

2005

QUARTERLY REPORT
I / 2005



INTERTAINMENT

Aktiengesellschaft

Sales	0.1	1.1
EBIT	2.6	2.5
Result of ordinary business activities	2.6	2.5
Net profit for the period	2.1	1.6
Earnings per share (euros)	0.18	0.13
Average number of employees	11	13

Key data for the share

ISIN	DE0006223605
Share capital	15,005,155.09 Euro
Number of shares	11,739,013
Issue price 8/2/1999	36.00 Euro
	after split (1:2)
	18.00 Euro
Closing price* at 31/3/2005	2.27 Euro
High* for 1 st quarter 2005 (21/2/2005)	2.41 Euro
Low* for 1 st quarter 2005 (16/2/2005)	1.91 Euro
Shareholder structure at 31/3/2005	Rüdiger Baeres (directly and indirectly)
	59.08 %
	Management and Supervisory Board**
	0.20 %
	Free float
	40.72 %

*Closing prices in Xetra electronic trading

**excluding Rüdiger Baeres

Corporate calendar

Annual General Meeting	August 2005
2 nd Quarter 2005 Earnings Report	August 31, 2005
3 rd Quarter 2005 Earnings Report	November 30, 2005
Analyst Conference	November 2005

Contact

New Address from 1/7/2005

Intertainment AG Investor Relations Osterfeldstrasse 84 D-85737 Ismaning	Phone: +49 (0)89 21699-0 Fax: +49 (0)89 21699-11 www.intertainment.de E-Mail: investor@intertainment.de	Intertainment AG Investor Relations Frauenplatz 7 D-80331 Munich
---	--	---

Intertainment Group: Situation Report

for the first quarter of 2005

A. Performance during the first quarter of 2005

During the first quarter of 2005, Intertainment AG focused in particular on enforcing the claims for damages outstanding from the fraud trial against US film producer Franchise Pictures in the USA. The arbitration suit of INTERTAINMENT Licensing GmbH against Comerica Bank and other parties, also in the USA, formed a further focus of attention. Intertainment also concluded settlements with bond companies Film Finances and Film Finances (1998) Canada, and International Motion Pictures Corporation.

Despite the financial burdens entailed by the litigation, Intertainment AG returned to profit during the period under review. Intertainment achieved net income for the first quarter amounting to 2.1 million euros, compared with 1.6 million euros in the first quarter of the previous year. Earnings before interest and taxes (EBIT) amounted to 2.6 million (1st quarter 2004: 2.5 million euros). Earnings from ordinary activities were also up at 2.6 million euros after 2.5 million euros in the previous year. Earnings per share achieved 0.18 euros (1st quarter 2004: 0.13 euros).

The improvement in earnings was brought about by exchange-rate effects and the strict savings policy within the Group, which involved the reorganization measures implemented during the course of 2004. Intertainment achieved income

amounting to 3.6 million euros in conjunction with the valuation of claims for damages arising from legal disputes. These revenues are attributable to the rise in the price of the US dollar against the euro at the balance sheet date of March 31, 2005 compared with December 31, 2004. At the close of the quarter, Intertainment reported claims amounting to 61.7 million euros from legal disputes compared with 59.1 million euros at year-end 2004.

Sales at Intertainment amounted to 67,000 euros after 1.1 million euros in the first quarter of 2004. Revenues for the quarter were exclusively due to the exploitation of existing rights in film licenses. The decline was due to the fraud perpetrated by Franchise Pictures and the comprehensive program of reorganizational measures that had to be implemented as a result. It meant that Intertainment was only in a position to exploit rights in films that appeared at the latest in the year 2000.

Cash and cash equivalents of Intertainment at March 31, 2005 amounted to 1.7 million euros – the same level as at December 31, 2004. At March 31, 2004, Intertainment disposed over liquid funds amounting to 0.5 million euros.

B. Legal disputes in the USA

INTERTAINMENT Licensing GmbH has been involved in extensive legal disputes in the USA since 2000. In this context, the company won a trial for damages against Franchise Pictures, 16 production companies and the former CEO of Franchise Pictures, Elie Samaha. Intertainment was granted a total of 121.7 million US dollars. During the period under review, Intertainment focused on introducing the necessary steps in order to assert the claims arising from the judgment against Elie Samaha.

