

2003

QUARTERLY REPORT  
II / 2003



INTERENTAINMENT

Aktiengesellschaft

Key indicators (million Euros)	2 0 0 3		2 0 0 2	
	1.1.-30.6.	1.4.-30.6.	1.1.-30.6.	1.4.-30.6.

Sales	2.0	1.3	11.5	8.9
EBIT	-4.1	-1.8	-1.6*	0.8*
Result from ordinary operations	-4.3	-1.7	-3.0	-0.5
Net loss for the period	-4.8	-1.9	-4.1	-0.4
Earnings per share (Euros)	-0.41	-0.17	-0.35	-0.04
Average number of employees		23		24

\*includes extraordinary result

## Key data for the share

ISIN	ISIN: DE0006223605	
Share capital	15,005,155.09 Euros	
Number of shares	11,739,013	
Issue price 08.02.1999	36.00 Euros	
	after split (1:2)	18.00 Euros
Closing price* at 30.06.2003	3.30 Euros	
High* for 1 <sup>st</sup> half-year 2003 (30.06.2003)	3.30 Euros	
Low* for 1 <sup>st</sup> half-year 2003 (12.03.2003)	1.45 Euros	
Shareholder structure at 30.06.2003	Rüdiger Baeres	52.86 %
	Family Baeres	9.38 %
	Management, Supervisory Board	0.20 %
	Free float	37.56 %

\*Closing prices in Xetra electronic trading

## Financial calendar

Annual General Meeting	September 22, 2003
Publication of 3 <sup>rd</sup> quarter report 2003	November 28, 2003
Analysts conference	November 2003

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# Intertainment Group: Situation Report

## for the first half of 2003

### Performance during the first half of 2003

In the first half of 2003, the Intertainment Group focused on restructuring the company's operating business and prepared its lawsuit for damages against US film producer Franchise Pictures in Los Angeles. The completion of the thriller "Blackout" in the spring was important. At the beginning of July 2003 Intertainment also agreed a strategic partnership with Munich media company OpenPictures. These pleasing developments were over-shadowed by the news in mid-July of the **POSTPONEMENT** of the trial date against Franchise Pictures scheduled for August.

The business figures for the first half of the year continued to suffer owing to the lawsuit against American film producer Franchise Pictures. As a result the **SALES** of EUR 11.5 million recorded in the first half of 2002 fell to EUR 2 million after the first six months of this year.

Intertainment ended the first half of 2003 with a higher loss than in the first half of 2002. Accordingly, Intertainment recorded an EBIT of EUR -4.1 million for the first half of 2003, following EUR -1.6 million in the same period the previous year. In the first

half of 2003 the **NET LOSS FOR THE PERIOD** amounted to EUR -4.8 million against EUR -4.1 million in the first six months of 2002.

Mainly thanks to license revenue in the pay-TV sector, Intertainment achieved sales of EUR 1.3 million in the second quarter of 2003, against around EUR 700,000 in the first quarter of 2003.

The loss of EUR -2.8 million in the first quarter of 2003 fell to EUR -1.9 million. Intertainment managed to improve its EBIT in the second quarter of 2003 to EUR -1.8 million. In the first quarter it stood at EUR -2.3 million.

On June 30, 2003 the Intertainment Group's liquid funds amounted to EUR 2.3 million. The corresponding figure on March 31, 2003 was EUR 3.8 million and on December 31 last year EUR 3.9 million.

**NET LOSS FOR THE PERIOD**  
EUR -4.8 million

### POSTPONEMENT

**Trial date against Franchise Pictures postponed**

### SALES

**Fell to EUR 2 million**

Legal dispute with Franchise Pictures

Trial date in lawsuit with Franchise Pictures postponed

The legal dispute with Franchise Pictures and other proceedings in connection with this case continued to occupy much of Intertainment’s time in the first half of 2003. Since the lawsuit, in which INTERTAINMENT Licensing GmbH is claiming damages against Franchise of at least USD 100 million on the grounds of a fraudulently inflated budget, has already been pending since the end of 2000 – and the start of the trial date had already been postponed twice during this period – Intertainment was expecting a first-instance ruling by the end of August. At the beginning of 2003, the competent judge at the Federal District Court in Los Angeles had scheduled August 5 as the beginning of the trial. She explicitly confirmed this date at a pre-trial conference in mid-June 2003, allowing a total of 16 days for the hearing.

