

2004

QUARTERLY REPORT
III / 2004



INTERENTAINMENT

Aktiengesellschaft

Key indicators (million euros)	2 0 0 4		2 0 0 3	
	1/1/-30/9/	1/7/-30/9/	1/1/-30/9/	1/7/-30/9/
Sales	17.4	0.1	4.1	2.0
EBIT	1.4	-1.8	-5.5	-1.4
Result of ordinary business activities	1.1	-0.8	-5.8	-1.6
Net profit/loss for the period	0.9	-1.4	-6.5	-1.7
Earnings per share (euros)	0.08	-0.12	-0.55	-0.15
Average number of employees	13		23	

Key data for the share

ISIN	DE0006223605		
Share capital	15,005,155.09 euros		
Number of shares	11,739,013		
Issue price 8/2/1999			36.00 euros
	after split (1:2)		18.00 euros
Closing price* at 30/9/2004	2.17 euros		
High* for 1 st nine-months 2004 (18/6/2004)	5.65 euros		
Low* for 1 st nine-months 2004 (24/8/2004)	1.76 euros		
Shareholder structure at 30/9/2004	Rüdiger Baeres		
	(directly and undirectly)		62.16 %
	Management, Supervisory Board		0.20 %
	Free float		37.56 %

*Closing prices in Xetra electronic trading

Corporate calendar

Publication of Annual Report 2004	April 30, 2005
Publication of 1 st Quarterly Report 2005	May 31, 2005
Publication of 2 nd Quarterly Report 2005	August 31, 2005
Publication of 3 rd Quarterly Report 2005	November 30, 2005

Contact

Intertainment AG	Phone: +49 (0)89 21699-0
Investor Relations	Fax: +49 (0)89 21699-11
Osterfeldstrasse 84	www.intertainment.de
D-85737 Ismaning	E-Mail: investor@intertainment.de

Intertainment Group: Situation Report

for the third quarter of 2004

A. Performance during the first nine months of 2004

During the summer of 2004, Intertainment AG achieved an important partial success in resolving the Franchise Pictures fraud case. The case involved compensation for damages against Franchise Pictures and 17 other defendants and had been pending since the end of 2000, Intertainment won the case before the Federal District Court in Santa Ana near Los Angeles, and the decision by the jury was unanimous. The presiding judge executed the judgment in August. Intertainment was granted a total of 121.7 million US dollars in the trial.

Intertainment received no payments arising from the trial during the period under review. Although the fraud continued to impact negatively on the figures, Intertainment succeeded in achieving an improvement over the first three quarters of 2003 and recorded a small profit.

At the end of September this year, net income for the first three quarters amounted to 0.9 million euros, whereas the end of September, 2003 saw Intertainment recording a loss of 6.5 million euros. Earnings before interest and taxes (EBIT) rose to 1.4 million euros, after -5.5 million euros during the first three quarters of 2003. Earnings from ordinary activities climbed to 1.1 (prior-year period -5.8) million euros. And profit per share was 0.08 euros following on from -0.55 euros.

Sales at Intertainment rose to 17.4 million euros, compared with 4.1 million euros after the first nine months in 2003. The increase in sales came as a result of exploitation of the thriller “Twisted”, which impacted on sales during the second quarter of 2004.

Intertainment did not achieve any further sales as a result of exploitation of this film during the third quarter. Group sales during the third quarter amounted to 0.1 million euros after 2.0 million euros during the prior-year period. The loss of -1.4 million euros during the first nine months was 0.3 million euros below the value for the third quarter of 2003. EBIT was -1.8 million euros after -1.4 million euros during the prior-year quarter. Earnings from ordinary activities amounted to -0.8 million euros in the third quarter of 2004, compared with -1.6 million euros during the third quarter of 2003.

On September 30, 2004, cash and cash equivalents at Intertainment amounted to 1.4 million euros. On June 30, 2004, Intertainment disposed over liquid funds amounting to 1 million euros. This figure was 2.1 million euros at the close of 2003.

