain in the country of production with the stages cinema, online distribution, home entertainment, pay and free-TV, but also in all relevant international markets.

In the area of film productions with budgets beyond the EUR 30.0m mark, American film projects still play a dominant role. The global centre of film production can still be found in Los Angeles (Hollywood). The dominance of the American film productions becomes clear if the production statistics of the leading film production countries are analysed.

Film production statistics by country in number and USDm

Year	USA		Canada		UK		Germany		Japan	
	Number	Budget	Number	Budget	Number	Budget	Number	Budget	Number	Budget
1975	258	n.a.	39	n.a.	81	n.a.	73	n.a.	333	n.a.
1985	356	n.a.	58	n.a.	47	n.a.	64	n.a.	319	n.a.
1995	631	8,363.0	38	n.a.	76	607.4	63	294.2	289	1,230.0
2002	543	11,217.0	66	148.5	119	859.1	84	408.2	293	1,222.2
2003	593	14,661.0	151	127.4	175	851.6	80	447.2	287	1,254.5
2004	611	14,607.0	133	344.7	132	1895.6	87	577.1	310	1,336.4
2005	699	14,716.0	80	336.5	163	1,486.6	103	702.7	356	1,562.2
2006	673	13,945.0	n.a.	237.7	135	1,042.6	122	845.3	417	1,840.8
2007	656	n.a.	n.a.	n.a.	123	n.a.	122	n.a.	407	n.a.
2008	520	n.a.	n.a.	n.a.	102	n.a.	125	n.a.	418	n.a.

Source: Screendigest, World Film Production/Distribution 2006; OBS Focus, World Film Market Trends 2009; Budget in USDm

Analysing the ranking list of the most successful film productions in financial terms, it can be ascertained that mainly American film productions can be found in the first twenty places year for year. In 2008, even nineteen of the twenty most successful cinema films were produced with an American involvement. There are a number of reasons for the American dominance on the international market for audio-visual feature films:

- Firstly, American film productions can be offered and exploited at extremely competitive terms on the global market compared to other countries as a significantly larger part of the production costs (on average around 40.0%) is regularly recouped through exploitation on the large and mainly homogeneous American domestic market. This allows the producers to realise projects with extremely high budgets despite the high attractiveness risk of films. This is the main reason why American film productions have by far the highest average production budget.
- Secondly, the films regularly have an export advantage since they are originally produced in English and use language understood internationally, to which the global public has accustomed itself very strongly over the years. In addition, the marketing of a film can be given major support through the casting of world-famous actors from Hollywood.
- Thirdly, the American feature films deal mainly with content and motives which have a strong affinity with the mainstream taste of the audience and which make as little reference as possible to a certain cultural milieu.
- Fourthly, there is a very close link in the American film industry between the value chain stages material development, production, distribution and marketing. In other words, the

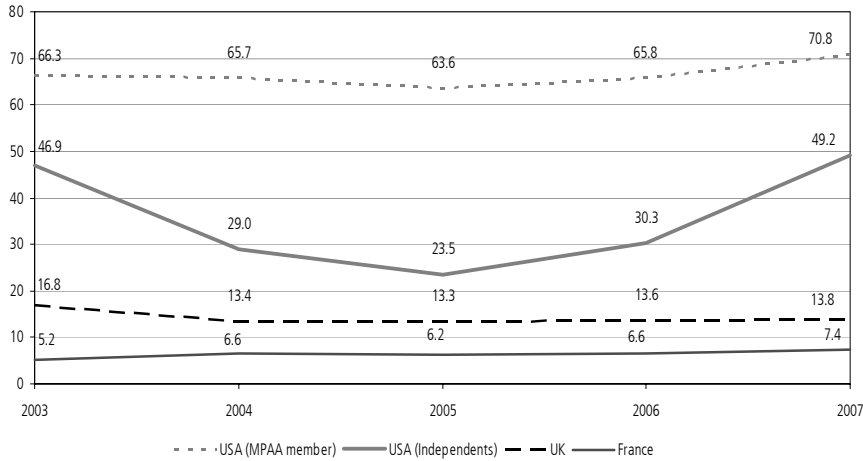
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The film industry is globally oriented

The Americans still dominate the film market

marketability of the product is already examined in the development phase of a film and after completion of the film the exploitation process is supported by major marketing and promotion activities.

Average production budget per film in USDm

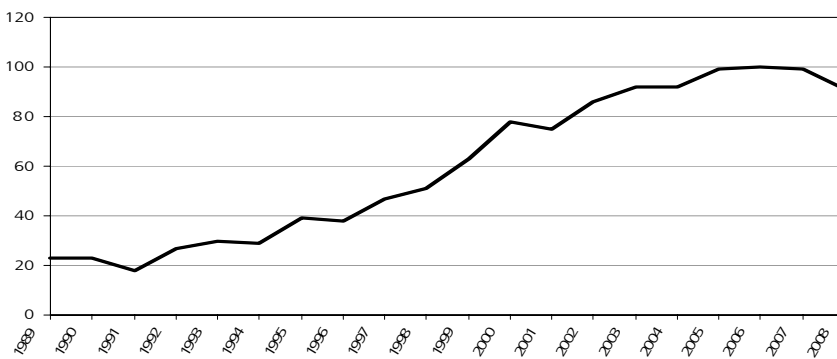


Source: OBS, Focus World Film Market Trends 2009

Even though the exploitation of individual cinema films is associated with an extremely high fashion risk, it can be said in general that demand from the cinema public is growing strongly overall. The number of films which brought in more than USD 50.0m at the global cinema box offices alone has increased steadily over the past few years.

The demand for attractive entertainment content continues to grow

Number of films with global cinema revenues of over USD 50.0m



Source: Box Office Mojo

Not only the exploitation of the films has become international, but also film production. Production companies, regardless of whether they are major studio or independent film producer, are extremely flexible in the choice of the production location in the meantime. Correspondingly, the traditional studio operations are in intensive global competition. In addition to the film studio capacities in the USA and Canada, a number of film studios in Europe are also competing for the producers' favour.

Film production has become an extremely international business

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Overview of independent film studios

Studio	Location	Studios	Floor area in m ²
Studio Babelsberg	Germany	16	25,000
Pinewood Shepperton	Great Britain	36	38,000
Teddington Studios (belongs to Pinewood)	Great Britain	3	2,140
Cinecittà	Italy	22	17,360
Barrandov	Czech Republic	14	17,400
Ciudad de La Luz	Spain	6	11,100
Castel Film Studios	Rumania	8	8,970
Leavesden	Great Britain	6	11,600
Elstree Film Studios	Great Britain	9	5,640
La cite du Cinema	Canada	18	19,905
Warner Roadshow Studios	Australia	8	10,835

Source: company data, www.wikipedia.de, www.filmlondon.org.uk

Luc Besson and his company Europa Corp is currently planning together with further investors to build a studio complex near Paris on the Cite du Cinema site. Overall capex is estimated at around EUR 140.0m. The construction of the studio complex is expected to get under way in 2009. Overall, nine stages are to be built the largest of which will have a floor space of around 3,000m². It is expected that the first films can be produced here at the beginning of 2012.

A number of very different factors are decisive for the selection of a production location. Firstly, a production studio basically has to be able to fulfil the requirements of the script as regards the sets, the cultural and thematic background as well as the technical equipment of the required filming locations. If the necessary requirements of a location are not adequately fulfilled, it cannot be made better by the argument of cheap production either.

If the production locations which basically come into question have been identified, further selection is only made according to financial criteria as a rule. The subsidies regularly associated with the selection of a production location play an important role.