In mid-July 2003 the court again cancelled the TRIAL DATE, without stating reasons. A few days later Intertainment filed an application asking for the trial date to begin some time this year. A decision by the court is still awaited. Based on the evidence, Intertainment is confident of winning the lawsuit.

Detailed information on the background to the lawsuit and its chronology as well as events connected with the lawsuit can be found in the annual report for 2002.

Other developments in connection with the lawsuit

In connection with the lawsuit against Franchise Pictures, the following important developments took place between January 2003 and the completion of this interim report:

Lawsuit against Comerica Bank and the insurance companies

In December 2002, Intertainment filed a lawsuit with the STATE COURT against Comerica Bank, the insurance companies WorldWide Film Completion and Film Finances and executives of these companies on the grounds of what Intertainment considered fraudulent collaboration with Franchise Pictures. Comerica Bank then filed an application in the first quarter of 2003 for this lawsuit to be heard before the Federal District Court. In April 2003 the US District Court rejected this application.

At the end of June 2003 the competent judge at the State Court decided at a hearing that the lawsuit filed by Intertainment would be suspended until a decision was reached in arbitration proceedings.

STATE COURT

Lawsuit against Comerica Bank stays with the State Court

ARBITRATION HEARING

Will include all disputed Franchise films financed by Comerica Bank

Arbitration proceedings in respect of Franchise films

In the first quarter of 2003, Comerica Bank instituted arbitration proceedings against INTERTAINMENT Licensing GmbH for payment of the second installment amounting to USD 13.6 million for the film “Driven”.

By filing replies and counterclaims, Intertainment made sure that these arbitration proceedings will not focus only on “Driven”, but will instead be a consolidated ARBITRATION HEARING, which will include all disputed Franchise films financed by Comerica Bank. A decision will also be reached in this hearing concerning the compensation payable for the fraud which Intertainment alleges has been perpetrated by Comerica Bank. Intertainment assumes that the claims asserted by Comerica Bank against Intertainment are unsubstantiated. Should the arbitration court decide otherwise however, Intertainment expects that the income obtained by the Bank from the films will be set off against the payment claims asserted, and this income will cover or exceed the installments still outstanding.

Arbitration proceedings in respect of “Caveman’s Valentine”

In 2002 the National Bank of Canada filed a lawsuit against Intertainment under arbitration proceedings for payment of the second installment for “Caveman’s Valentine”. The film was part of the agreement between Franchise and Intertainment and was financed by the National Bank of

Canada. Intertainment refused to accept “Caveman’s Valentine” and did not pay the second installment, as the film had not been delivered correctly technically. The National Bank of Canada disputed this. The arbitration court ruled in favour of the Bank. After exhausting all legal channels, Intertainment then transferred the required amount of around USD 7 million to the National Bank of Canada in January 2003.

There was no discussion whatsoever at the arbitration proceedings as to whether the budget quoted by Franchise was correct or fraudulently inflated. A decision will only be reached on this in the course of the fraud trial against Franchise Pictures.

Arbitration proceedings in respect of “Tracker”

In mid-June International Motion Picture Corporation Ltd., Hong Kong, instituted arbitration proceedings against Intertainment. Intertainment had never had business dealings with this company, which is represented by the same counsel as the insurance company Film Finances. In the arbitration proceedings International Motion Picture Corporation is claiming damages of around USD 3.3 million plus interest in connection with the film “Tracker”. This film is also part of the lawsuit that Intertainment is conducting against Franchise Pictures. In addition the company tried through several channels to secure an attachment application against Intertainment at the Superior Court in Los Angeles amounting to around USD

TRIAL DATE  
Application asking for the trial date to begin some time this year

REFUSED

Competent judge refused application against Intertainment

4 million. The competent judge **REFUSED** this however, on the grounds that the true amount of the budget is unclear and because International Motion Picture Corporation had failed to show a likelihood of success on the merits of its claim against Intertainment. Intertainment expects that a decision will also be reached on the “Tracker” case at a joint arbitration hearing on all the films.

Segmental development

Film production and sale of rights

In the film production and sale of film rights segment, activity in the first half continued to focus on production and post-production of “Blackout”, Intertainment’s first co-production with Arnold Kopelson following their collaboration agreement of 2000. **“BLACKOUT”** was completed on schedule in the spring. Apart from Intertainment, Paramount Pictures was also involved in the production. The Major Studio recently decided to release the film in the cinemas in

**SPRING 2004** instead of autumn 2003, as originally planned. Paramount expects that this will improve the film’s box-office takings. The film will also not be launched in the other world-wide territories until 2004.