In connection with the Franchise trial, Intertainment also had to deal with a petition submitted to the court by the opposing side requesting that the judgment be declared null and void and that a complete retrial be ordered. The second focus of attention was the ongoing arbitration proceeding instituted by INTERTAINMENT Licensing GmbH against Comerica Bank and other parties. Intertainment also concluded a settlement with the two bond companies Film Finances and Film Finances (1998) Canada. This means that these companies no longer number among the defendants sued by Intertainment in the arbitration proceedings. This quarterly report will present the developments in the individual proceedings during the first quarter as well as the events up to the conclusion of the situation report. A detailed account of the links and background to the legal disputes in the USA is provided in the Management Report and the Notes to the Financial Statements for the fiscal year 2004.

1. Post Trial Motions in the Franchise Pictures case

In the context of the legal proceedings against Franchise Pictures, the production companies and Elie Samaha, both sides filed post trial motions after the entry of the judgment. A total of five petitions are pending before the court, with only one petition filed by INTERTAINMENT Licensing GmbH. Elie Samaha and Glickson Investment LLC., also found liable, recently submitted a petition in April 2005, that the judgment should be declared null and void and a complete retrial be ordered since new evidence against Intertainment had allegedly come to light. Franchise Pictures and the production companies of Franchise Pictures currently subject to insolvency proceedings and also found liable acceded to this petition.

At a hearing on May 16, 2005, the presiding judge tentatively rejected all the post trial motions in a written tentative ruling. A final decision is anticipated at the earliest in mid-June.

2. Arbitration proceeding against Comerica Bank and others

When this quarterly report was prepared, the arbitration proceeding was still in the discovery phase. In this phase, the companies involved in the proceeding must submit internal and external company documents, which are relevant for the taking of evidence in the case, to the opposing parties. At a hearing before the arbitrators on March 18, 2005, Comerica Bank submitted a petition that all claims submitted by INTERTAINMENT Licensing GmbH should be rejected without a decision on the merits of the case. The arbitrators rejected this

petition at a hearing on April 27, 2005. However, the arbitrators compelled Intertainment to submit further documents during the discovery phase.

At a hearing on May 18, the arbitrators defined the ongoing proceedings in the discovery phase. In this context, Intertainment entered a petition to compel Comerica Bank to submit additional documents. The next hearing has been scheduled for August 24, 2005. The date for the end of the discovery phase and the date for the oral proceedings are to be scheduled at this hearing.

In the context of the proceeding, Comerica Bank also announced that it would submit counterclaims against the bond company Film Finances by June 1, 2005. Comerica Bank also submitted replies to the petitions by XL Reinsurance and Film Finances requesting that the agreements between Intertainment and these parties be assessed as a determination of good faith settlement (a special feature of US procedural law). These counterclaims have no effect on the claims Intertainment is asserting against Comerica Bank. Intertainment will therefore submit an application that they should be dealt with in a separate proceeding.

3. Settlement with Film Finances Inc. and Film Finances (1998) Canada

INTERTAINMENT Licensing GmbH and Intertainment AG reached a settlement with the bond companies Film Finances Inc. and Film Finances (1998) Canada Ltd. shortly before the end of the quarter. Before the settlement was reached, the two companies had numbered among the opposing parties subject to claims asserted by INTERTAINMENT Licensing AG in the arbitration proceeding against Comerica Bank and executive managers of the bank. The settlement includes a payment by Film Finances Inc. and Film Finances (1998) Canada to Intertainment. In addition, Film Finances Inc. and Film Finances (1998) Canada assigned their claims against the film producers Franchise Pictures and the insolvent subsidiaries of Franchise Pictures in favor of the estate before the situation report was completed. They have therefore withdrawn from the list of creditors. INTERTAINMENT Licensing GmbH is the biggest unsecured creditor in the Franchise insolvency proceedings. The parties have concluded a confidentiality agreement on further details of the content of the settlement.