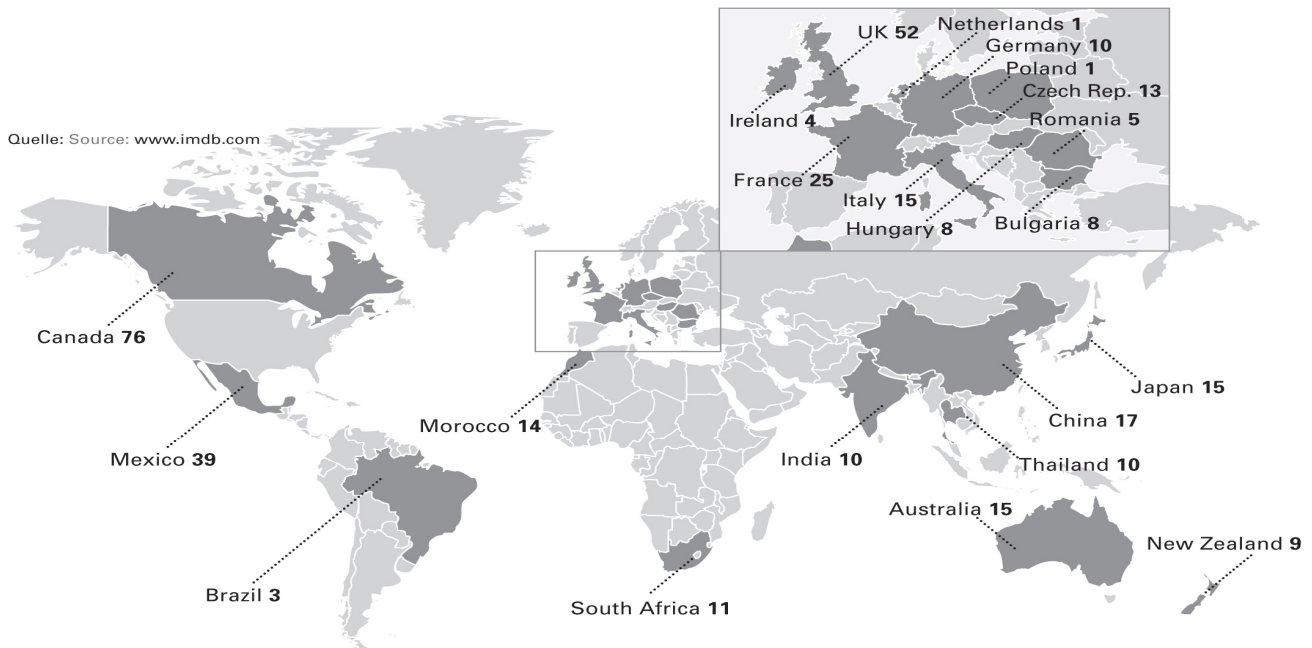
The major subsidies granted to foreign shooting locations in particular have led in the recent past to a growing number of major Hollywood film projects being realised abroad. From the financial point of view, the trend in the exchange rate plays a major role in the selection of the production location, though. The appreciation of the euro versus the currencies of the other production locations can have a negative impact on Studio Babelsberg's competitive strength.

Not only financial aspects play a role for the selection of a film production location

American feature films are being shot to a greater extent abroad

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US feature film productions abroad in 2007



Source: IMDB, Studio Babelsberg

The German Federal Film Fund (DFFF) took up its work at the beginning of 2007. Thanks to the regional subsidies which have been available for some time, Germany has an internationally competitive subsidy system with corresponding tax advantages for film productions. The level of production costs with respect to productions carried out in Germany can be reduced by up to 20% via the DFFF alone. Subsidies of around 20.0% are granted for the part of the production budget spent in Germany and recognised as being subsidisable.

The federal film fund has significantly increased the attractiveness of Germany as a production location

Incomplete excerpt from the conditions for the DFFF film subsidy

Who is entitled to the subsidy?	<ul style="list-style-type: none"> All film producers, in other words persons, who are responsible for the production of a film until delivery or, in the event of a co-production, are jointly responsible and actively involved in the production are entitled to apply.
For what are subsidies granted?	<ul style="list-style-type: none"> The subsidy can be granted to programme-filling films with a running time of at least 79 minutes and children's' films with a minimum length of 59 minutes. The production costs have to amount to at least EUR 1m for feature films, at least EUR 0.2m for documentary films and at least EUR 3.0m for animation films. At least 25.0% of the production costs has to be spent in Germany (German spend), or 20.0% if the production costs are above EUR 20.0m. A percentage minimum share does not apply for German production costs of EUR 15.0m and above
How high are the subsidies?	<ul style="list-style-type: none"> The maximum subsidy amounts to EUR 4.0m per film. Of the maximum amount stipulated, the maximum amount can be increased to EUR 10.0m upon the application of the producer The subsidy can amount to up to 20.0% of the German recognised production costs. A subsidy can be granted up to a maximum limit of 80.0% of the production costs.
How high does the equity capital share have to be?	<ul style="list-style-type: none"> The applicant has to come up with an equity capital share of at least 5.0%
What applies for international co-productions?	<ul style="list-style-type: none"> With international co-productions the applicant has to make a financial contribution of at least 20.0% of the production costs or EUR 5.0m with productions which are associated with production costs of over EUR 25.0m. A combination with other subsidies is possible within the scope of limits permissible under European law.

Source: incomplete excerpt from the DFFF's subsidy guidelines

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The DFFF granted subsidies of around EUR 118.5m to a total of 198 productions in 2007 and 2008. 69 feature films overall were granted subsidies of EUR 53.3m in 2008. The accumulated production budget of the subsidised films amounted to EUR 448.3m with a German spend of EUR 326.3m.

Productions realised at the Studio Babelsberg complex accounted for subsidies of EUR 22.8m or 42.7% of the entire DFFF funds in 2008. The estimated overall budget of the films produced with Studio Babelsberg's involvement in 2008 came to around EUR 144.0m. The construction of the German Federal Film Fund was extended beyond the original term up to the end of 2009 until the end of 2012.

In addition to the film subsidy from the DFFF, producers who realise films at the Studio Babelsberg complex also want to tap the subsidies provided by Medienboard Berlin Brandenburg as a rule. The films shot in Babelsberg in the 2008 financial year thus received an additional production subsidy of EUR 2.75m overall. This corresponds to around 1.8% of the estimated accumulated overall budget of the films realised in Babelsberg in 2008.

In the competition with other film locations which are also subsidised, the instrument of the film subsidy is an extremely important argument for Studio Babelsberg for acquiring film projects from around the world. Without these subsidies, the company's competitive strength would be severely restricted, in particular in the competition for big-budget film productions. American film studios in particular try to keep the financing risk as low as possible by the greater involvement of so-called soft money components.

The competition between the international studio complexes for lucrative film productions is determined not based on the relative attractiveness of the subsidy systems alone, though. A large number of influential factors can also be of major relevance.

The wage level of the freelance contributors at the shooting location plays an important role in particular with the Eastern European studio complexes having a comparative cost advantage in a superficial observation. If the qualification of the employees is included in the calculation, this financial cost advantage is put into perspective, in particular if trained specialists in the area of set construction or visual effects are to be deployed.

This is not least one of the main reasons why the location Los Angeles is still in an outstanding position in the global film industry. The region around Hollywood has an extremely large number of specialists along the entire film production value chain.

Studio Babelsberg has also been able to build up a good track record (references) in recent years through the realisation of big-budget film projects, though. A large number of companies, independent filmmakers and craftsmen are located in the direct vicinity of the studio, all with major experience in realising larger film projects.

In addition, the Babelsberg location has an excellent infrastructure with a direct link to the European metropolis of Berlin as well as cheap accommodation costs for actors and film crews in a European comparison.