Intertainment sold numerous territorial rights to the film in advance both in the first quarter of 2003 and the second. These pre-sales will become sales-relevant on delivery of the film.

In collaboration with film distributor ottfilm GmbH, Intertainment launched “Things You can Tell ...” starring Glenn Close, Cameron Diaz, Calista Flockhart and Holly Hunter in German cinemas in mid-April 2003.

Intertainment has also distributed films such as “The Big Kahuna”, “The Third Miracle” and now “Things You Can Tell ...” on video and DVD through its video distribution partner Planet Media Home Entertainment.

Strategic partnership with OpenPictures

Intertainment is also strengthening its operating business medium- to long-term through a strategic partnership with OpenPictures AG, Munich. The two companies signed an agreement to this effect at the beginning of July 2003. The **MAIN OBJECTIVE OF THE PARTNERSHIP** is joint development and production of films. OpenPictures will also market films from Intertainment’s film library in German-speaking areas and also intends to sell individual territorial rights to

SPRING 2004

Paramount Pictures postponed release of “Blackout”

the jointly produced films. In the medium term the possibility of OpenPictures acquiring a stake in Intertainment has not been ruled out.

Animation & Merchandising

In the first half of 2003, Intertainment Animation & Merchandising GmbH concentrated on developing new products for the Christmas classic “Rudolph the Red-Nosed Reindeer”. This year the company is looking back on a successful five-year collaboration with UNICEF on the theme “Kids for Kids”. Intertainment Animation & Merchandising is also working intensively on developing new material for the children’s and family market.

Digital distribution

At the end of the first half of 2003, Intertainment holding SightSound Technologies also had to accept **POSTPONEMENT** of the patent trial. This relates to the trial originally scheduled to start in September as part of a patent lawsuit that SightSound is conducting against Bertelsmann subsidiary CDNow. A new trial date has not yet been set.

Management Board change

**STEPHEN BROWN** left the Management Board of Intertainment AG on August 13. He will however continue to work for the Group as President of USA-Intertainment, Inc., Los Angeles. Brown joined the Management Board on October 31, 2000 and was appointed Deputy CEO in 2001. In the context of Brown’s departure, Intertainment tightened up its management structure, transferring Brown’s former Business Development management division to USA-Intertainment, Inc. Brown’s experience in the film development and production sector will thus remain available to the Intertainment Group

STEPHEN BROWN

Will continue to work for the Group as President of USA-Intertainment, Inc.

POSTPONEMENT

Hearing will not start in September

Ismaning, August 28, 2003

Management Board

MAIN OBJECTIVE OF THE PARTNERSHIP

Joint development and production of films

## Intertainment Group: Consolidated Balance Sheet

as at June 30, 2003 in Accordance with IFRS

ASSETS		TEUR
	30.6.2003	31.12.2002
<b>A. FIXED ASSETS</b>		
<b>I. Intangible assets</b>		
1. Licenses, commercial property rights and similar rights as well as licences to such rights	565	631
2. Payments made on account	10,608	9,513
	<b>11,173</b>	<b>10,144</b>
<b>II. Property, plant &amp; equipment</b>		
Other plant, business and office equipment	1,902	2,206
<b>III. Financial assets</b>		
Participations	15,036	15,036
	<b>28,111</b>	<b>27,386</b>
<b>B. CURRENT ASSETS</b>		
<b>I. Inventories</b>		
1. Film rights	10,831	10,831
2. Merchandise	418	425
3. Payments made on account	33,170	33,107
	<b>44,419</b>	<b>44,363</b>
<b>II. Receivables and other assets</b>		
1. Trade receivables	25,355	37,165
2. Other assets	9,028	9,452
	<b>34,383</b>	<b>46,617</b>
<b>III. Cash on hand and in bank balances</b>	2,342	3,922
	<b>81,144</b>	<b>94,902</b>
<b>C. DEFERRED TAXES</b>	5,126	5,132
	<b>114,381</b>	<b>127,420</b>