4. Insolvency proceedings against Franchise Pictures and the production companies

Franchise Pictures and most of the production companies found liable filed for insolvency under chapter 11 of the US Bankruptcy Code a few days after the judgment was entered by the presiding judge in August 2004. The responsible bankruptcy court has already extended the deadline for submission of a restructuring plan following

an application by the restructuring manager a number of times – most recently to June 30, 2005. This means that up until this date, he has the exclusive right to submit a restructuring plan. According to statements by the restructuring manager, he also intends to include in the estate the assets of additional production companies allegedly owned or controlled in part by Elie Samaha and/or a former investor of Franchise Pictures, David Bergstein, which have not filed for insolvency.

5. Procedure against the former Franchise CEO Elie Samaha

The first hearing relating to the assets of Elie Samaha was held on January 24, 2005. Intertainment immediately started to analyze the documents submitted by Samaha at this hearing. During the period under review, INTERTAINMENT Licensing GmbH also instituted enforcement proceedings relating to the personal assets of Elie Samaha. These relate e.g. to rights of lien on company shareholdings. A second date set for a court hearing relating to Samaha was postponed with the agreement of Intertainment to June 27, 2005.

6. Settlement with International Motion Pictures Corporation Ltd.

In March 2005, Intertainment reached a settlement with International Motion Pictures Corporation Ltd. (IMPC), Hong Kong, agreeing that IMPC would withdraw its arbitration suit against Intertainment in connection with the film "Tracker".

7. Arbitration proceeding for the case of "Viva las Nowhere"

In the context of the arbitration proceeding, INTERTAINMENT Licensing GmbH is demanding a repayment amounting to approximately 1.3 million US dollars plus interest for the film "Viva Las Nowhere" from Westdeutsche Landesbank (WestLB), the Lewis Horwitz Organization and the Federal Deposit Insurance Corp. The film was the subject of the trial against Franchise Pictures. It had a fraudulently inflated budget. During the period under review, Westdeutsche Landesbank filed counterclaims amounting to around 900,000 US dollars against INTERTAINMENT Licensing GmbH. At the point in time when this situation report was prepared, the parties had not yet concluded selection of the arbitrator.

C. Development of individual segments

1. Film production and sale of rights

During the period under review, Intertainment exclusively exploited rights in films that came into the ownership of Intertainment at the latest in mid-2000. In the first instance, the management will continue to focus on the legal disputes in the USA.

Implementing the new business strategy is intended to strengthen the operating side. In this connection, we refer to our statements under item E.2 in the management report for the business year 2004.

2. Participation in SightSound Technologies Inc.

The American Intertainment subsidiary SightSound Technologies Inc. holds the US patents for digital downloading of audio and video files from the Internet. In the wake of unsuccessful license negotiations between the company and a potential American licensee from the digital music and film downloads sector during the year under review, Intertainment decided to write down in full the participation of SightSound in the accounts for the business year 2004. This is due to the fact that the management of Intertainment was unable to assess with sufficient certainty the extent to which the value of the patents had been retained following the breakdown of negotiations. Intertainment was also unable to assess whether SightSound is in a position

to finance the ongoing costs for asserting and marketing the patents. In connection with the consequences of the failed negotiations, a risk has also arisen that the patents of SightSound will again be examined by the US Patent Office. An investigation of this nature can last up to two years.

D. Staff

The Intertainment Group employed a staff of 11 people at March 31, 2005. On average, Intertainment had employed a staff of 13 for the business year 2004.

E. Risks of future development of the Intertainment AG Group

In conjunction with the risks of the future development of Intertainment, we refer expressly to the annual financial statements and management report of 2004, and to the notes to this quarterly report.

Ismaning, May 31, 2005

Sole Director

Intertainment Group: Consolidated Balance Sheet

as at March 31, 2005 in Accordance with the IFRS

ASSETS	in TEuros	
	31/3/2005	31/12/2004
A. FIXED ASSETS		
I. Intangible assets		
1. Licenses, commercial property rights and similar rights as well as licences in such rights	0	1
2. Payments made on account	2,147	2,147
	2,147	2,148
II. Property, plant & equipment		
Other plant, business and office equipment	111	122
III. Financial assets		
Participations	0	0
	2,258	2,270
B. CURRENT ASSETS		
I. Inventories		
Film rights	4,408	4,408
II. Receivables and other assets		
1. Trade receivables	61	661
2. Other assets	61,869	59,264
	61,930	59,925
III. Cash on hand, bank balances	1,732	1,694
	68,070	66,027
C. DEFERRED TAXES	15,924	15,924
	86,252	84,221