The inclusion of Studio Babelsberg has secured the international film producers major cost advantages

Alongside the film subsidy the high level of training and experience of the filmmakers in Babelsberg is a good acquisition argument

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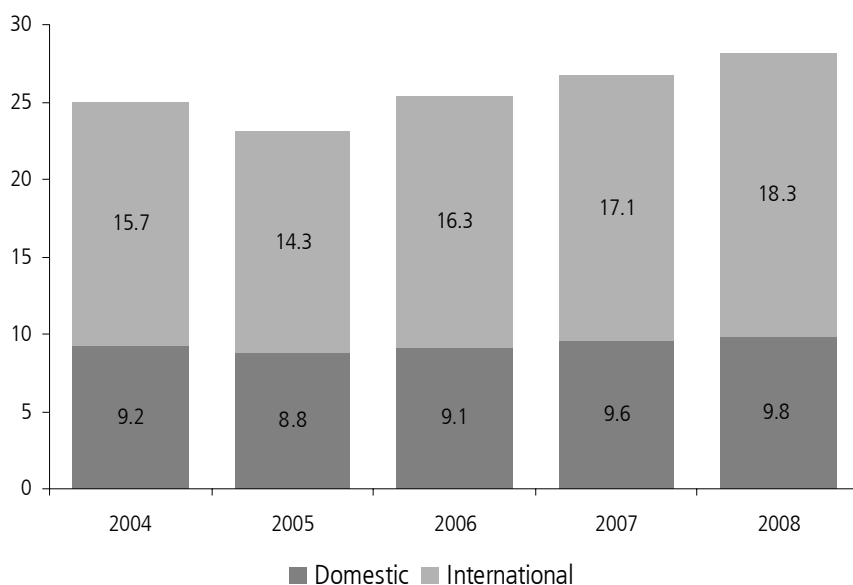
Trend in hotel prices in important film locations in EUR per night

City	Average price in euro			City	Average price in euro		
	Q4/08	Q4/07	yoy in %		Q4/08	Q4/07	yoy in %
Moscow	231	274	-16.0	New Delhi	100	156	-36.0
New York	187	224	-16.0	Cape Town	98	124	-21.0
Tokyo	138	137	1.0	Toronto	94	110	-14.0
London	123	161	-24.0	Sidney	92	115	-20.0
Paris	119	127	-6.0	Berlin	85	91	-7.0
Bucharest	116	98	18.0	Vancouver	84	107	-22.0
Rome	112	128	-12.0	Budapest	81	87	-7.0
Madrid	100	117	-14.0	Prague	78	91	-15.0

Source: Hotels.com

Looking at the future trend in the film industry, it can be ascertained to begin with that public demand for entertainment programmes will continue to grow at all stages of the exploitation chain. This becomes clear for example by taking a look at the development of the global cinema revenues of American film productions in recent years.

Development of global cinema revenues in USDbn



Source: MPAA

The increasing digitalisation of the transmission routes and audiovisual end devices in conjunction with the growing convergence between the mass media and individual communication is giving rise to additional opportunities to exploit entertainment content appealing to the masses, for example through video on demand, IPTV or mobile TV. In the light of this, growing potential revenues are up for grabs for the producers as a result of which we continue to assume rising production activity in the international film industry overall. We believe the decline in American film production in 2008 is due to the authors' strike in America as well as the temporary major restriction on budget financing opportunities, and correspondingly only a temporary phenomenon.

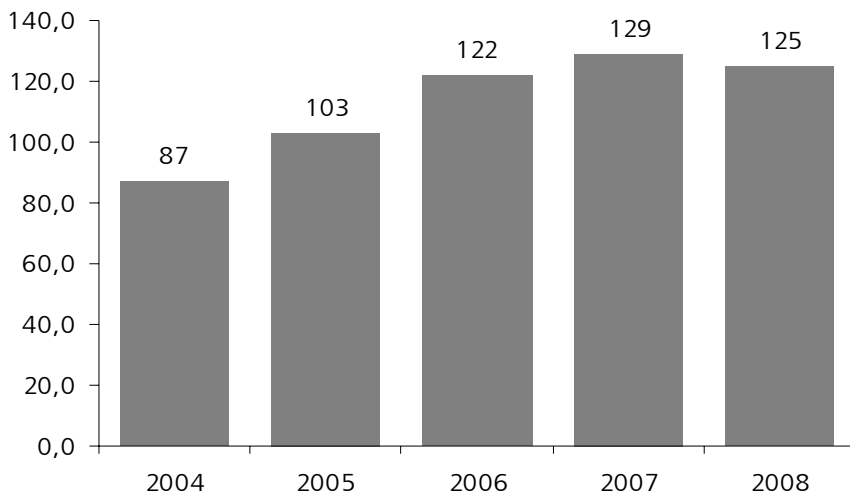
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We expect at present that owing to the good demand for American cinema films and the resulting strong production activity, the demand for studio capacities will also remain on a stable high level in future as well. Studio Babelsberg should also lastingly benefit from this trend.

The demand for studio capacities remains on a high level

However, as the German film industry is also becoming increasingly competitive, we are anticipating additional demand for studio capacities from this area as well. The number of feature films from German production has increased significantly in recent years, even though at less than EUR 10.0m the average production budget remains quite substantially below the financial opportunities available on average for American feature films.

Number of German feature film locations



Source: FFA

Owing to the only limited studio capacities available in Germany, German film production will also give rise to a certain basic utilisation for Studio Babelsberg.

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Revenues and earnings

A new period started for the company with the acquisition of Studio Babelsberg by the investors and current board members Dr. Karl Woebcken and Christoph Fisser in 2004. The company was consistently geared in strategic terms towards the provision of modern stage capacities, back lot facilities and full service offers for national and international big-budget productions.

In the **2005 financial year**, the first full financial year after the acquisition by Filmbetrieb Berlin Brandenburg GmbH and RMS Unternehmens Service GmbH, the Studio Babelsberg Group was able to generate total annual revenues of EUR 43.2m. This corresponds to growth versus the 2004 financial year of around 150.3%. The production services and rights trading business segments, which made a contribution to group revenues of EUR 13.5m and EUR 10.36m, respectively, owing to the first-time consolidation of the Studio Babelsberg Motion Pictures GmbH (SBMP) and Babelsberg Film GmbH (BF) subsidiaries, accounted for the largest part of this increase. In addition, the stage operations segment was able to generate revenue growth of 114.0% to EUR 3.29m due to the substantial improvement in utilisation of the stage floor space compared to the previous year.

The complementary service areas set construction, make-up, props and costumes generated revenues of EUR 10.3m corresponding to a slight decline of 4.4%. Overall, the margin-relevant revenues in the 2005 financial year came to EUR 12.7m. The remaining revenues were generated by the rather low-margin externally-procured production services and rights trading.

On the costs side, the inclusion of the revenues from production services and rights trading led to an increase in material costs of 289.2% to EUR 32.73m and a material costs ratio of 75.8% after 48.7% in the 2004 financial year. On the other hand, at EUR 8.597m personnel costs were around 1.8% lower than the prior-year level. Compared to 2004 the number of permanent employees fell slightly to an average of 173.

The balance of other operating income and expense improved from EUR -4.78m to EUR -2.25m. After allowing for write-downs of EUR 2.342m the operating result came to EUR -2.45m. Write-downs included periodic goodwill amortisation according to HGB of EUR 0.555m.

A positive financial result of EUR 0.348m, an extraordinary result of EUR 5.09m as well as taxes of EUR 0.249m led to group net profit of EUR 2.649m. Extraordinary income of EUR 5.95m included among other things contributions from the release of reserves for restructuring measures (EUR 2.467m), from the sale of interests in TMT GmbH (EUR 2.05m) as well as compensation payments from the original shareholder Vivendi Deutschland GmbH (EUR 1.05m).

The **2006 financial year** was totally influenced by the restructuring of business activities. This was due in particular to the postponement of the introduction of the incentive system to improve the general economic setting for the production of feature films in Germany (German Federal Film Fund DFFF) to the beginning of 2007. As a result, a large international film production was postponed which meant that only one large film, *"Der Fälscher"*, could be completed in the 2006 financial year (estimated production budget: EUR 4.2m). As a consequence, Studio Babelsberg suffered a decline in revenues of 62.0% to EUR 16.4m. As primarily the lower margin revenues fell by 88.8% to EUR 1.51m in the production services segment and declined to zero in rights trading, the negative impact on

The company already reaped the first benefits of reorientation in 2005

The improved utilisation of capacities in conjunction with extraordinary income led to a clearly positive net result in 2005

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the earnings situation was limited as material costs also declined significantly at the same time by 74.8% to EUR 8.25m.

On the other hand, the set production/props/costume studio business segments, which incorporate a high level of value added, suffered only a comparatively moderate decline in revenues of 23.2% to EUR 7.92m. The increase in revenues from stage operations is due primarily to revenues from the rental of recording technology to UFA Grundy GmbH for the productions "Julia-Wege zum Glück" and "Leben für die Liebe". Based on better utilisation spread over the year, revenues in this segment grew by 8.5% to EUR 3.57m. Part of this growth was compensated by the decline in revenues from the rental of studios for film productions. Revenues in the film laboratory/sound/post production departments as well as in the synchronisation department fell on account of deconsolidation by 28.5% to EUR 2.1m and by 60.7% to EUR 0.708m, respectively.

