

2005

QUARTERLY REPORT
III / 2005



INTERTAINMENT

Aktiengesellschaft

Key indicators (million euros)	2 0 0 5		2 0 0 4	
	1/1/-30/9/	1/7/-30/9/	1/1/-30/9/	1/7/-30/9/
Sales	1.0	0.5	17.4	0.1
EBIT	4.3	-0.9	1.4	-1.8
Net result for the period	3.0	-1.0	0.9	-1.4
Earnings per share (euros)	0.26	-0.09	0.08	-0.12
Average number of employees	10		13	

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 30/9/2005	1.32 euros	
High* for 1 st nine-months 2005 (13/4/2005)	2.70 euros	
Low* for 1 st nine-months 2005 (22/9/2005)	1.30 euros	
Shareholder structure at 30/9/2005	Rüdiger Baeres (directly and indirectly)	52.87 %
	Management, Supervisory Board**	0.20 %
	Family Baeres	6.21 %
	Free float	40.72 %

*Closing prices in Xetra electronic trading **exklusive Rüdiger Baeres

Corporate calendar

Publication of Annual Report 2005	April 30, 2006
Publication of 1 st Quarterly Report 2006	May 31, 2006
Publication of 2 nd Quarterly Report 2006	August 31, 2006
Publication of 3 rd Quarterly Report 2006	November 30, 2006

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Intertainment Group: Situation Report

for the first three quarters of 2005

A. Business performance

As in the first six months of the current fiscal year, performance at the Intertainment Group during the third quarter of 2005 continued to be determined to a considerable extent by the legal disputes in the USA. The arbitration proceedings between INTERENTAINMENT Licensing GmbH, and Comerica Bank and other parties constituted the focus of attention between July and September.

After the end of the third quarter, Intertainment was also faced with a legal dispute in Germany, because HypoVereinsbank filed a partial claim within the scope of a proceeding for documentary evidence against INTERENTAINMENT Licensing GmbH and Intertainment AG, seeking payment of 10 million euros. The presiding judge in the Regional Court (Landgericht) Munich I has set the date for handing down a decision on December 22, 2005. If the judge hands down a judgment in favor of HypoVereinsbank and also permits HypoVereinsbank to enforce the judgment, Intertainment will have to file for bankruptcy.

On the operating side, Intertainment was able to exploit key parts of the existing film library. In this connection, Intertainment concluded a contract for the sale of German-language film rights relating to a comprehensive package of films with the Tele-München Group.

After Intertainment returned to profit during the first six months, the Group posted a loss of -1.0 million euros in the third quarter of 2005 following -1.4 million euros in the equivalent prior period. However, during the first nine months of 2005, Intertainment generated net income for the period of 3.0 (prior period: 0.9) million euros. Earnings before Interest and Taxes (EBIT) rose during the first nine months of 2005 to 4.3 million euros. During the period from January to the end of September 2004, Intertainment still achieved an EBIT of 1.4 million euros. Earnings per share reached 0.26 euros following 0.08 euros in the prior period.

Exchange-rate effects were primarily responsible for the improvement in earnings, together with strict cost-savings implemented within the Group in conjunction with the reorganization measures carried out in 2004. The rise in the value of the US dollar compared with the euro on the balance-sheet date of September 30, 2005 meant that Intertainment reported receivables from legal disputes amounting to 66.7 million euros. At the end of 2004, Intertainment had reported 59.1 million euros.

Sales at Intertainment amounted to 1.0 (prior period: 17.4) million euros during the first nine months of 2005, of which 0.5 (0.1) million euros resulted from the period under review. Revenues for the quarter were generated by the sale of rights in older film licenses. By contrast, revenues during the prior year were largely attributable to one-off effects arising from exploitation of the license to the thriller "Twisted", which reached the movie theatres in 2004.