EQUITY & LIABILITIES	in TEuros	
	31/3/2005	31/12/2004
A. EQUITY		
I. Subscribed capital	15,005	15,005
II. Capital reserve	47,030	46,989
III. Earnings reserves		
Statutory reserve	116	116
IV. Group retained earnings	-22,036	-24,158
V. Currency differences	-84	-85
	40,031	37,867
B. PROVISIONS		
1. Tax provisions	470	0
2. Other provisions	26,582	27,187
	27,052	27,187
C. LIABILITIES		
1. Liabilities due to banks	12	0
2. Trade accounts payables	924	911
3. Other liabilities	31	54
	967	965
D. DEFERRED TAXES	18,202	18,202
	86,252	84,221

Intertainment Group: Income Statement

for the period from January 1, 2005 to March 31, 2005
in Accordance with the IFRS

in TEuros	1/1/-31/3/2005	1/1/-31/3/2004
1. Sales revenues	67	1,052
2. Other operating income	3,967	4,032
	4,034	5,084
3. Cost of materials		
a) Cost of film rights and associated performances	-1	-152
b) Expenses for bought-in merchandise and services	-1	-5
	-2	-157
4. Personnel expenses		
a) Salaries	-362	-514
b) Social security contributions	-20	-26
	-382	-540
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-12	-16
6. Other operating expenses	-1,044	-1,917
7. Net interest	-1	1
8. Result of ordinary business activities	2,593	2,455
9. Taxes on income and earnings	-470	-904
10. Other taxes	-1	0
11. Consolidated net income for the period	2,122	1,551
12. Accumulated loss	-24,158	-25,249
13. Group retained earnings	-22,036	-23,698
Basic loss per share	0.18	0.13
Diluted loss per share	0.18	0.13

Intertainment Group: Consolidated Cash Flow Statement

as at March 31, 2005 in Accordance with the IFRS

in TEuros	31/3/2005	31/3/2004
Period result prior to extraordinary items, interest and taxes	2,123	-30
Valuation of damages from legal disputes	-3,552	0
Valuation of provision for contractual disputes	-350	0
Valuation of provision for participation in trial proceeds	625	0
Personnel expenses share options for Board of Management and employees	41	0
Amortization & depreciation on items of fixed assets	12	16
Changes in provisions	-410	-715
Changes to inventories	0	-219
Changes in trade receivables	600	-281
Changes in other assets	947	-911
Changes in trade payables as well as in other liabilities	-10	492
Interest received	12	1
Interest paid	-13	0
Outflow/inflow of funds from current business activities	25	-1,647
Outgoing payments for investments in fixed assets	0	-2
Outflow of funds from investment activities	0	-2
Changes in liabilities to banks	12	-2
Outflow of funds from financing activities	12	-2
Changes in cash and cash equivalents	37	-1,651
Changes in cash and cash equivalents resulting from exchange rate and other influences	1	-2
Cash and cash equivalents at beginning of period	1,694	2,138
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,732	485

Entertainment Group: Schedule of Nominal Capital

in Accordance with the IFRS

in TEuros						
	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency difference	Total
AS AT 31/12/2002	15,005	149,481	116	-90,620	-55	73,927
Result 2003				-14,126		-14,126
Withdrawals from cap. res.		-79,436		79,436		0
Share options		61				61
Currency difference					-26	-26
AS AT 31/12/2003	15,005	70,106	116	-25,310	-81	59,836
Result 2004				-22,151		-22,151
Withdrawals from cap. res.		-23,303		23,303		0
Share options		186				186
Currency difference					-4	-4
AS AT 31/12/2004	15,005	46,989	116	-24,158	-85	37,867
Result 1st Quarter 2005				2,122		2,122
Share options		41				41
Currency difference					1	1
AS AT 31/3/2005	15,005	47,030	116	-22,036	-84	40,031

Entertainment Group: Notes

to the Consolidated Financial Statements for the Interim Report for the period to March 31, 2005 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 2004. A detailed explanation of these policies will not be repeated here and we refer to the annual financial statements for 2004, if you require any details.

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 March 31, 2005.