EQUITY & LIABILITIES		TEUR
	30.6.2003	31.12.2002
<b>A. EQUITY</b>		
<b>I. Subscribed capital</b>	15,005	15,005
<b>II. Capital reserve</b>	149,429	149,426
<b>III. Revenue reserves</b>		
Statutory reserve	116	116
<b>IV. Retained earnings</b>	-90,620	-74,496
<b>V. Net loss for the period</b>	-4,773	-16,124
	<b>69,157</b>	<b>73,927</b>
<b>B. PROVISIONS</b>		
1. Tax provisions	98	117
2. Other provisions	3,195	6,966
	<b>3,293</b>	<b>7,083</b>
<b>C. LIABILITIES</b>		
1. Liabilities due to banks	14,166	16,172
2. Payments received on account	1,253	419
3. Trade accounts payables	20,609	24,233
4. Other liabilities	3,591	3,782
	<b>39,619</b>	<b>44,606</b>
<b>D. DEFERRED TAX LIABILITIES</b>	2,312	1,804
	<b>114,381</b>	<b>127,420</b>

## Intertainment Group: Income Statement

for the period from January 1, to June 30, 2003 in Accordance with IFRS

TEUR	1.1.-30.6.2003	1.1.-30.6.2002
1. Sales revenues	2,041	11,477
2. Other operating income	2,239	3,801
	<b>4,280</b>	<b>15,278</b>
3. Cost of materials		
a) Cost of film rights and associated performances	-732	-6,703
b) Expenses for bought-in merchandise and services	-136	-220
	<b>-868</b>	<b>-6,923</b>
4. Personnel expenses		
a) Wages & salaries	-1,554	-1,688
b) Social security contributions	-75	-66
	<b>-1,629</b>	<b>-1,754</b>
5. Depreciation on property, plant & equipment and amortization of intangible fixed assets	-208	-262
6. Other operating expenses	-5,628	-8,987
7. Net interest	-201	-397
8. Result of ordinary business activity	<b>-4,254</b>	<b>-3,045</b>
9. Extraordinary result	0	+1,060
10. Taxes on income and earnings	-518	-2,148
11. Other taxes	-1	0
12. Group net loss for the period	<b>-4,773</b>	<b>-4,133</b>
Basic earnings per share	-0.41	-0.35
Diluted earnings per share	-0.41	-0.35

## Intertainment Group: Income Statement

for the period from April 1, to June 30, 2003 in Accordance with IFRS

TEUR	1.4.-30.6.2003	1.4.-30.6.2002
1. Sales revenues	1,325	8,943
2. Other operating income	660	2,376
	<b>1,985</b>	<b>11,319</b>
3. Cost of materials		
a) Cost of film rights and associated performances	-419	-5,938
b) Expenses for bought-in merchandise and services	-47	-169
	<b>-466</b>	<b>-6,107</b>
4. Personnel expenses		
a) Wages & salaries	-795	-874
b) Social security contributions	-39	-34
	<b>-834</b>	<b>-908</b>
5. Depreciation on property, plant & equipment and amortization of intangible fixed assets	-102	-126
6. Other operating expenses	-2,287	-4,425
7. Net interest	-37	-210
8. Result of ordinary business activity	<b>-1,741</b>	<b>-457</b>
9. Extraordinary result	0	+1,060
10. Taxes on income and earnings	-198	-1,021
11. Other taxes	0	0
12. Group net loss for the period	<b>-1,939</b>	<b>-418</b>
Basic earnings per share	-0.17	-0.04
Diluted earnings per share	-0.17	-0.04



## Intertainment Group: Consolidated Cash Flow Statement

as at June 30, 2003 in Accordance with IFRS

TEUR	30.6.2003	30.6.2002
Period result prior to extraordinary items	-4,773	-5,193
Amortization & depreciation of fixed assets	208	262
Changes in provisions	-3,790	-5,236
Changes to inventories	-57	5,482
Changes in trade receivables	11,810	11,914
Changes in other assets	430	6,481
Changes in trade payables as well as in other liabilities	-2,473	-3,008
<b>Inflow from currant operations</b>	<b>1,355</b>	<b>10,702</b>
Non-cash effects of extraordinary items	0	1,060
<b>Inflow of funds from extraordinary items</b>	<b>0</b>	<b>1,060</b>
Outgoing payments for investments in fixed assets	-932	-3,391
<b>Outflow of funds from investment activity</b>	<b>-932</b>	<b>-3,391</b>
Changes in liabilities to banks	-2,006	-4,017
<b>Outflow of funds from financing activity</b>	<b>-2,006</b>	<b>-4,017</b>
<b>Changes in cash and cash equivalents</b>	<b>-1,583</b>	<b>4,354</b>
Changes in cash and cash equivalents resulting from exchange rate and other influences	3	48
Cash and cash equivalents at beginning of period	3,922	14,231
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,342</b>	<b>18,633</b>