Value added sales, which is a better indicator of the company's earnings power than overall group revenues, declined by only 0.8% to EUR 12.6m.

Personnel expenses were reduced in the 2006 financial year by 8.0% to EUR 7.91m. The average number of employees fell by 6.9% to 161. The comprehensive measures introduced to reduce the number of employees in the Art Department, after the expiry of job guarantees in connection with earlier promotional measures at the end of the 2006 financial year, were only able to unfold their full impact in the following financial year.

Correspondingly, owing to the lower revenues relevant for value creation, the operating loss grew from EUR -2.45m to EUR -5.22m. After taking the financial result, the extraordinary result of EUR 2.446m as well as tax into consideration, a group loss of EUR -2.75m was reported for the financial year.

The **2007 financial year** was then influenced heavily by the new subsidies. As a result of the new film subsidy which came into effect on 1 January 2007, the price competitiveness of the German feature film industry and in particular of the German stage operations improved significantly. The share of production costs spent in Germany can be reduced by up to 20% by using the financial subsidy. Thanks to this measure, the demand for the studio capacities offered by Studio Babelsberg as well as the production services was increased significantly.

A total of 12 films with an estimated overall budget of around EUR 387m were produced, or at least partly, in the 2007 financial year and thus made a contribution to group revenues. For nine of these films Studio Babelsberg also took on the role of co-producer. In the light of this, group revenues increased by around 431.9% in 2007 to EUR 87.1m. However, part of these revenues is attributable to Studio Babelsberg AG's position as general contractor (delegate producer) for individual projects. These are externally-procured services which are settled via the books of a project company belonging to the Studio Babelberg group exclusively for organisational reasons and to secure the subsidies and are not relevant for creating value. Revenues relevant for value creation, adjusted for the transitory revenues, also increased significantly in 2007, though, by 95.1% to EUR 32.0m.

There was an enormous increase in revenues from production services from EUR 1.5m to EUR 77.64m. This includes a figure of EUR 75.1m resulting from the partial realisation of profits from the large film projects "*Speed Racer*", "*The International*" and "*Valkyrie*".

Although overall revenues declined significantly in 2006, revenues relevant for value creation remained stable

The introduction of the new film subsidy stimulated business in the 2007 financial year

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Film productions in which Studio Babelsberg was involved in 2007

Project	Country	Producer	Co-producer	Estimated budget in €	Subsidy in €	Cinema revenues in €	
						USA	D
The Bourne Ultimatum	USA	Universal Pictures	--	85.0	--	174.0	8.8
Speed Racer	USA	Warner Bros.	Studio Babelsberg	92.0	9.00	33.0	0.3
Valkyrie	USA	United Artists	Studio Babelsberg	58.0	4.80	64.0	8.6
The International	USA	Sony Pictures	Studio Babelsberg	54.0	5.80	19.5	3.7
Machan	I	Redwave Films	Studio Babelsberg	5.0	--	--	--
Flame & Citron (aka Tage des Zorns)	DK	Wüste Film	Studio Babelsberg	6.0	0.34	--	0.2
Hexe Lilli	D	Blue Eyes Fiction	Studio Babelsberg	10.0	1.25	--	5.0
Ausbilder Schmidt	D	Hoffmann & Voges	Studio Babelsberg	5.5	0.88	--	--
The Reader	USA	The Weinstein Comp.	Studio Babelsberg	25.0	3.70	26.0	8.2
Mr. Nobody	F	Somebody Productions	--	36.0	1.70	tbr	tbr
Meine schöne Bescherung	D	X-Filme	--	3.0	0.48	--	1.3
Mord ist mein Geschäft, Liebling	D	Rat Pack Filmprod.	Studio Babelsberg	8.0	0.94	--	2.2

Source: Studio Babelsberg AG, IMDB, DFFF; USD exchange rate EUR 1.30

The outstanding projects produced with the involvement of Studio Babelsberg in 2007 include in particular the film *"Speed Racer"*, with an estimated production budget of around EUR 92.0m and the highest DFFF subsidy to date of EUR 9.00m. Behind this project were the producer Joel Silver and the directors Andy and Larry Wachowskis, who were already responsible for the production and filming of the path breaking Matrix trilogy.

Large stages particularly suitable for green and blue screen photography and which have the technical infrastructure for a rapid workflow network between the stages were required for *"Speed Racer"*. Studio Babelsberg was able to do major justice to these requirements and therefore also prove that high-budget, visual effects-intensive films can be efficiently realised in Germany and in particular at Studio Babelsberg.

The entire production period for *"Speed Racer"* ran from January to September 2007 and brought not only corresponding revenues from the rental of up to twelve sound stages, but also generated revenues at the Art Department subsidiary of EUR 4.3m from set and scenery construction. The box-office success, which fell short of expectations in the USA at around EUR 33.0m, confirms Studio Babelsberg's strategic orientation of avoiding exploitation risks where possible or taking them on only to a limited extent.

The film *"Valkyrie"*, which starred Tom Cruise and was directed by Bryan Singer of the production studio United Artists and which was largely produced on the stages of Studio Babelsberg, is to be mentioned in particular. This film is about Stauffenberg's assassination attempt on Adolf Hitler towards the end of the Second World War. Studio Babelsberg not only has an extremely comprehensive costume and props warehouse from this period, but also enabled real-time access to authentic set motives in the direct geographical vicinity of the studios. The estimated production budget for this project came to around EUR 58.0m. The film was produced with funds from the German Federal Film Fund of EUR 4.80m. The main shoot lasted from July to October 2007 and had to be supplemented by subsequent shooting in June 2008. In addition to revenues from studio rental, additional revenues were generated in the group from complementary services. Revenues of EUR 3.2m were generated in the set construction segment.

The film "Speed Racer" not only utilised capacities, but also led to an increase in production experience

Revenues in the complementary segments have increased significantly

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The third large international production in 2007 was the film *“The International”* by director Tom Tykwer with a budget of around EUR 54.0m. The project received a subsidy of EUR 5.4m from the DFFF. The shooting took place from October to November 2007. More than two thirds or 45 of the 65 days of shooting took place on the studio premises or in original settings in Berlin and Brandenburg. A highlight of the production was the reconstruction of the New York Guggenheim Museum by Art Department. The resulting revenues from set construction amounted to EUR 2.01m. From the cinema release in February 2009 until mid-year the film brought in global box-office takings of around USD 57.9m. Box-office takings of around USD 5.9m have been generated with this film in Germany so far.

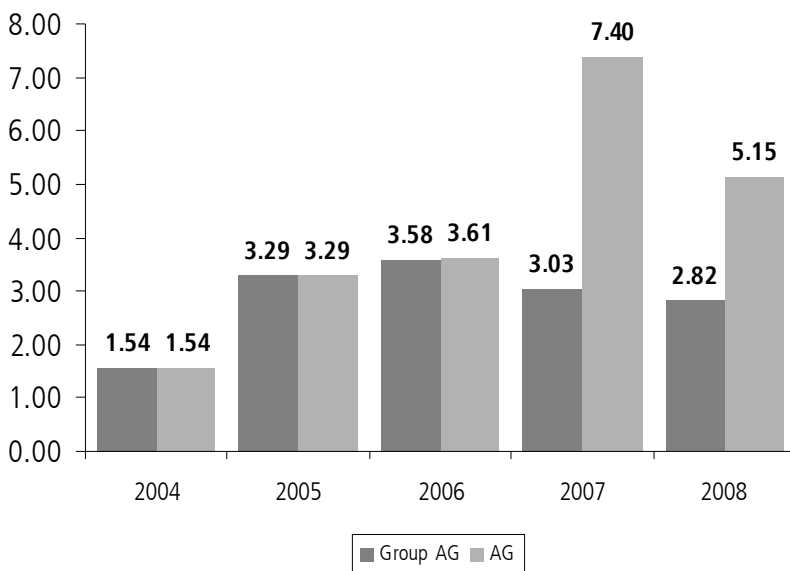
In view of the large number of films produced with the involvement of Studio Babelsberg AG in the 2007 financial year, revenues relevant for value creation, adjusted for transitory revenues, also increased significantly in 2007 by 95.1% to EUR 32.0m.