B. The Franchise Pictures case

During the period under review, the focus of the Franchise Pictures case was on the main trial. This hearing against Franchise Pictures, 16 other companies and Elie Samaha, CEO of Franchise Pictures, commenced in Santa Ana near Los Angeles in April 2004 and continued for some two months. On June 16, a jury consisting of nine members found all the defendants guilty and granted Intertainment compensation for damages amounting to 77.1 million US dollars and punitive damages of 29 million US dollars. The presiding judge also approved a further 15.6 million US dollars in interest when she executed her judgment in August 2004. This raised the total sum due to Intertainment to 121.7 million US dollars.

A few days after the judgment, Franchise Pictures and the convicted subsidiaries filed for insolvency pursuant to Chapter 11 of the US Insolvency Law. Within the framework of the insolvency proceedings, Intertainment then asserted its claims against Franchise Pictures and the companies which had filed for insolvency. On the date when this Situation Report was prepared, there were still no conclusive figures available, in particular relating to the assets or the overall liabilities of Franchise Pictures.

Intertainment is also instituting individual enforcement proceedings against Mr. Samaha. He has not filed for personal

insolvency. He must disclose his private assets under oath during a hearing at the beginning of December.

After the judgment was handed down, all the parties involved in the wider Franchise Pictures case agreed to seek an alternative settlement to the dispute. Intertainment met the representatives of all those involved in San Francisco in mid-September 2004 for settlement negotiations within the scope of "Global Mediation". The negotiations did not result in a settlement offer that was acceptable to Intertainment. They must therefore be deemed to have failed

During the course of the period under review, Intertainment consistently prepared for the arbitration proceedings against Comerica Bank and a number of bond companies, which were involved in the fraud perpetrated by Franchise Pictures. The verbal hearing in these proceedings is scheduled to take place during the course of the coming year.

When this quarterly report was being prepared, post-trial motions were also pending before the court in connection with the trial against Franchise Pictures that had been won in June. These motions relate to applications filed after the legally enforceable judgment was handed down. The appeal period only commences after the judge has reached a decision on these matters. The appeal period is 30 days.

Originally, a decision was scheduled on the post-trial motions for mid-November. The date was initially postponed with the consent of Intertainment until mid-December 2004 and was then further postponed to 2005. Postponing the decision on post-trial motions exerts no effect on the arbitration proceedings against Comerica Bank and other parties.

C. Segment reporting

Film production, sale of film rights and US activities

Following the postponement of the Franchise trial in the summer of 2003, Intertainment was compelled to focus on reorganization and cost-cutting measures for its US activities. In this connection, Intertainment and US producer Kopelson Entertainment agreed to end the cooperation they had agreed in mid-2000 on February 11, 2004, after several months of negotiations. Terminating the contract has released Intertainment AG from substantial financial obligations.

With a view to minimizing the liquidity risks associated with exploitation and further restricting financial commitments, Intertainment AG also concluded a contract for the film "Twisted" with Paramount Pictures in February 2004. This contract regulates the distribution of the territories and the exploitation risks between Intertainment AG and Paramount.

The consequences of the two measures for the financial statements were taken into account in the figures for 2003 because of the value reflected by this matter. In this connection, we refer to the annual financial statements for 2003.

Intertainment Animation & Merchandising GmbH

The restructuring measures involved Intertainment Animation & Merchandising GmbH in selling its license rights in "Rudolph the Red-Nosed Reindeer" to a subsidiary of Splendid Medien AG, Cologne in January 2004. A further sale to the Splendid subsidiary involved the company's rights in a learning game for small children which is currently being developed. Intertainment developed this game in 2003 with the aim of expanding its product range. Substantial investments would still have been required to develop the product as far as the ready-to-market stage and finance the planned marketing costs up to product launch in autumn 2004.

Digital distribution

The American Intertainment participation SightSound Technologies made significant progress in asserting its US patent rights for downloading audio and video files from the Internet during the first quarter of 2004. In this connection, SightSound had filed a lawsuit against the two Bertelsmann subsidiaries CDNow and N2K on account of an infringement of its patent rights. Shortly before the start of the main trial, the parties agreed a settlement at the end of February 2004. Under the settlement agreed, the defendants acknowledged the validity of the US patent rights held by SightSound for the digital download of audio and video files from the Internet.