## Intertainment Group: Development of the Group-Shareholders' Equity

in Accordance with IFRS

TEUR	Share capital	Capital reserve	Revenue reserve	Balance Sheet profit/loss	Total
<b>Result 2001</b>				-86,807	-86,807
<b>Currency difference</b>		-2			-2
<b>BALANCE AT 31.12.2001</b>	<b>15,005</b>	<b>149,523</b>	<b>116</b>	<b>-74,496</b>	<b>90,148</b>
<b>Result 31.12.2002</b>				-16,124	-16,124
<b>Currency difference</b>		-97			-97
<b>BALANCE AT 31.12.2002</b>	<b>15,005</b>	<b>149,426</b>	<b>116</b>	<b>-90,620</b>	<b>73,927</b>
<b>Result 30.06.2003</b>				-4,773	-4,773
<b>Currency difference</b>		3			3
<b>BALANCE AT 31.03.2003</b>	<b>15,005</b>	<b>149,429</b>	<b>116</b>	<b>-95,393</b>	<b>69,157</b>

# Entertainment Group: Notes

## to the Consolidated Financial Statements for the Interim Report for the period to June 30, 2003 in Accordance with IFRS

### CONSOLIDATED FINANCIAL STATEMENTS

### I. General information

Entertainment AG and the companies included in the consolidated financial statements have used the same accounting, valuation and consolidation policies for the Interim Report as were applied for the consolidation statements of the financial year 2002. A detailed explanation of these policies is not included in the Interim Report.

The **CONSOLIDATED FINANCIAL STATEMENTS** relate to Entertainment AG and its subsidiaries INTERTAINMENT Licensing GmbH, Entertainment Animation & Merchandising GmbH and USA-Entertainment, Inc. Entertainment AG (also referred to below as Entertainment) has stated the figures in these Notes in thousand Euros (TEUR). The corresponding figures for the previous year are presented alongside the figures for the period under review in order to assist in making comparisons. December 31, 2002 is given as the comparative reporting date in the balance sheet and June 30, 2002 is given in the income statement.

### II. Notes to Balance Sheet

#### 1. Fixed assets

Payments on account for intangible assets include in particular TEUR 5,509 (31.12.2002: 5,509) for the acquisition of film rights and TEUR 5,099 (31.12.2002: 4,004) for other film productions.

Financial Assets comprise the shareholding in the company SightSound Technologies Inc. Entertainment AG has a stake of approximately 22.8 % in this company. In the fiscal year 2001, Entertainment wrote down 25 % of the acquisition costs of this participation due to increased risk discounts for risks specific to the company and the industry.

#### 2. Inventories

The value of **FILM RIGHTS** amounting to TEUR 10,831 was unchanged compared with December 31, 2002. The value of merchandise held for sale amounts to TEUR 418 (31.12.2002: 425) and comprises merchandising articles, videos and DVDs. Payments on account for film rights of TEUR 33,170 (31.12.2002: 33,107) consist mainly of payments relating to the first installment for film rights of Franchise Pictures that are directly connected with the pending legal actions. Entertainment paid the first installment and part of the second installment for these film titles and has reported the total amount of the payments reduced by depreciation reserves as payments on account for film rights.

### FILM RIGHTS

### RESIDUAL TERM

#### 3. Trade accounts receivable

Trade receivables amount to TEUR 25,355 (31.12.2002: 37,165), of which TEUR 17,916 (31.12.2002: 19,214) have a **RESIDUAL TERM** of more than one year. Long-term accounts receivable were discounted by a total of TEUR 1,861 (31.12.2002: 2,446).

#### 4. Other assets

Other assets consist mainly of accounts receivable from Blackout Productions Inc. in the amount of TEUR 6,626 (31.12.2002: 6,820), accounts receivable from Paramount Pictures totaling TEUR 458 (31.12.2002: 506) and input tax not due of TEUR 1,337 (31.12.2002: 1,337).