Revenues relevant for value creation have been increased strongly

This does not become clear from the revenue split by segment published on group level as parts of the revenues relevant for value creation are subsumed under the heading production services and can correspondingly not be allocated to the segments which have actually rendered them.

In the stage operations segment, on basis of the consolidated income statement rental revenues would have declined therefore in 2007 by 15.2% to EUR 3.03m. Utilisation of studio capacities actually improved so that revenues from stage rental were actually increased on AG level by around 105.0% to EUR 7.4m.

Development of rental income on group and AG level in EURm

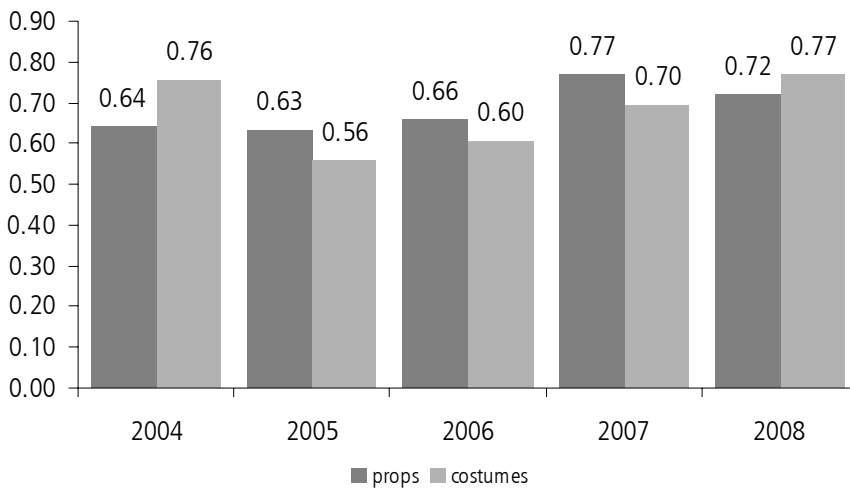


Source: Studio Babelsberg AG

Alongside revenues from the rental of studio capacities the company generates revenues relevant for value creation from complementary services. These comprise revenues from both the costume studio and the props warehouse. Both sources of revenue increased in 2007.

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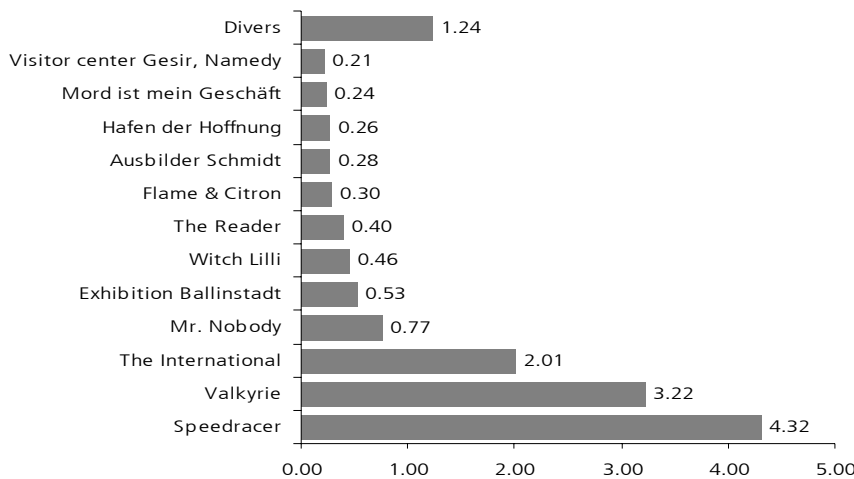
Complementary revenues based on Studio Babelsberg AG in EURm



Source: individual financial statements of Studio Babelsberg AG

Alongside these revenues, the revenues generated by the Art Department, which has been run since 2006 as the independent subsidiary Art Department Studio Babelsberg GmbH, represent an important source of revenues. Revenues of around EUR 14.1m were generated in this segment in the 2007 financial year based on the individual financial statements.

Revenues of Art Department Studio Babelsberg GmbH in EURm



Source: e-bundesanzeiger; Art Department Studio Babelsberg GmbH,

Sales revenues from the film laboratory/sound/post production and synchronisation department fell to a negligible level owing to the sale of these activities during the year.

On the costs side, there were significant increases in transitory material and personnel expenses corresponding to the revenues not relevant for value creation. Material expenses increased due in particular to expenses for purchased services by 983.0% to EUR 53.4m. Personnel expenses grew by 214.0% due primarily to the high number of temporary

Cost increase on personnel level due to deployment of temporary staff

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employees for individual film projects of 434 on average for the year. The number of permanent employees declined in 2007 by 89 or 98.9% to 90. After allowing for write-downs of EUR 1.89m, which again includes goodwill amortisation according to the German Commercial Code (HGB) of EUR 0.436m, the operating result for the 2007 financial year came to EUR 6.43m.

After taking the positive financial result of EUR 0.63m as well as taxes of EUR 1.03m into consideration, group net income for the year came to EUR 6.03m. Adjusting for goodwill amortisation gives earnings per share of EUR 0.37. The tax-free dividend distributed for 2007 came to EUR 0.20.

The **2008 financial year** developed positively compared to the years prior to the introduction of the new German Federal Film Fund. However, the 2007 level could not be maintained on account of the projects realised. Overall eight cinema film and TV productions were realised in the 2008 financial year. Revenues were down 24.3% on the previous year to EUR 65.94m. The production services segment again made the greatest contribution to revenues of EUR 55.6m. Like in the previous years this includes transitory revenues not relevant for value creation from the organisational realisation of various film projects as general producer. Revenues from production services include a figure of EUR 20.5m from partial profit realisation for the film project "Ninja Assassin" as well as the closing account balances of EUR 34.59m for the projects "Speed Racer", "The International", "Valkyrie" and "The Reader". Overall Studio Babelsberg was again involved in five films in the 2008 financial year as co-producer and co-financier, respectively.

Strong improvement in net profit in 2007

Revenues could not be maintained on the 2007 level, but were nevertheless way up on the average of the previous years

Studio Babelsberg film projects in 2008

Project	Country	Producer	Co-producer	Estimated budget in EURm	DFFF subsidy in EURm	Medienboard BB in EURm
The Reader	USA	The Weinstein Comp.	Studio Babelsberg	25.00	3.70	0.40
Ninja Assassin	USA	Silver Films	Studio Babelsberg	38.00	5.79	0.65
Inglourious Basterds	USA	The Weinstein Comp.	Studio Babelsberg	45.00	6.8	0.60
Crashpoint: Berlin	D	Hager Moss	Studio Babelsberg	3.0-5.0	--	0.35
3 seasons in Hell	D	Dawson productions	Studio Babelsberg	--	--	--
Berlin 36	D	Gemini Film	--	6.0-7.0	0.99	--
Hilde	D	Egoli Tossell	--	6.0-7.0	1.46	0.55
Pandorum	D	Constantin Film Prod.	--	30.0	3.7	0.175

Source: FFA, DFFF, Medienboard Berlin Brandenburg, Studio Babelsberg

With respect to the first three projects in the table, Studio Babelsberg Motion Pictures GmbH (delegate producer) was also commissioned for its production services, in other words with the complete film production process. These three films were shot mainly in the studios or in Berlin-Brandenburg. Since both "The Reader" and "Inglourious Basterds" are set in the Second World War period, access to Studio Babelsberg's comprehensive warehouse of props from this period as well as the availability of authentic exterior set motives is likely to have had a positive influence at least on the producers' decision to choose Studio Babelsberg as production location. Overall, the aggregate operating performance in the consolidated financial statements was almost exactly on the prior year level at EUR 96.1m. The increase in stocks of products and production work in progress of EUR 27.2m, due essentially to the production costs for the "Inglourious Basterds" project incurred up to the balance sheet date, will only bring a positive earnings effect in the 2009 financial year, though, upon the final realisation of revenues. Revenues relevant for value

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creation were even increased slightly in the 2008 financial year versus 2007 by 9.4% to EUR 35.0m. Owing to the slightly lower utilisation of the studio capacities compared to the 2007 financial year, revenues from rental on AG level declined by 30.3% to EUR 5.15m. Revenues on AG level from the props warehouse and costume studio were almost unchanged compared to the previous year at EUR 1.49m on a cumulative basis. On group level revenues in the set production/props/costume studio segment were increased by 20.0% to EUR 6.2m. On the costs side, material expenses were increased by 8.5% to EUR 67.2m. The expenses for purchased services of EUR 64.5m in particular provide an indication of the transitory project components which are only realised via the books of the Studio Babelsberg group for organisational reasons. Personnel costs declined in the 2008 financial year by 28.6% to EUR 17.7m. This is due primarily to the low expenses for temporary employees for individual film projects. There was an average of 434 temporary employees in the 2007 financial year, a figure which declined in 2008 by 41.5% to 254.