The management of Intertainment believes that the settlement will have far-reaching effects. It improves the prospects of SightSound for also asserting its patent rights in the USA against other commercial providers of film and music downloads from the Internet. In addition, it allows SightSound to promote its license business and significantly increases the appeal of SightSound patents. At the time when this quarterly report was going to press, SightSound was holding negotiations with potential investors relating to the sale of the patents or of the entire company.

In relation to SightSound, we again refer to the Annual Report 2003 for further information.

D. Investor Relations

After the end of the reporting period, Intertainment held this year's Annual General Meeting on October 29. The Board of Management and the Supervisory Board informed some 200 shareholders attending the meeting about the situation of the company.

E. Staff, Board of Management, Supervisory Board

Restructuring measures at Intertainment also reduced the number of staff during the period under review. The average number of people employed during the period January 1 to September 30, 2004 was 13. On average, Intertainment had employed a staff of 23 for the business year 2003.

After the reporting period came to an end, Rüdiger Baeres resigned his post as Chairman of the Board of Management of Intertainment AG at this year's Annual General Meeting, in order to move to the Supervisory Board. The existing Chief Financial Officer, Achim Gerlach, succeeded him as sole member of the Board of Management.

After he had resigned, the Annual General Meeting elected Baeres as member of the Supervisory Board of Intertainment AG. Dr. Matthias Heise and Wolfgang Blauberger were confirmed as members of the Supervisory Board for a further term of five years. The former deputy chairman of the Supervisory Board, Dr. Wilhelm Bahner, did not put himself forward for re-election to the Supervisory Board.

Immediately after the Annual General Meeting, the Supervisory Board elected Rüdiger Baeres as Chairman of the Board

of Management and Dr. Matthias Heise as deputy chairman of the Supervisory Board.

F. Risks in the future development at the Intertainment AG Group

In connection with the risks in future development at Intertainment, we refer you expressly to the annual financial statements and management report for 2003 and to the notes to this quarterly report.

Ismaning, November 30, 2004

Board of Management

Intertainment Group: Consolidated Balance Sheet

as at September 30, 2004 in Accordance with the IFRS

ASSETS		in TEuros	
	30/9/2004	31/12/2003	
A. FIXED ASSETS			
I. Intangible assets			
1. Licenses, commercial property rights and similar rights as well as licences in such rights	1	3	
2. Payments made on account	2,147	2,147	
	2,148	2,150	
II. Property, plant & equipment			
Other plant, business and office equipment	134	194	
III. Financial assets			
Participations	15,036	15,036	
	17,318	17,380	
B. CURRENT ASSETS			
I. Inventories			
1. Film rights	6,591	7,100	
2. Merchandise	0	305	
3. Payments made on account	0	235	
	6,591	7,640	
II. Receivables and other assets			
1. Trade receivables	114	755	
2. Other assets	69,122	69,304	
	69,236	70,059	
III. Cash on hand, bank balances	1,377	2,138	
	77,204	79,837	
C. DEFERRED TAXES	14,857	14,977	
	109,379	112,194	

EQUITY & LIABILITIES		in TEuros	
	30/9/2004	31/12/2003	
A. EQUITY			
I. Subscribed capital	15,005	15,005	
II. Capital reserve	70,045	70,045	
III. Earnings reserves			
Statutory reserve	116	116	
IV. Group retained earnings	-24,361	-25,249	
V. Currency differences	-73	-81	
	60,732	59,836	
B. PROVISIONS			
1. Tax provisions	10	0	
2. Other provisions	30,238	33,099	
	30,248	33,099	
C. LIABILITIES			
1. Liabilities due to banks	1	7	
2. Payments received on account	0	1,318	
3. Trade accounts payables	1,328	1,142	
4. Other liabilities	178	358	
	1,507	2,825	
D. DEFERRED TAXES	16,892	16,434	
	109,379	112,194	