The liquidity position of Intertainment was extremely tense at the end of the quarter. Liquid assets amounted to 0.1 million euros on September 30, 2005 following 1.7 million euros on December 31, 2004. The Board of Management of the Intertainment Group is assuming a positive forecast for the Group's ability to continue as a going concern on the basis of a detailed financial plan. The risks endangering the company's ability to continue as a going concern, which are referred to in item IV.9 in the Notes to the Financial Statements, are undiminished.

B. Legal disputes

INTERTAINMENT Licensing GmbH has been involved in protracted legal disputes in the USA since the end of 2000. In this context the company won a damages suit against Franchise Pictures, 16 production companies and the former CEO of Franchise Pictures, Elie Samaha, in the summer of 2004. Intertainment was granted a total of 121.7 million US dollars. Shortly after this

judgment was entered, most of the parties found liable filed for insolvency pursuant to Chapter 11 of the US Bankruptcy Code. This gave them protection against creditors. During the period under review, the post trial motions relating to the trial for damages were being negotiated in court. One of the tactics of the opposing party was to endeavor to have the court proceedings rescheduled.

The arbitration proceeding against Comerica Bank and other parties in the USA was being pursued in the discovery phase during the entire reporting period. The two bond companies Film Finances and Film Finances (1998) Canada are no longer among the defendants in this case. Intertainment reached an out-of-court settlement with these parties in March 2005.

This quarterly report will present the developments in the individual proceedings during the first half year nine months of 2005 as well as the events up to the conclusion of this situation report. A comprehensive account of the details and background of the legal disputes in the USA is provided in the Management Report and the Notes to the Financial Statements for the business year 2004.

Intertainment has also been involved in a legal dispute in Germany with HypoVereinsbank since mid-September 2005.

1. Suit filed by HypoVereinsbank

In mid-September 2005, HypoVereinsbank filed a partial claim for payment of 10 million euros against Intertainment AG and Intertainment Licensing GmbH in a proceeding for documentary evidence. The partial claim relates to a residual loan amounting to around 14 million euros taken out by Intertainment Licensing GmbH from HVB, for which Intertainment AG had given a surety.

Intertainment presented its legal position in relation to the loan in the Annual Report 2004 and other documents. Intertainment is assuming that HVB and Intertainment had made an arrangement to achieve final legal clarity in relation to the settlement of an alleged residual debt. The new arrangement provides for HVB issuing a debt waiver on a deferred debt basis. Within the scope of this deferred debt, the loan originally due on June 30, 2004 was written down in the balance sheet for the business year ending 2003 in the amount of 13.6 million euros and reported under reserves. A legal opinion was obtained for appraisal of the facts. This formed the basis for the assessment by the management of Intertainment.

HVB had called in the loan a number of times, including June 30, 2004, despite the new arrangement. In the opinion of Intertainment, this was no longer possible on account of the new arrangement.

Within the scope of the documentary proceeding filed by HVB, two oral court hearings were held before the regional court

(Landgericht) on October 21, 2005 and November 10, 2005. The presiding judge set the date for handing down a decision on Thursday, December 22, 2005.

If the judge presiding in the proceeding for documentary evidence hands down a judgment in favor of HypoVereinsbank and also permits HypoVereinsbank to enforce the judgment, Intertainment will have to file for bankruptcy.

2. Post Trial Motions in the case of Franchise Pictures

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, submitted a petition in April 2005 requesting 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 rejected all the post trial motions in a written tentative ruling. She had not reached a final decision on the petitions by completion of this quarterly report.

3. 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 within the context of the discovery phase. In addition to the documents already forwarded, electronic data stored on data media of Intertainment were also collected within the scope of the discovery proceeding. Legal representatives of Comerica Bank were also present while the data was being recovered.

At a hearing on May 18, the arbitrators defined the ongoing proceedings in the discovery phase.

At a further hearing in the summer, the first witness testimonies in the proceeding were

scheduled for the end of September / start of October 2005. This was to involve cross-examination by the opposing side of the Chairman of the Supervisory Board of Intertainment AG, Rüdiger Baeres, and Achim Gerlach, sole Member of the Board of Management of Intertainment. However, these cross-examinations were postponed due to the suit filed by HypoVereinsbank.