#### 5. Cash on hand, bank balances

Liquid funds totaling TEUR 2,342 (31.12.2002: 3,922) comprise fixed term deposits of TEUR 585 (previous year 900),

current account balances of TEUR 1,757 (31.12.2002: 3,022) and cash on hand. Fixed term deposits all have terms of less than one year. Liquidity of TEUR 585 (31.12.2002: 717) is not unconditionally available due to a surety and a letter of credit in connection with rental obligations relating to office premises.

#### 6. Equity

We refer you to the Schedule of Shareholders' Equity for **DEVELOPMENT IN EQUITY**. The share capital is made up of 11,739,013 no-par-value shares in issue. The authorized unissued capital and contingent capital remains unchanged since December 31, 2002.

#### 7. Provisions

Provisions for taxation include outstanding taxes for the fiscal years 1998 to 2000 arising from a tax audit and amounting to a total of TEUR 98 (31.12.2002: 117).

Other provisions developed as follows in the first half of 2003:

### DEVELOPMENT IN EQUITY

II. 7 OTHER PROVISIONS					TEUR
	Status 1.1.2003	Utilized	Released	Appropriated	Status 30.6.2003
Litigation risks	3,000	-570	0	0	2,430
Outstanding invoices	2,623	-1,017	-1,305	143	444
License fees	127	0	0	0	127
Personnel	372	-256	-1	0	115
Provision for license sales	765	-264	-501	0	0
Miscellaneous	79	0	0	0	79
Total	6,966	-2,107	-1,807	143	3,195



PROVISION FOR LITIGATION RISKS

The provision for outstanding invoices consists of payment obligations for goods delivered and services rendered in the year under review and not yet paid for.

The **PROVISION FOR LITIGATION RISKS** encompasses the estimated costs still to be incurred for the pending legal actions with Franchise Pictures.

The provision for personnel relates to vacation not yet taken.

The provision for license fees relates to licenses exploited for which corresponding fees are payable to the licensee.

LIABILITIES TO BANKS

8. Liabilities

**LIABILITIES TO BANKS** relate exclusively to a loan amounting to TEUR 14,166 (31.12.2002: 15,185) with HypoVereinsbank AG. An outstanding loan from BHF Bank with a residual amount of TEUR 987 was settled in full in the first quarter of 2003. The loan with HypoVereinsbank is being repaid on a regular basis and is due for repayment at the latest on June 30, 2004. The loan is subject to variable interest which is geared to base interest rates. Intertainment has used the loan to finance the acquisition of film license rights and in this connection has agreed with the bank to assign these exploitation rights, assign the material as security and assign the accounts receivable from sales contracts.

**TRADE LIABILITIES** amount to TEUR 20,609 (31.12.2002: 24,233). This includes long-term liabilities totaling TEUR 16,954 (31.12.2002: 18,206) which are discounted by TEUR 1,791 (31.12.2002: 2,277).

TRADE LIABILITIES

Miscellaneous liabilities mainly relate to repayment obligations to Paramount Pictures amounting to TEUR 2,088 (31.12.2003: 2,088).

III. Notes on the income statement

1. Sales revenues

**SALES REVENUES** amount to TEUR 2,041 (30.06.2002: 11,477) and in the period under review result in particular from video and pay-TV exploitation of the film titles "Art of War", "The Whole Nine Yards" and "Battlefield Earth", and the sale of a free-TV package of secondary rights.

SALES REVENUES

2. Other operating income

Other operating income includes released provisions amounting to TEUR 1,810 (30.06.2002: 28) and currency gains totaling TEUR 407 (30.06.2002: 2,540). Currency gains are set against currency losses amounting to TEUR 1,925 (30.06.2002: 3,350) and reported under other operating expenses.

3. Cost of materials

The cost of materials consists mainly of marketing costs amounting to TEUR 747 (30.06.2002: 990) relating to the exploitation of films.

INTEREST RESULT

4. Other operating costs

Other operating costs essentially include the following: currency losses amounting to TEUR 1,925 (30.06.2002: 3,350), remuneration of administrative costs to film producers amounting to TEUR 1,095 (30.06.2002: 1,324) and legal and consultancy fees totaling TEUR 947 (30.06.2002: 688).

5. Interest result

The **INTEREST RESULT** is made up of interest income of TEUR 633 (30.06.2002: 698) and interest expenses of TEUR 834 (30.06.2002: 1,095).

IV. Other information

1. Earnings per share

Under IAS 33, **EARNINGS PER SHARE** are calculated by dividing the result for the period under review by the weighted average number of shares in circulation.