Intertainment Group: Income Statement

for the period from January 1, 2004 to September 30, 2004
in Accordance with the IFRS

in TEuros	1/1/-30/9/2004	1/1/-30/9/2003
1. Sales revenues	17,426	4,066
2. Other operating income	1,745	2,730
	19,171	6,796
3. Cost of materials		
a) Cost of film rights and associated performances	-14,555	-1,279
b) Expenses for bought-in merchandise and services	-11	-157
	-14,566	-1,436
4. Personnel expenses		
a) Salaries	-1,437	-2,234
b) Social security contributions	-75	-110
	-1,512	-2,344
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-43	-302
6. Other operating expenses	-1,993	-8,201
7. Net interest	1	-318
8. Result of ordinary business activities	1,058	-5,805
9. Extraordinary income	2,063	0
10. Extraordinary expenses	-1,763	0
11. Extraordinary result	300	0
12. Taxes on income and earnings	-469	-679
13. Other taxes	-1	-1
14. Consolidated net income for the period (p.y. net deficit)	888	-6,485
15. Accumulated loss	-25,249	-90,620
16. Group retained earnings	-24,361	-97,105
Basic earnings per share	0.08	-0.55
Diluted earnings per share	0.08	-0.55

Intertainment Group: Income Statement

for the period from July 1, 2004 to September 30, 2004
in Accordance with the IFRS

in TEuros	1/7/-30/9/2004	1/7/-30/9/2003
1. Sales revenues	107	2,025
2. Other operating income	4	491
	111	2,516
3. Cost of materials		
a) Cost of film rights and associated performances	-1	-547
b) Expenses for bought-in merchandise and services	-1	-21
	-2	-568
4. Personnel expenses		
a) Salaries	-562	-680
b) Social security contributions	-25	-35
	-587	-715
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-13	-94
6. Other operating expenses	-339	-2,573
7. Net interest	0	-117
8. Result of ordinary business activities	-830	-1,551
9. Extraordinary income	-280	0
10. Extraordinary expenses	-707	0
11. Extraordinary result	-987	0
12. Taxes on income and earnings	453	-161
13. Other taxes	-1	0
14. Consolidated net income for the period (p.y. net deficit)	-1,365	-1,712
15. Accumulated loss		
16. Group retained earnings	-1,365	-1,712
Basic earnings per share	-0.12	-0.15
Diluted earnings per share	-0.12	-0.15

Intertainment Group: Consolidated Cash Flow Statement

as at September 30, 2004 in Accordance with the IFRS

in TEuros	30/9/2004	30/9/2003
Period result prior to extraordinary items, interest and taxes	588	-6,065
Amortization & depreciation on items of fixed assets	43	302
Changes in provisions	-4,614	-4,412
Changes to inventories	1,049	98
Changes in trade receivables	641	15,276
Changes in other assets	2,364	893
Changes in trade payables as well as in other liabilities	-853	-2,195
Interest received	1	113
Interest paid	0	-533
Outflow of funds (p. y. inflow) from current business activities	-781	3,477
Proceeds from asset disposals	22	0
Outgoing payments for investments in fixed assets	-4	-1,244
Outflow of funds from investment activities	18	-1,244
Changes in liabilities to banks	-6	-1,908
Outflow of funds from financing activities	-6	-1,908
Changes in cash and cash equivalents	-769	325
Changes in cash and cash equivalents resulting from exchange rate and other influences	8	43
Cash and cash equivalents at beginning of period	2,138	3,922
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,377	4,290

Intertainment Group: Schedule of Nominal Capital

in Accordance with the IFRS

in TEuros	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency difference	Total
BALANCE AT 31/12/2001	15,005	149,481	116	-74,496	42	90,148
Result 31/12/2002				-16,124		-16,124
Currency difference					-97	-97
BALANCE AT 31/12/2002	15,005	149,481	116	-90,620	-55	73,927
Result 31/12/2003				-14,065		-14,065
Withdrawals from cap. res.		-79,436		79,436		0
Currency difference					-26	-26
BALANCE AT 31/12/2003	15,005	70,045	116	-25,249	-81	59,836
Result 30/9/2004				888		888
Currency difference					8	8
BALANCE AT 30/9/2004	15,005	70,045	116	-24,361	-73	60,732