4. 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. in mid-March 2005. Before the settlement was reached, the two companies had numbered among the opposing parties subject to claims asserted by INTERTAINMENT Licensing GmbH 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 film producers Franchise Pictures and the insolvent subsidiaries of Franchise Pictures in favor of the insolvency estate. 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 relating to the content of the settlement.

5. 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. This means that he continues to have the exclusive right to submit a restructuring plan. In the meantime, the assets of other companies related to Franchise were incorporated within the insolvency estate.

6. Proceeding against former Franchise CEO Elie Samaha

On January 24, 2005 and June 27, 2005, two court hearings relating to the assets of Elie Samaha were held. Immediately after the first of these two dates, Intertainment started assessing the documents that Samaha had submitted in the hearing. Intertainment has now also summoned members of Elie Samaha's family to give evidence relating to Samaha's financial situation.

During the first nine months of 2005, INTERTAINMENT Licensing GmbH also initiated an enforcement order on Elie Samaha's personal assets. This order may affect Elie Samaha's individual interests in various company stakeholding.

7. Settlement with International Motion Pictures Corporation Ltd.

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

8. 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. Over the course of the current fiscal year, Westdeutsche Landesbank filed counterclaims amounting to around 900,000 US dollars against INTERTAINMENT Licensing GmbH. At this 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 film 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. At the end of August 2005, Intertainment concluded a contract for the sale of German-language film rights relating to a comprehensive package of films with the Tele-München Group. The total value of these rights amounts to 2.6 million euros. The package of films includes secondary exploitation rights in titles such as "The Whole Nine Yards" with Bruce Willis, "The Art of War" with Wesley Snipes, and "Mulholland Falls" with Nick Nolte.

However, fundamental improvement in the operating side is only expected following a successful conclusion to the legal disputes in the USA and the resulting options for implementing the new business strategy. In this context, 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. Intertainment decided to write down in full the participation of SightSound in the accounts for the business year 2004. The background to

this move was that the management of Intertainment was unable to assess with sufficient certainty whether SightSound is in a position to finance the costs for further investigation of the patents. After the breakdown in license negotiations between SightSound and a potential American licensee from the digital music and film downloads sector, a risk arose that the patents of SightSound will again be investigated by the US Patent Office. An investigation of this kind can take up to two years.

After the reporting period came to an end and shortly before this quarterly report was written, SightSound sold the patents to the American group General Electric. The shareholders of SightSound agreed to the sale. General Electric will exploit the patents under the agreement. In return, SightSound will receive 50 % (less costs) of the revenues arising from exploitation of the patents.

D. Staff

The Intertainment Group employed an average staff of 10 (prior year: 13) people in the first nine months of 2005.

E. Investor Relations

Intertainment AG held this year's Annual General Meeting on September 13. The Board of Management explained the situation of the company to the shareholders attending the meeting in detail.

On November 23, 2005, Intertainment also held an Analysts' Conference within the framework of the Deutsches Eigenkapitalforum in Frankfurt. This was transmitted on the Internet by videostream and the general public was therefore able to listen to the conference.

F. Risks of future development of the Intertainment AG Group

In conjunction with the risks of future development of Intertainment, we refer expressly to the Annual Financial Statements and Management Report of 2004, and to the notes of the quarterly report. We refer in particular to the risk of insolvency associated with the suit filed by HypoVereinsbank against Intertainment.