After allowing for write-downs of EUR 1.92m which, like in the previous year, include goodwill amortisation of EUR 0.42m, the operating result came to EUR 2.29m. This corresponds to a decline versus the previous year of around 64.2%. It is to be taken into consideration on the one hand that Studio Babelsberg carried out an impairment on loans to Babelsberg Postproduction GmbH and TMT Elektrofilm GmbH of EUR 1.17m in total. An impairment of EUR 2.0m was already carried out on the loan to TMT Elektrofilm in the 2006 financial year and the loan has now been written off in full. On the other, according to the management the balance sheet item unfinished products and work in progress of EUR 33.98m includes unrealised profits of around EUR 1.0m. Correspondingly, the effective operating result after adjusting for these items would have come to around EUR 4.5m. After taking the positive financial result of EUR 0.88m as well as taxes of EUR 0.23m into consideration, group net income came to EUR 2.94m. This corresponds to a decline versus the previous year of 51.3% and earnings per share of EUR 0.24, adjusting for goodwill amortisation. A tax-free dividend of EUR 0.10 was distributed for the 2008 financial year. The reason given for the reduction was that the liquidity gained had been invested in the co-production project with Dark Castle Entertainment Inc. to secure the company's future.

Aggregate operating performance on the prior-year level

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Investments and financing

As already mentioned the major international group Vivendi Universal, the former owner of Studios Babelsberg, invested around EUR 250.0m in the new studio infrastructure. Additional funds have been invested in the studio since it was acquired by the new owners. EUR 4.0m was spent at the AG on expanding and modernising the available studio capacities in the 2005 financial year alone. This included EUR 1.98m for the expansion of the four Tonkreuz stages and the former canteen next to it. In March 2005 the two rented industrial buildings were converted into film studios for EUR 1.16m. Of the total of EUR 1.16m invested in the 2006 financial year, around EUR 0.93m went into the further expansion of the rented film studios. A further EUR 0.93m was spent on modernising the studio capacities in the 2007 financial year and EUR 0.75m was again invested in the 2008 financial year. In addition to installing an air conditioning system in stage 1, Studio Babelsberg invested around EUR 0.23m in acquiring an aircraft set which is available for all coming film projects and can be rented correspondingly. The relatively low investments in the past four years are attributable not least to the major investments carried out by the previous owner Vivendi Universal.

The balance sheet ratios in Studio Babelsberg's consolidated financial statements are good. The company is debt free. Total assets increased from 2007 to 2008 by 47.7% to EUR 86.4m. The extension of the balance sheet is due primarily to the increase in unfinished products of 182.2% to EUR 33.98m. The growth is the result primarily of the capitalisation of product costs for the "Inglourious Basterds" project, for which the final invoice will be drawn up in the 2009 financial year. The capitalised production costs are set against payments received on account of orders of EUR 39.1m on the liabilities side of the balance sheet. The return on equity came to around 44.6% at the end of the financial year. Assuming a reduction in unfinished products of EUR 30.0m, the equity ratio would increase to above 68.0% even. Despite the dividend payout for the 2007 financial year of EUR 3.26m and the cash-effective investment in the area of financial assets within the scope of the stake in the Dark Castle film slate, liquid funds declined by only EUR 7.6m to EUR 12.3m. The company reported tangible assets in the balance sheet of EUR 22.7m at the end of the financial year and represent the studio complex owned by the company. The original costs of acquisition and production are reported as EUR 69.6m. Correspondingly, the current carrying amount comes to only 32.6% of the historical cost of acquisition.

An expert report commissioned by the company determined a market value for the special real estate of EUR 55.0m based on the rental situation in the 2007 financial year. It is to be taken into consideration here that this is assuming the sustained use of the real estate as a film studio. The deterioration of the competitive strength of the location, for example as a result of less attractive film subsidies, would have a substantial negative impact on this value. On the other hand, the company also commissioned a report the result of which estimates the investment for the new construction of a comparable studio complex at today's production costs of around EUR 110.0m. This assessment is supported by the planned construction of a studio complex near Paris with capex of EUR 140.0m by the film production company Europacorp.

Studio Babelsberg is debt free and major investments in the operating business are not required at present

The market value of the studio property is far higher than the carrying value in the balance sheet

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Outlook and prospects

Outlook

The 2009 financial year got off to a satisfactory start. First of all, the film “Inglourious Basterds” by star director Quentin Tarantino with an estimated production budget of EUR 40.0m was completed in January and February. The accumulated production costs of an estimated EUR 25.0m were capitalised in 2008 as unfinished products and will correspondingly not be reflected in revenues until the 2009 financial year. This film received a subsidy of EUR 6.8m from the DFFF and also received subsidies of EUR 0.6m from Medienboard Berlin Brandenburg.

Projects with Studio Babelsberg participation in 2009

Project	Country	Producer	Co-producer	Estimated budget in EURm	DFFF subsidy in EURm	Medienboard BB in EURm
Inglourious Basterds	USA	The Weinstein Comp.	Studio Babelsberg	40.0	6.80	0.6
The Ghost	USA	RP Productions	Studio Babelsberg	35.0	3.54	0.5
Boxhagener Platz	D	Claussen+Wöbke+Putz Filmprod.	Studio Babelsberg	3.6	0.59	0.3
Go west - Freiheit um jeden Preis	D	Teamworx	ProSieben	6.0	--	--
Hexe Lilli 2	D	Blue Eyes Fiction	Studio Babelsberg	10.0	--	0.5

Source: Studio Babelsberg, FFA, Medienboard Berlin Brandenburg

At the beginning of 2009 shooting of “The Ghost” by Roman Polanski also got under way in Berlin. The film was granted a DFFF subsidy of EUR 3.54m. The project received additional subsidies of EUR 0.5m from Medienboard Berlin Brandenburg as well as EUR 0.2m from the Hamburg Schleswig-Holstein film subsidy

Both films “Inglourious Basterds” and “The Ghost” were realised via two single purpose companies as a result of which large parts of the budget will be entered via Studio Babelsberg’s books. We assume that group revenues of at least EUR 68.0m will be realised in 2009 on account of these two projects alone. Assuming that the share of revenues relevant for value creation falling upon the Studio Babelsberg group comes to around 15.0%, the value creation contribution on revenue level from these projects comes to around EUR 10.0m.

In addition to the two international big-budget projects completed in the first half of 2009, the two German productions “Boxhagener Platz” with an estimated budget of EUR 3.6m and “Hexe Lilli – Teil 2” with estimated production costs of around EUR 10.0m are firmly on the production agenda. Assuming that Studio Babelsberg accounts for a percentage share of revenues relevant for value creation of around 20.0%, this would give an additional revenue contribution of EUR 2.7m.

Beyond the projects which are already established, the management is in promising negotiations for two to three further international big-budget productions which are to be realised on Studio Babelsberg’s stages starting in the second half of 2009. One project is likely to come from the Dark Castle Entertainment film slate. This film could enter the pre-production phase in late autumn which means that shooting could get under way towards the end of 2009 or beginning of 2010. The budget should be in a range of EUR 15.0 to 30.0m, but will only be partly reflected in revenues and have the effect of increasing unfinished products, respectively, in 2009. Given the current financial difficulties being

Very solid trend in 2009 despite weaker business activity

Further projects should be produced in the second half of the year

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experienced by the American CIT Group, which is financing part of the Dark Castle film slate, productions could be delayed or stopped in the event of insolvency of the provider of outside capital and would have to be replaced by alternative projects.