Intertainment Group: Notes

to the Consolidated Financial Statements for the Interim Report for the period to September 30, 2004 in Accordance with the IFRS

I. General information

Intertainment AG (referred to as Intertainment below) and the subsidiaries included in the consolidated financial statements have used the same accounting, valuation and consolidation policies for the Interim Report as were applied for the consolidated financial statements of the business year 2003. A detailed explanation of these policies will not be repeated here and we refer to the Annual Report 2003 for any details required. The consolidated financial statements relate to Intertainment AG and its subsidiaries INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc. The balance sheet date for the consolidated financial statements is September 30, 2004. In these explanatory notes, the figures are stated in thousand euros (TEuros). Alongside the figures for the period under review, the corresponding figures for the prior year are given for purposes of comparison. The comparative date in the balance sheet is December 31, 2003 and in the income statement September 30, 2003.

II. Notes to the consolidated balance sheet

1. Fixed assets

Payments on account for intangible assets amount to 2,147 (31/12/2003: 2,147) TEuros and relate to the acquisition of film rights. Property, plant and equipment amount to a volume of 134 (31/12/2003: 194) TEuros and consists of office and business equipment. Financial assets comprise the shareholding in SightSound Technologies Inc. totaling 15,036 (31/12/2003: 15,036) TEuros. We refer in particular to the "Notes to the consolidated financial statements" and Management Report for the year ending December 31, 2003 for further explanations, in particular relating to value and risks.

2. Inventories

The film rights and licenses are valued at 6,591 (31/12/2003: 7,100) TEuros. They developed as follows:

II. 2 FILM RIGHTS AND LICENSES		in TEuros
Position	30/9/2004	31/12/2003
Balance at January 1	7,100	10,831
Writeups	0	710
Non-scheduled amortization	0	-4,951
Reclassifications	0	510
Disposals	-509	0
Balance at Sep. 30 (Dec. 31)	6,591	7,100

The disposals relate to the sale of license rights in "Rudolph the Red-Nosed Reindeer" and another project in the first quarter of 2004.

3. Trade accounts receivable

Trade receivables amount to 114 (31/12/2003: 755) TEuros and relate exclusively to a remaining term of less than one year.

4. Other assets

Other assets amount to 69,122 (31/12/2003: 69,304) TEuros and comprise:

II. 4 OTHER ASSETS		in TEuros
	30/9/2004	31/12/2003
Damages receivable from legal disputes	68,920	67,700
Miscellaneous	202	1,604
Total	69,122	69,304

The damages receivable from legal disputes relate to the claims of Intertainment against Franchise Pictures and other parties. The valuation is based on the claims of Intertainment arising from the successful

legal dispute against Franchise Pictures and other parties amounting to the sum cited in the judgment less a risk reduction. Despite the fact that Franchise Pictures and other parties instituted insolvency proceedings in August 2004, the management still regards this asset as valuable. The value derives on the one hand from the fact that part of the claims can be met by the insolvency settlement. On the other hand, the management also regards the prospects for success in the impending arbitration proceedings against Comerica Bank and other parties as extremely positive. We also refer in this connection to our explanations in the financial statements for 2003. If Intertainment succeeds in asserting its claims among others against Comerica Bank, in the opinion of the management of Intertainment, Comerica Bank would also be liable for the damages sustained which were already successfully asserted in the trial against Franchise Pictures and other parties.

5. Cash on hand, bank balances

Liquid funds totaling 1,377 (31/12/2003: 2,138) TEuros result from current accounts and cash on hand. The fixed-term deposits have short remaining terms of less than one year.

6. Equity

We refer in particular to the statement on changes in consolidated equity for details of the development of equity capital. The nominal capital was unchanged and held in the form of 11,739,013 issued no-par shares. The accrued loss amounts to 24,361 (31/12/2003: 25,249) TEuros on September 30, 2004. The consolidated net income for

the period amounts to 888 (31/12/2003: consolidated deficit for the period. 14,065) TEuros.