Changes to the IFRS regulations mean that from January 1, 2005, an extraordinary result will no longer be reported in accordance with IAS 1-85. Intertainment will report all matters relating to the legal disputes against Franchise Pictures and other parties in the operating result. Appropriate adjustments have been made to the prior period.

The figures in these explanatory notes are stated in thousand euros (TEuros). Alongside the current figures for the period under review, the corresponding figures for the prior year are given for purposes of comparison.

The comparative date in the balance sheet is December 31, 2004 and in the income statement March 31, 2004.

II. Notes to the consolidated balance sheet

1. Fixed assets

Payments on account for intangible assets amount to 2,147 (31/12/2004: 2,147) TEuros and relate to the acquisition of film rights.

Property, plant and equipment amount to 111 (31/12/2004: 122) TEuros and consist of office and business equipment.

Financial assets comprise the shareholding in SightSound Technologies Inc. This was written off in full in the business year 2004.

2. Inventories

The value of film rights remains unchanged at 4,408 TEuros compared with December 31, 2004.

3. Trade accounts receivable

Trade accounts receivable amount to 61 (31/12/2004: 661) TEuros and relate exclusively to a remaining term of less than one year. The change is based in particular on balancing open items.

4. Other assets

Other assets amount to 61,869 (31/12/2004: 59,264) TEuros. These assets are comprised as follows:

II.4 OTHER ASSETS		in TEuros	
	31/3/2005	31/12/2004	
Damages receivable from legal disputes	61,730	59,110	
Miscellaneous	139	154	
Total	61,869	59,264	

The damages receivable from legal disputes related 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 risk reduction. Despite the fact that Franchise Pictures and other parties instituted insolvency proceedings in August 2004, the management still regards this asset as valuable. The value derives on the one hand from the fact that part of the claims can be met by the insolvency settlement. On the other hand, the management also regards the prospects for

success in the impending arbitration proceedings against Comerica Bank as very positive. We also refer in this connection to our explanations in the financial statements for 2004. If Intertainment succeeds in asserting its claims against Comerica Bank, in the opinion of the management of Intertainment, Comerica Bank would also be liable for the damages sustained which were already successfully asserted in the trial against Franchise Pictures and other companies.

The change in damages receivable compared with December 31, 2004 results in particular from the change in the exchange-rate between the euro and the US dollar.

5. Cash on hand, bank balances

Liquid funds totaling 1,732 (31/12/2003: 1,694) TEuros result from current accounts and cash on hand. The fixed-term deposits have short remaining terms of less than one year and fall due in the business year 2005.

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 -22,036 (31/12/2004: -24,158) TEuros on March 31, 2005. The consolidated net income for the period amounts to 2,122 (31/12/2004: consolidated deficit -22,151) TEuros. The authorized and the contingent capital remained unchanged compared to December 31, 2004.

7. Provisions

7.1 Tax provisions

The tax provision relates to current tax expenditure on corporate income tax and trade income tax amounting to 470 TEuros at March 31, 2005.

7.2 Other provisions

Other provisions developed as follows during the first quarter of 2005:

II.7 OTHER PROVISIONS					in TEuros
	As at 1/1/2005	Utilization	Release	Allocation	As at 31/3/2005
Litigation revenue participations	17,935	0	0	635	18,570
Contractual disputes	4,750	0	-350	0	4,400
Legal/consultancy costs	3,200	-820	0	0	2,380
Reorganization	935	0	0	0	935
Outstanding invoices	331	-95	0	25	261
Personnel	34	0	0	0	34
Miscellaneous	2	0	0	0	2
Total	27,187	-915	-350	660	26,582

We refer to the Notes to the Consolidated Financial Statements 2004 for an explanation of the individual provision items.

Utilization of the provision for legal and consultancy costs relates to payments in conjunction with the legal disputes against Franchise Pictures, Comerica Bank and other parties.

Allocation of the provision for litigation revenue participations results from the increased sum for the claims for damages reported under other assets.

8. Liabilities

Liabilities to banks amount to 12 (31/12/2004: 0) TEuros. This item relates exclusively to current accounts.