The management has not given any further information regarding the upcoming projects. Correspondingly, the following short-term revenue and earnings forecast is based on quite uncertain assumptions over the timing of the realisation of the coming film and TV projects. In the light of this, there can be periodic shifts in the realisation of revenues and earnings.

We assume that Studio Babelsberg will succeed in acquiring at least one further project which could go into production in the 2009 financial year. Assuming one larger international film with a budget of around EUR 50.0m and a German spend of 80.0% or EUR 40.0m as well as partial profit realisation of around 50.0% in the 2009 financial year, estimated full-year revenues at the Studio Babelsberg group come to around EUR 86.0m. Based on this forecast for revenues and aggregate operating performance, respectively, revenues relevant for value creation would come to around an estimated EUR 32.0m and would be lower than revenues in the 2008 financial year.

We believe aggregate operating performance will decline by around 13.1% in 2009 to EUR 81.0m. Correspondingly, material expenses will also turn out to be far lower than in 2008. While externally-procured services should fall by 20.9% to EUR 51.0m, other material expenses will rise by an estimated 7.1% to EUR 2.83m. According to our estimate personnel expenses will increase by 7.6% to around EUR 19.0m. After allowing for other operating income and expenses, this gives EBITDA of EUR 5.67m corresponding to estimated growth of 33.5% to EUR 5.67m and an EBITDA margin of 7.0%. After deducting write-downs, which at EUR 1.46m are down significantly on the previous year owing to the discontinuation of goodwill amortisation, estimated EBIT comes to EUR 4.21m. This is 56.7% higher than EBIT the previous year.

After allowing for the financial result, which will turn out to be lower compared to the previous year due not least to the investment of EUR 7.8m in the cooperation agreement with Dark Castle Entertainment, as well as taxes the estimated net profit comes to around EUR 3.78m. This gives estimated earnings per share of EUR 0.23.

Prospects

It is not easy to come up with a concrete revenue and earnings forecast beyond 2009 owing to the strong project nature of Studio Babelsberg AG's business activity. However, we believe analysis of the general economic setting and a comparison of the international competitive situation allows the statement to be made that the stable utilisation of the available studio capacities and good demand for complementary services can be anticipated at least in the medium term.

On the one hand, the extension of the German Federal Film Fund until 2012 will secure the competitive strength of the Studio Babelsberg location from the point of view of cheap production of the feature films. We assume here that there will be no further major depreciation of the USD versus the euro in the medium term. Drastic dollar weakness, which we are not assuming at present, would counteract the cost advantage of the film subsidy of up to 20.0% of the production budget.

We are expecting a slight decline in aggregate operating performance in 2009, but with higher revenues due to billing

The business model is strongly project driven and is therefore difficult to plan explicitly

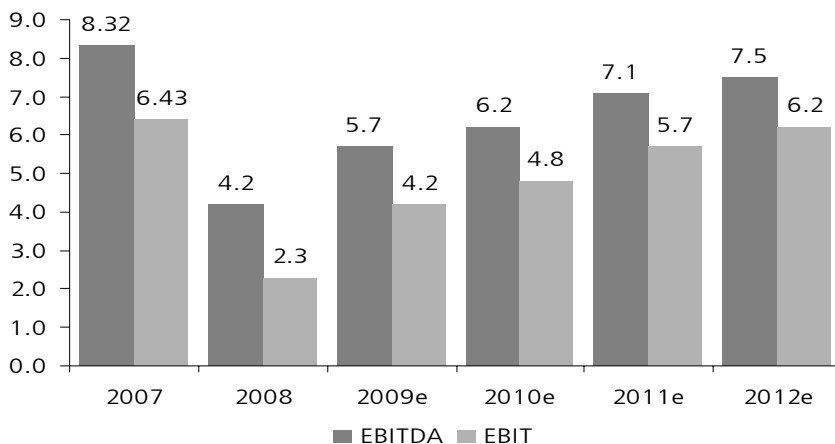
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On the other hand, Studio Babelsberg’s specialisation on certain themes offers a significant competitive advantage over rival film studios in Europe. Firstly, the studio has a strong competitive advantage in the area of historical feature films with time- or geography-related content regarding Europe in the first half of the 20th century owing to its existing back lot infrastructure, the authentic exterior set motives in the geographical vicinity of the studio and the extremely comprehensive props and costume warehouses focusing on the Second World War period. Furthermore Studio Babelsberg enjoys an excellent reputation in set-construction since building the complex replication of “Guggenheim Museum New York” for the movie “The International”.

Secondly, Studio Babelsberg has gained in-depth experience with the production of big-budget projects in the area of visual effect-intensive films. The digital networking of the studio facilities with the ever stronger parallel use of post-production facilities requires in-depth production know-how which the employees of Studio Babelsberg, respectively the companies located around the studio, have been able to acquire in recent years. In view of the growing trend towards cost-efficient production, the company has also acquired an interesting competitive advantage with the major reduction of project run times.

In view of the good demand and the competitive position reached, we are anticipating stable capacity utilisation in the medium term

Development of EBITDA and EBIT in EURm



Source: Studio Babelsberg; DZ BANK estimates

Since the realisation of the film “Speed Racer” at the latest, the studio has had in-depth know-how of the technical equipment for realising film productions with comprehensive green and blue screen photography.

In connection with the management’s efforts to not only secure corresponding interests in the exploitation success, but also the basic utilisation of the studio capacities and the complementary services by concluding long-running co-production agreements with promising international film companies, Studio Babelsberg should succeed in reaching an interesting earnings level in the years ahead. On the costs side, Studio Babelsberg has significantly reduced the number of permanent employees in recent years and therefore substantially reduced the fixed cost burden in times of low capacity utilisation. In contrast to earlier company phases, the projects are now realised mainly by freelance employees and temporary employees for individual film projects located in the direct geographical vicinity

The conclusion of longer running cooperation agreements is expected to help to secure the utilisation of the studio capacities

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of the company. This means good infrastructural conditions for an attractive and efficient production location.

We are forecasting for the years ahead slightly higher revenues relevant for value creation in the range of EUR 35.0m and EUR 40.0m and a sustained EBIT level of over EUR 6.0m. On this basis the EBIT margin on revenues relevant for value creation is in a range of 15.0% to 17.0%. We believe the positive earnings prospects are not yet adequately reflected in the company's current share price.

We are anticipating a rising profit margin in the medium term

Profit and loss account

Euro m	2008	2009e	2010e	2011e	2012e	2013e
Sales	65.9	86.0	88.0	92.0	94.0	95.0
Change in inventory/Own work	27.3	-5.0	-10.0	0.0	0.0	0.0
Total output	93.2	81.0	78.0	92.0	94.0	95.0
% against prev. year	0%	-13%	-4%	18%	2%	1%
Cost of materials	-67.2	-53.9	-49.1	-59.8	-61.1	-61.8
Personnel expenses	-17.7	-19.0	-20.3	-22.4	-22.6	-22.8
Other operating expenses/income	-4.1	-2.4	-2.3	-2.8	-2.8	-2.9
EBITDA	4.2	5.7	6.2	7.1	7.5	7.6
Depreciation/Amortisation	-1.9	-1.5	-1.4	-1.4	-1.3	-1.3
Amortisation	-0.4	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	2.3	4.2	4.8	5.7	6.2	6.3
% against prev. year	-64%	84%	15%	18%	8%	2%
Net interest income	0.8	0.1	-0.1	-0.1	-0.1	-0.1
Net other financial income	0.1	0.0	0.0	0.0	0.0	0.0
Profit before extraordinary items	3.2	4.3	4.8	5.7	6.1	6.2
% against prev. year	-55%	37%	11%	18%	8%	2%
Extraordinary profit/loss	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	3.2	4.3	4.8	5.7	6.1	6.2
% against prev. year	-55%	37%	11%	18%	8%	2%
Tax	-0.2	-0.8	-0.9	-1.1	-1.2	-1.2
Tax rate	7%	19%	19%	19%	19%	19%
Profit after tax	2.9	3.5	3.9	4.6	4.9	5.0
% against prev. year	-51%	19%	11%	18%	8%	2%
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Profit after minorities	2.9	3.5	3.9	4.6	4.9	5.0
Adjusted profit after minorities	3.4	3.5	3.9	4.6	4.9	5.0
Average number of shares, fully diluted (m)	15.911	15.711	15.711	15.711	15.711	15.711
Fully diluted earnings per share	0.21	0.22	0.25	0.29	0.31	0.32
Fully diluted EpS before goodwill amort.	0.24	0.23	0.25	0.29	0.31	0.32
Adjusted earnings						
EBITDA	4.2	5.7	6.2	7.1	7.5	7.6
EBIT	2.7	4.2	4.8	5.7	6.2	6.3
EBT	3.6	4.4	4.8	5.7	6.1	6.2