The authorized and contingent capital remained unchanged compared to December 31, 2003.

7. Provisions

Other provisions developed as follows during the third quarter of 2004:

II. 7 OTHER PROVISIONS					in TEuros
	Balance 1/1/2004	Utilization	Release	Allocation	Balance 30/9/2004
Litigat. revenue participations	19,800	0	0	1,613	21,413
Litigation risks	6,500	-3,270	0	0	3,230
Contractual disputes	3,500	0	0	150	3,650
Reorganization	2,100	-1,092	0	22	1,030
Outstanding invoices	938	-205	-32	78	779
License fees	119	-26	0	1	94
Miscellaneous	142	-21	-79	0	42
Total	33,099	-4,613	-112	1,864	30,238

The provision for litigation revenue participations relates to the participation of third parties in the litigation revenues flowing to Intertainment. This provision is directly connected with the damages receivable under item II.4. The amount of the participations is defined by the contractually agreed percentages based on the expected inflows of funds. The litigation revenue participations are only due at the point in time when the inflows of funds are received.

The provision for litigation risks comprises the estimated costs still due for all the pen-

ding legal disputes within the context of the Franchise Pictures case. Apart from the provision for trial costs, no provisions were made for any payment obligations arising from the arbitration proceedings because the management is not assuming any further outflows of funds.

The provision for contractual disputes is for risks arising in the settlement of agreements which in the opinion of the management are binding and concluded.

The provision for reorganization includes obligations to contractual partners for the

settlement and termination of existing contracts. This includes inflows of funds arising from the security deposits assigned to contractual parties reported under other assets (we also refer to item II.4 of these notes).

8. Liabilities

Trade liabilities amount to 1,328 (31/12/2003: 1,142) TEuros. Other liabilities total 178 (31/12/2003: 358) TEuros. Liabilities relate overall to a remaining term of less than one year.

The liabilities to banks amount to 1 (31/12/2003: 7) TEuros. This item relates exclusively to current accounts.

During the business year 2003, a loan of 13,583 TEuros due on June 30, 2004 was written off since the management believed that the residual debt called in by the bank on June 30, 2004 was rescheduled. For this reason, the management believes that the loan can no longer be called in on June 30, 2004. The rescheduling provides for the bank issuing a debt waiver with an undertaking to repay. Within the context of this undertaking to repay, receivables are reinstated when the agreed conditions come into force. The total sum of the receivables reinstated through the undertaking to repay is limited to 115% of the original loan debt. In order to secure the claims of the bank, the assets and claims described under other liabilities (item IV.4) were assigned.

An expert opinion by a lawyer's office forms the basis to the assessment of this matter. If it emerges in future that this legal opinion is flawed, there is a risk that significant outflows of funds will result for the settlement

of the original residual debt. In this connection, there is also a risk that the guarantee of Intertainment AG originally provided for the settlement of the loan is not extinguished and Intertainment AG will also incur significant outflows of funds up to the level of the original residual debt.

III. Explanations to the Group income statement

1. Sales revenues

Sales revenues amount to 17,426 (30/9/2003: 4,066) TEuros and originate in particular from the sales generated for license sales of the film "Twisted" during the second quarter. In the third quarter, other sales were also generated from exploitation of the films "Art of War", "Whole Nine Yards" and "Grey Owl".

2. Other operating income

Other operating income amounts to 1,745 (30/9/2003: 2,730) TEuros and comprises:

III. 2 OTHER OPERATING INCOME in TEuros		
	1/1/- 30/9/ 2004	1/1/- 30/9/ 2003
Tax rebates	940	0
Exchange-rate gains	385	875
Release of provisions	112	1,810
Miscellaneous	308	45
Total	1,745	2,730

3. Cost of materials

The cost of materials amounts to 14,566 (30/9/2003: 1,436) TEuros and includes expenses for film rights and associated services amounting to 14,555 (30/9/2003: 1,279) TEuros and expenses for goods and associated services amounting to 11 (30/9/2003: 157) TEuros. The expenses for film rights and associated services include normal amortization on film rights amounting to 13,602 (30/9/2003: 0) TEuros.