During the business year 2003, a loan 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 could no longer be called in already on June 30, 2004. The rescheduling provides for the bank issuing a

debt waiver on a deferred debt basis. Within the context of this deferred debt, receivables are reinstated when the conditions come into force. The total sum of the receivables reinstated through the deferred debt is limited to 115 % of the original loan debt. In order to secure the claims of the bank, the assets and claims described under contingent liabilities were assigned. We refer to item F.1 of the management report for the business year 2004 for information on the risks in conjunction with the settlement of the residual debt.

An expert opinion by a lawyer's office forms the basis for 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 have to 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 amounting to the original residual debt. Trade liabilities amount to 924 (31/12/2004: 911) TEuros. Other liabilities amount to 31 (31/12/2004: 54) TEuros. Liabilities relate to a total remaining term of less than one year.

III. Explanations to the Group income statement

1. Sales revenues

Sales revenues amount to 67 (31/3/2004: 1,052) TEuros and comprise in the first quarter of 2005 the sale of licenses for film rights.

2. Other operating income

Other operating income amounts to 3,967 (31/3/2004: 4,032) TEuros and comprises:

III.2 OTHER OPERATING INCOME	in TEuros	
	1/1/-31/3/2005	1/1/-31/3/2004
Valuation of claims for damages	3,552	2,390
Change in provision for contractual disputes	350	300
Currency gains	62	27
Release of other provisions	0	89
Miscellaneous	3	1,226
Total	3,967	4,032

The valuation of the claims for damages reported under other assets relates in particular to currency income arising from the change in the exchange rate of the euro against the US dollar.

3. Other operating expenses

The other operating expenses amount to 1,044 (31/3/2004: 1,917) TEuros and comprise:

III.3 OTHER OPERATING EXPENSES	in TEuro	
	1/1/-31/3/2005	1/1/-31/3/2004
Change in provision for litigation revenue participations	635	1,110
Legal and consultancy costs	75	310
Rents and accommodation costs	73	77
Currency losses	5	28
Miscellaneous	256	392
Total	1,044	1,917

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 shares in circulation.

The number of Intertainment shares is 11,739,013 on March 31, 2005. During the first quarter of 2005, the Group generated net income of 2,122 TEuros, following on from net income of 1,551 TEuros in the prior period. Hence, the earnings per share amounted to 0.18 euros, after 0.13 euros on March 31, 2004. The diluted earnings per share amount to 0.18 (31/3/2004: 0.13) euros.

2. Other financial commitments

At March 31, 2005, 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 (16,453)*	0 (0)*	0 (16,453)*
Obligations arising from lease and rental contracts	699 (1,216)*	546 (1,337)*	1,245 (2,552)*
Total	699 (17,669)*	546 (1,337)*	1,245 (19,005)*

* as at 31/3/2004

OBLIGATIONS ARISING FROM FILM PRODUCTIONS

The obligations arising from film productions related in the previous year to payments 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 significantly reduce the obligations for film productions reported in the previous year. The claims arising from the license sales of the film "Twisted" were assigned in order to settle other ongoing obligations. It is possible that other financial obligations will arise in the future from this restructuring, depending on the assigned revenues from exploitation.

OBLIGATIONS ARISING FROM ARBITRATION PROCEEDINGS

The arbitration proceeding that originally related to the film "Driven" was extended to all the disputed Franchise films financed by Comerica Bank and all claims for damages being asserted by Intertainment against Comerica Bank. Comerica Bank is demanding in this arbitration proceeding all outstanding installments for the films it financed. The total amount is more than 70 million US dollars. We refer to our statements in item B.1.6 of the management report for the business year 2004 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 reported under other assets, other contractual obligations for litigation revenue participations arise on the basis of contractual agreements for which no provisions have been formed to date.

3. Contingent liabilities

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 on a deferred debt basis 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.

In the business year 2001, Intertainment AG took over a guarantee to the bank for this loan. In the view of the management, this guarantee has been extinguished within the framework of the new negotiations with the bank. We refer to item F.1 of the management report 2004 for an assessment of the associated risks.

In the year 2000, Intertainment AG provided an unchanged, ongoing surety

amounting to 76 (p.y. 76) TEuros for the rental of the offices in Ismaning.