The number of Intertainment shares is 11,739,013. The Group recorded a net loss of TEUR 4,773 in the first half of 2003, following a loss of TEUR 4,133 in the same period the previous year. Earnings per share therefore amount to EUR -0.41 against EUR -0.35 as at June 30, 2002. Diluted earnings per share in the reporting period and the same period the previous year correspond to undiluted earnings.

EARNINGS PER SHARE

2. Other payment obligations

As at June 30, 2003, Intertainment records the following future payment obligations:

IV. 2 FUTURE PAYMENT OBLIGATIONS			TEUR
	Remaining term up to 1 year	Remaining term more than 1 year	Total
Obligations arising from film productions	32,439 (7,800)*	5,265 (23,750)*	37,704 (31,550)*
Obligations arising from lease and rental agreements	2,017 (1,339)*	653 (3,574)*	2,670 (4,913)*
Total	34,456 (9,139)*	5,918 (27,324)*	40,374 (36,463)*

\* at 30.06.2003

We refer you to the notes on the financial statements for the year ending 2002 for details of the individual items.

## GUARANTEE

### 4. Other contingent obligations

Intertainment has financed part of its film rights with loans from banks. In return, Intertainment has assigned to the banks film rights and associated receivables arising from the exploitation of such rights.

During the financial year 2001, Intertainment AG assumed a **GUARANTEE** to Hypo-Vereinsbank AG of TEUR 16,361. This serves as security for a loan taken out by INTERTAINMENT Licensing GmbH and falls due on 30.06.2004. At June 30, 2003 the loan amounted to TEUR 14,167 (31.12.2002: 15,185).

Intertainment AG gave a surety of TEUR 76 (31.12.2002: 76) in 2000 for the tenancy of office premises in Ismaning and this continues unchanged. There is also a letter of credit from Intertainment AG for TUSD 666 (31.12.2002: 666) for the rental obligations relating to the tenancy of the office premises of USA-Intertainment, Inc. in Los Angeles.

### 5. Pending litigation

Proceedings against Franchise Pictures were still pending at June 30, 2003. The grounds for this lawsuit have already been outlined in the notes to the consolidated financial statements for the period ended December 31, 2002. The risks and probabilities of occurrence remain unchanged.

### 6. Employees

The Group employed on average a staff of 23 (31.12.2002: 23) during the second quarter of 2003.

### 7. Share ownership and options held by members of the executive bodies

As at June 30, 2003, the members of the management board and the supervisory board held the following no-par-value shares and options:

IV.7 SHARE OWNERSHIP AND OPTIONS		
MANAGEMENT BOARD	Shares	Options
Rüdiger Baeres	6,205,635	0
Achim Gerlach	10,000	100,000
Stephen Brown	0	50,000
SUPERVISORY BOARD	Shares	Options
Dr. Matthias Heisse	12,980	0
Dr. Ernst Pechtl	0	0
Dr. Wilhelm Bahner	0	0

As at June 30, 2003, the Company did not hold any of its own shares.

### 8. Risks prejudicial to continued existence

The quarterly consolidated financial statements of Intertainment AG have been prepared on the premise of a going concern. In this connection the management of Intertainment assumes a positive forecast for the continuation of the company as a going concern, so that the company will in all probability be able to continue its business activities during the current and subsequent fiscal years and meet its payment obligations. The positive forecast for continuation as a going concern is based on an integrated corporate plan from which a detailed financial budget has been derived. This includes the financing of future business activity, planned investments and other financing activities. Overall, the estimate of the continued existence of the company as a going concern is qualified by **FOUR MAJOR UNCERTAINTIES** that cannot be assessed definitively at the present time. These are:

- Inflows of funds from the sale of financial assets,
- Inflows of funds from the litigation against Franchise Pictures,
- Outflows of funds from arbitration court proceedings and
- Uncertainties regarding the realization of other premises on which the financial budget submitted by the company is based. If these premises fail to materialize, it will not be possible to repay a bank loan that falls due in June 2004.

If the inflows of funds, the outflows of funds or the premises on which the financial budget is based fail to materialize as planned, the continued existence of Intertainment AG and INTERTAINMENT Licensing GmbH is highly imperiled on account of impending inability to pay and the consequent opening of insolvency proceedings. We refer you to the section "D risks of future development" in the situation report for the fiscal year 2002 for further details of the risks to continued existence.

Intertainment AG, August 28, 2003

Management Board

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