4. Other operating expenses

The other operating expenses amount to 1,993 (30/9/2003: 8,201) TEuros and comprise:

III. 4 OTHER OPERATING EXPENSES in TEuros		
	1/1/- 30/9/ 2004	1/1/- 30/9/ 2003
Legal and consultancy costs	445	1,314
Exchange-rate losses	417	2,541
Rents and accommod. costs	184	224
Administrative costs of producers	0	1,458
Miscellaneous	947	2,664
Total	1,993	8,201

5. Extraordinary result

Intertainment presents all the items directly connected with litigation associated with the Franchise Pictures case relating to the fraud scenario in the extraordinary result. The fraud alleged by Intertainment was confirmed with the decision by the jury on June 16, 2004.

5.1 Extraordinary income

Extraordinary income amounts to 2,063 (30/9/2003: 0) TEuros and results primarily from a change in valuation of the damages receivable from Franchise Pictures and other parties due to exchange rate fluctuation.

5.2 Extraordinary expenses

Extraordinary expenses amount to 1,763 (30/9/2003: 0) TEuros. The change in provision for litigation revenue participation of third parties in the Franchise Pictures case is in particular included under this item.

The number of Intertainment shares is 11,739,013. During the period from January 1 to September 30, 2004, the Group generated net income of 888 TEuros, following on from a deficit of 6,485 TEuros in the prior period. Hence, the earnings per share amounted to 0.08 Euros, after -0.55 euros on September 30, 2003. The diluted earnings per share amount to 0.08 (30/09/2003: -0.55) euros.

IV. Other information**1. Earnings per share**

According to IAS 33, the earnings per share are calculated by dividing the earnings for the period by the weighted average number of the shares in circulation.

2. Other financial commitments

At September 30, 2004, the following future payment obligations were recorded:

IV. 2 OTHER FINANCIAL COMMITMENTS in TEuros			
	Remaining term less than 1 year	Remaining term more than 1 year	Total
Obligations arising from film productions	0 (32,522)*	0 (4,288)*	0 (36,810)*
Obligations arising from lease and rental contracts	1,222 (1,089)*	836 (411)*	2,058 (1,500)*
Total	1.222 (33,611)*	836 (4,699)*	2,058 (38,310)*

* at 30/9/2003

OBLIGATIONS ARISING FROM FILM PRODUCTIONS

The obligations arising from film productions relate in the prior period to payments made to production companies and remuneration to be paid to the co-producers of Intertainment. Current contracts were restructured as a result of the reorganization measures carried out at the start of the business year 2004. In this connection, it was possible to reduce substantially the obligations arising from film productions reported

effective in the first quarter of 2004. The claims arising from the license sales of the film "Twisted" were assigned in order to settle on-going obligations. These were balanced in the second quarter of 2004. It is possible that other financial obligations will arise in the future from this restructuring.

OBLIGATIONS ARISING FROM THE ARBITRATION PROCEEDING FOR THE FILM "TRACKER"

In mid-June 2003, International Motion Pictures Ltd. commenced arbitration proceedings for the film "Tracker". The company demanded from Intertainment payment of 3.3 million US dollars plus interest for the film "Tracker". In this connection, we refer to our statements in the Annual Report 2003 for further information.

OBLIGATIONS ARISING FROM THE ARBITRATION PROCEEDING AGAINST COMERICA BANK AND THE BOND COMPANIES

The arbitration proceeding that originally related to the film "Driven" was extended to all the disputed films financed by Comerica Bank and all claims for damages being asserted by Intertainment against Comerica Bank and the bond companies. Comerica Bank is demanding in this arbitration pro-

ceeding all outstanding installments for the films it financed. The total amount is more than 70,000 TUS dollars. We refer to our statements in the Annual Report 2003 for further information.

OTHER OBLIGATIONS ARISING FROM LITIGATION REVENUE PARTICIPATIONS

Insofar as cash-inflows of funds from the legal dispute with Franchise Pictures and other parties exceed the damages receivable amounting to 68.920 TEuros reported under other assets, other contractual obligations for litigation revenue participations arise on the basis of contractual agreements for which no provisions were formed during the year under review.