4. Independent legal disputes

A comprehensive report on the pending legal disputes is included in the Management Report for the fiscal year 2004 in sections B1 and E1. We refer readers to this report. In addition to the explanations provided in these sections, the responsible arbitrators rejected a petition by Comerica Bank in the arbitration proceeding on April 27, 2005 by which Comerica Bank attempted to exclude all claims by Intertainment from the proceeding. On May 18, 2005 the arbitrators also reached a decision on the further procedure to be adopted for the further production of documents within the scope of the discovery phase. The arbitrators also set August 24, 2005 as the date for an additional hearing in which the date for the end of the discovery phase and the date for the proceedings of the case to be heard is scheduled to be set.

In the context of the Franchise trial, a hearing before the court relating to the post trial motions was held on May 16, 2005. The matters dealt with at this hearing included the petition submitted by Elie Samaha and

Glickson Investment International LLC., requesting that the judgment should be declared null and void and a complete retrial be ordered. The responsible judge tentatively rejected all post trial motions – i.e. including the petition referred to. The judge has not yet reached a final judgment relating to the petitions.

In the insolvency proceeding against Franchise Pictures, the responsible restructuring manager had not yet submitted a restructuring plan at the point in time when these Notes to the Financial Statements were prepared. In fact, the responsible insolvency court agreed to a petition by the restructuring manager to extend the deadline for submission of such a plan to June 30, 2005.

As agreed in the settlement between Intertainment and the bond companies Film Finances Inc. and Film Finances (1998) Canada shortly before the end of the quarter under review, these companies have now withdrawn their claims against Franchise Pictures and the insolvent subsidiaries of Franchise Pictures in favor of the estate.

International Motion Pictures Corporation Ltd. has now withdrawn its claim with the arbitration tribunal relating to the case "Tracker", as agreed with Intertainment.

5. Employees

On average during the first quarter of 2005, the Group employed 11 (2004: 13) staff.

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

The figures on shares and option rights held by members of the executive bodies at March 31, 2005 are as follows:

VI.6 SHARE OWNERSHIP AND OPTIONS		
BOARD OF MANAGEMENT	Shares	Options
Achim Gerlach	10,000	200,000
SUPERVISORY BOARD		
Rüdiger Baeres	6,935,031	0
Dr. Matthias Heisse	12,980	0
Wolfgang Blauburger	670	0

The number of shares held by Rüdiger Baeres has fallen compared with December 31, 2004. The reason for this drop is the sale of 150,000 shares by Alkmäon Vermögensverwaltungsgesellschaft mbH on February 17, 2005. The shares in this company are indirectly controlled by Mr. Baeres.

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

The consolidated financial statements for the first quarter of 2005 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 con-

cern, 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 an integrated corporate plan, from which a detailed finance plan was derived. This is made up of the financing of future business activity, the planned investments and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by four main areas of uncertainty that cannot be judged definitively at the present time. In particular, these are:

- Settlement of a bank loan which has been called in on the basis of the assumptions by the legal representatives
- Cash-inflows of funds from the settlement of legal disputes with Franchise Pictures, Comerica Bank and other parties
- No cash-outflows of funds from the legal disputes for the payment of the second installment for the disputed film rights
- Fulfillment of the other premises of the finance plan including other 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 and Intertainment Animation & Merchandising GmbH is highly endangered because of being unable to fulfill their payment obligations and the associated risk of filing for insolvency proceedings.

We refer to the Group Management Report for the year ended December 31, 2004 (item F "Risks of future development of the Intertainment AG Group") for further details on the risks.

CONSEQUENCES OF A POSSIBLE MISCALCULATION

The consequences of a possible wrong assessment in relation to the risks endangering the company's ability to continue as a going concern are far-reaching in their effect on the continuation of business activity. Insolvency proceedings could be instituted – under certain circumstances and also at very short notice – because of impending inability to fulfill payment obligations and it would not be possible to use going concern values in the valuation of assets and debts pursuant to the IFRS Framework Article § 23.

Intertainment AG, May 31, 2005

Sole Director

Publication details

Publisher: Intertainment AG, Ismaning

Editorial board and coordination: Intertainment AG, Investor Relations, and bw media, Munich



Intertainment AG

Osterfeldstrasse 84 • D-85737 Ismaning

From 1/7/2005: Frauenplatz 7, D-80331 Munich

Phone: +49 (0)89 21699-0

Fax: +49 (0)89 21699-11

E-Mail: investor@intertainment.de

Internet: www.intertainment.de