Munich, November 30, 2005

Sole Director

Intertainment Group: Consolidated Balance Sheet

as at September 30, 2005 in Accordance with the IFRS

ASSETS	in TEuros	
	30/9/2005	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	82	122
III. Financial assets		
Participations	0	0
	2,229	2,270
B. CURRENT ASSETS		
I. Inventories		
Film rights	3,134	4,408
II. Receivables and other assets		
1. Trade receivables	588	661
2. Other assets	66,798	59,264
	67,386	59,925
III. Cash on hand, bank balances	67	1,694
	70,587	66,027
C. DEFERRED TAXES	15,924	15,924
	88,740	84,221

EQUITY & LIABILITIES	in TEuros	
	30/9/2005	31/12/2004
A. EQUITY		
I. Subscribed capital	15,005	15,005
II. Capital reserve	47,019	46,989
III. Earnings reserves		
Statutory reserve	116	116
IV. Group retained earnings	-21,118	-24,158
V. Currency differences	-97	-85
	40,925	37,867
B. PROVISIONS		
1. Tax provisions	1,300	0
2. Other provisions	26,761	27,187
	28,061	27,187
C. LIABILITIES		
1. Liabilities due to banks	2	0
2. Trade accounts payables	1,461	911
3. Other liabilities	89	54
	1,552	965
D. DEFERRED TAXES	18,202	18,202
	88,740	84,221

Intertainment Group: Income Statement

for the period from January 1, 2005 to September 30, 2005
in Accordance with the IFRS

in TEuros	1/1/-30/9/2005	1/1/-30/9/2004
1. Sales revenues	1,002	17,426
2. Other operating income	9,428	3,808
	10,430	21,234
3. Cost of materials		
a) Cost of film rights and associated performances	-1,351	-14,555
b) Expenses for bought-in merchandise and services	-18	-11
	-1,369	-14,566
4. Personnel expenses		
a) Salaries	-1,010	-1,437
b) Social security contributions	-53	-75
	-1,063	-1,512
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-39	-43
6. Other operating expenses	-3,617	-3,756
7. Net interest	2	1
8. Result of ordinary business activities	4,344	1,358
9. Taxes on income and earnings	-1,301	-469
10. Other taxes	-3	-1
11. Consolidated net income for the period	3,040	888
12. Accumulated loss	-24,158	-25,249
13. Group retained earnings	-21,118	-24,361
Basic earnings per share	0.26	0.08
Diluted earnings per share	0.26	0.08

Intertainment Group: Income Statement

for the period from July 1, 2005 to September 30, 2005
in Accordance with the IFRS

in TEuros	1/7/-30/9/2005	1/7/-30/9/2004
1. Sales revenues	518	107
2. Other operating income	721	-276
	1,239	-169
3. Cost of materials		
a) Cost of film rights and associated performances	-1,119	-1
b) Expenses for bought-in merchandise and services	-9	-1
	-1,128	-2
4. Personnel expenses		
a) Salaries	-422	-562
b) Social security contributions	-15	-25
	-437	-587
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	37	-13
6. Other operating expenses	-619	-1,046
7. Net interest	0	0
8. Result of ordinary business activities	-908	-1,817
9. Taxes on income and earnings	-100	453
10. Other taxes	-1	-1
11. Consolidated net income for the period	-1,009	-1,365
Basic earnings per share	-0.09	-0.12
Diluted earnings per share	-0.09	-0.12

Intertainment Group: Consolidated Cash Flow Statement

for the period from January 1, 2005 to September 30, 2005
in Accordance with the IFRS

in TEuros	30/9/2005	30/9/2004
Period result prior to extraordinary items, interest and taxes	3,038	888
Valuation of damages from legal disputes	-8,494	-2,063
Valuation of provision for contractual disputes	2,070	1,613
Valuation of provision for participation in trial proceeds	-830	150
Personnel expenses share options for Board of Management and employees	30	0
Amortization & depreciation on items of fixed assets	39	43
Losses from fixed asset disposals	22	0
Changes in provisions	-366	-4,614
Changes to inventories	1,274	1,049
Changes in trade receivables	73	641
Changes in other assets	961	2,364
Changes in trade payables as well as in other liabilities	584	-853
Interest received	15	1
Interest paid	-13	0
Outflow of funds from current business activities	-1,597	-781
Incoming payments on the disposal of fixed assets	28	22
Outgoing payments for investments in fixed assets	-48	-4
Outflow (p. y. inflow) of funds from investment activities	-20	18
Changes in liabilities to banks	2	-6
Inflow (p. y. outflow) of funds from financing activities	2	-6
Changes in cash and cash equivalents	-1,615	-769
Changes in cash and cash equivalents resulting from exchange rate and other influences	-12	8
Cash and cash equivalents at beginning of period	1,694	2,138
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	67	1,377