4. Contingent obligations

Under liabilities to banks, Intertainment reports rescheduling for the settlement of the residual debt arising from a loan to INTERTAINMENT Licensing GmbH, which the management assumes will come into force. In the opinion of the management, the bank issued a debt waiver with an undertaking to pay in December 2003. In this connection, the film rights already assigned but not yet sold and the resulting exploitation revenues remain assigned as security. The financing bank is also being assigned 15 % of the future net income for the business years 2004 to 2006 and a further 15 % of the litigation revenues arising from the litigation against Franchise Pictures as security, insofar as these exceed the amount reported. In the business year 2001, Intertainment AG had taken over a guarantee to the bank for the loan affected by the new reorga-

nization. In the view of the management, this guarantee has been extinguished within the framework of the new negotiations with the bank.

5. Pending legal disputes

No events occurred apart from the explanations provided in the Annual Report 2003. It is possible that alternative solutions could be found for settling the pending disputes in the Franchise case, or parts of the disputes.

6. Employees

On average during the period from January 1 to September 30, 2004, the Group employed 13 (2003: 23) staff.

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

The figures on shares and option rights held by members of the executive bodies remained unchanged since December 31, 2003.

8. Director's Dealings

Alkmäon Vermögensverwaltungsgesellschaft mbH based in Ismaning, in which Mr. Baeres, who is deemed to be a person close to Intertainment AG, holds all the shares, acquired 9.3 % of the voting rights in Intertainment AG on August 25, 2004.

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

The consolidated financial statements for the business year 2003 were prepared on the assumption that the Intertainment AG Group still has the ability to continue as a going concern. The Management of Intertainment has a positive assumption regarding its ability to continue as a going concern, so that the Group will in all probability be able to continue its business activities in the current and the subsequent business years and meet its payment obligations. The positive assumption regarding the Intertainment AG Group's ability to continue as a going concern is based on a detailed finance plan. This is made up of the financing of future business activity, the planned investments and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by three main areas of uncertainty that cannot be judged definitively at the present time. In particular, these are:

- Settlement of the bank loan which has been called in by the bank on the basis of the assumptions by the legal representatives
- Cash-inflows of funds from the legal disputes with Franchise Pictures, Comerica Bank and others parties referred to above
- Positive outcome of current arbitration proceedings
- Cash-inflow from the disposal of financial assets
- Fulfillment of the other assumptions of the finance plan including the incoming payments planned for the near future.

If the inflows of funds, the outflows of funds or the assumptions on which the financial

plan is based fail to materialize as planned, the ability to continue as a going concern of Intertainment AG, INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc. is highly endangered because of being unable to fulfill their payment obligations and the associated risk of filing for insolvency proceedings – also at very short notice under certain circumstances.

We refer the Group Management Report for the year ended December 31, 2004 (item F “Risks of future development of the Intertainment AG Group”).

10. Events after the balance sheet date

BOARD OF MANAGEMENT AND SUPERVISORY BOARD

After the reporting period had ended, there were substantial changes in the Board of Management and Supervisory Board of Intertainment AG. On October 29, 2004, the Chairman of the Board of Management Rüdiger Baeres stepped down from his office. The current Chief Financial Officer Achim Gerlach was appointed as sole Chairman of the company. The Annual General Meeting elected Rüdiger Baeres (Chairman) to the Supervisory Board of Intertainment AG on October 29, 2004. Dr. Matthias Heise (Deputy Chairman) and Wolfgang Blauburger were elected as Members of the Supervisory Board for a further five years. Dr. Wilhelm Bahner resigned from his position on the Supervisory Board.

Intertainment AG, November 30, 2004

The Board of Management

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Intertainment AG
Osterfeldstrasse 84 • D-85737 Ismaning
Phone: +49 (0)89 21699-0
Fax: +49 (0)89 21699-11
E-Mail: investor@intertainment.de
Internet: www.intertainment.de