Fiscal year end December

Source: Studio Babelsberg and DZ BANK estimates

Ratios

Euro	2008	2009e	2010e	2011e	2012e	2013e
Profit and loss ratios						
Total output (m)	93.2	81.0	78.0	92.0	94.0	95.0
EBITDA margin	4.5%	7.0%	8.0%	7.7%	8.0%	8.0%
EBIT margin	2.9%	5.2%	6.2%	6.2%	6.6%	6.6%
Net margin	3.6%	4.3%	4.9%	5.0%	5.2%	5.3%
Investment ratio	0.9%	1.1%	1.2%	1.0%	1.0%	1.1%
R&D as % of total output						
Net other operating costs as % of total output	4.4%	3.0%	3.0%	3.0%	3.0%	3.0%
Net financial income as % of total output	0.9%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Interest cover			84.0	91.8	93.3	111.8
Average sales growth next five years	0.4%					
Average earnings growth next five years	8.6%					
Profitability ratios						
ROE	9.1%	9.0%	9.4%	10.5%	10.9%	10.7%
ROCE	13.2%	17.6%	18.4%	19.4%	19.8%	19.7%
Productivity ratios						
Sales per employee ('000)	1102.96	958.58	906.98	1051.43	1056.18	1043.96
EBIT per employee ('000)	32.13	50.11	56.28	65.29	69.37	68.92
Balance sheet ratios						
Equity ratio	43.6%	47.0%	46.9%	47.2%	47.7%	48.5%
Long term debt and equity / Fixed assets	138.2%	137.7%	146.4%	155.0%	162.4%	169.6%
Liquidity (quick ratio)	46.1%	60.1%	59.1%	57.0%	61.2%	65.7%
Receivables as % of total output	1.1%	2.1%	2.3%	2.0%	2.0%	2.0%
Investment (net of GW) / Depreciation	56.5%	59.9%	68.6%	70.0%	71.3%	79.8%
Working capital as % of total output	-5.5%	-5.3%	-3.4%	0.0%	0.0%	0.0%
Figures per share						
EpS after goodwill amortisation	0.21	0.22	0.25	0.29	0.31	0.32
Fully diluted EpS before goodwill amort.	0.24	0.23	0.25	0.29	0.31	0.32
Diluted cash earnings per share	0.29	0.32	0.33	0.38	0.40	0.40
Dividend per common share	0.10	0.10	0.15	0.20	0.20	0.20
Cash per share, diluted	0.87	0.72	0.73	0.68	0.70	0.77
Net debt per share, diluted	-0.89	-0.50	-0.51	-0.45	-0.47	-0.54
Valuation ratios						
Enterprise value / Sales	0.3	0.3	0.3	0.3	0.3	0.2
Enterprise value / EBITDA	6.5	4.3	3.9	3.5	3.3	3.1
Enterprise value / EBIT	10.0	5.8	5.0	4.4	4.0	3.8
EV/Sales to sales growth	3.98	0.79	0.81	0.71	0.69	0.65
PEG ratio - common shares		1.06				
Fiscal year end December						

Source: Studio Babelsberg and DZ BANK estimates

Balance sheet

GER GAAP - Euro m	2008	2009e	2010e	2011e	2012e	2013e
ASSETS						
Intangible assets	0.1	0.1	0.1	0.0	0.0	0.0
thereof goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	22.7	22.1	21.7	21.3	20.9	20.6
Financial assets	6.3	11.3	11.3	11.3	11.3	11.3
Other fixed assets	0.3	0.3	0.3	0.3	0.3	0.3
Fixed assets	29.3	33.7	33.3	32.9	32.5	32.2
% against prev. year	20%	15%	-1%	-1%	-1%	-1%
Inventories	36.3	28.4	32.6	36.8	37.6	38.0
Trade receivables	1.0	1.7	1.8	1.8	1.9	1.9
Liquid assets/Current investments	13.8	11.3	11.5	10.7	10.9	12.1
Other current assets	5.9	9.1	10.1	11.1	13.1	14.1
Current assets	57.0	50.5	55.9	60.4	63.5	66.1
% against prev. year	68%	-11%	11%	8%	5%	4%
Total assets	86.4	84.3	89.2	93.3	96.0	98.3
% against prev. year	48%	-2%	6%	5%	3%	2%
LIABILITIES						
Share capital	16.5	16.5	16.5	16.5	16.5	16.5
Reserves	18.9	20.4	22.3	23.8	25.2	27.0
Other equity	3.0	3.5	3.8	4.5	4.9	5.0
Shareholders' equity	38.5	40.4	42.6	44.8	46.6	48.5
% against prev. year	-1%	5%	6%	5%	4%	4%
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
% against prev. year						
Pensions provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	2.2	2.3	2.4	2.6	2.7	2.7
Interest bearing liabilities	0.0	4.0	4.0	4.0	4.0	4.0
Trade accounts payables	3.4	3.4	3.5	3.7	3.8	3.8
Other liabilities	42.3	34.2	36.6	38.2	38.9	39.3
Total liabilities	47.9	43.9	46.6	48.4	49.4	49.8
% against prev. year	144%	-8%	6%	4%	2%	1%
Shareholders' equity and liabilities	86.4	84.3	89.2	93.3	96.0	98.3
% against prev. year	48%	-2%	6%	5%	3%	2%
Fiscal year end December						

Source: Studio Babelsberg and DZ BANK estimates

Discounted cash flow valuation

Cost of capital

Weighted average cost of capital (WACC) 9.91%

Euro m	2009e	2010e	2011e	2012e	2013e	2014e
EBIT	4.2	4.8	5.7	6.2	6.3	6.3
Interest expenditure on pensions provisions	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EBIT	4.2	4.8	5.7	6.2	6.3	6.3
Adjusted taxes on earnings of the company	-0.8	-0.9	-1.1	-1.2	-1.2	-1.2
Net Operating Profit After Tax (NOPAT)	3.4	3.9	4.6	5.0	5.1	5.1
Depreciation/Amortisation of tangible/intangible assets	1.5	1.4	1.4	1.3	1.3	1.3
Investments in tangible/intangible assets	-0.9	-1.0	-1.0	-1.0	-1.1	-1.4
Change in provisions/special items	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	-0.9	-1.7	-2.6	0.0	0.0	1.0
Change in other current assets	-3.2	-1.0	-1.0	-2.0	-1.0	-1.0
Free cash flow	-0.1	1.7	1.4	3.4	4.3	5.1
Cash values of free cash flows on the valuation date	-0.1	1.5	1.1	2.6	3.0	35.3
Total cash value of free cash flow	43.5					
Market value of non-operating assets	5.8					
Liquid assets/Securities/Interest-bearing financial assets	14.2					
Entity value	63.5					
Financial debt/Pension provisions	0.0					
Equity value (incl. minority interest)	63.5					
Value of minority interest	0.0					
Equity value (excl. minority interest)	63.5					
Equity value per share, diluted (EUR)	4.04					
Fiscal year end December						

Source: Studio Babelsberg and DZ BANK estimates

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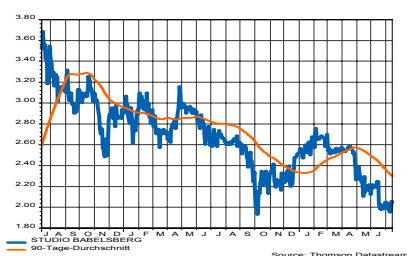
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Rating History

Recommendation	Date	Price
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