Intertainment Group: Schedule of Nominal Capital

in Accordance with the IFRS

in TEuros	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency difference	Total
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
BALANCE AT 30/12/2004	15,005	46,989	116	-24,158	-85	37,867
Result 30/9/2005				3,040		3,040
Share options		30				30
Currency difference					-12	-12
BALANCE AT 30/9/2005	15,005	47,019	116	-21,118	-97	40,925

Intertainment Group: Notes

to the Consolidated Financial Statements for the Interim Report for the period to September 30, 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 INTERENTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc. The balance sheet date for the Consolidated Financial Statements is September 30, 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 therefore 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 September 30, 2004.

II. Notes to the consolidated balance sheet

1. Fixed assets

Payments on account for intangible assets are unchanged at 2,147 TEuros and relate to the acquisition of a film right available for an unlimited period of time.

Property, plant and equipment amount to 82 (31/12/2004: 122) TEuros. This figure includes office and business equipment. An extraordinary write-down on property, plant and equipment was undertaken as a result of the relocation of the company head office to Munich. Additions amounting to 48 (31/12/2004: 4) TEuros are recorded.

Financial assets comprise the shareholding in SightSound Technologies Inc. This was written off in full in the business year 2004. We also refer to item IV.6 of this quarterly report.

2. Inventories

Film rights are valued at 3,134 (31/12/2004: 4,408) TEuros. The decrease resulted from scheduled depreciation amounting to 784 (31/12/2004: 14,233) TEuros and extraordinary depreciation amounting to 490 (31/12/2004: 1,552) TEuros.

3. Trade accounts receivable

Trade accounts receivable amount to 588 (31/12/2004: 661) TEuros. They relate overall 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 66,798 (31/12/2004: 59,264) TEuros. These assets are comprised as follows:

II. 4 OTHER ASSETS	in TEuros	
	30/9/2005	31/12/2004
Damages receivable from legal disputes	66,672	59,110
Miscellaneous	126	154
Total	66,798	59,264

The damages receivable from legal disputes relate to the claims of Intertainment against Franchise Pictures and other parties.

The valuation is based on the claims of Intertainment arising from the successful litigation 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 extremely positive. We also refer in this connection to our explanations in the Annual 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 assets totaling 67 (31/12/2004: 1.694) TEuros result from current accounts and cash on hand. The balance includes a fixed-term deposit amounting to 43 TEuros, which Intertainment cannot freely dispose over due to an existing rental payment surety.

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 21,118 (31/12/2004: -24,158) TEuros on September 30, 2005. The consolidated net income for the period amounts to 3,040 (31/12/2004: -22,151) TEuros.

The Annual General Meeting held on September 13, 2005 adopted the following resolution – changed compared to December 31, 2004 – relating to authorized and contingent capital as follows:

AUTHORIZED CAPITAL II:

The Board of Management is authorized until September 12, 2010, with the consent of the Supervisory Board, to increase the nominal capital, once or more than once, against cash contribution or contribution in kind, up to the amount of 4,300 TEuros.

CONTINGENT CAPITAL III:

The nominal capital is also contingently increased by 6,002 TEuros. The contingent capital increase will only be implemented insofar as the creditors of option and convertible bonds make use of their option and convertible rights by September 12, 2010.

7. Provisions**7.1 Tax provisions**

The tax provision relates to current tax expenditure to September 30, 2005.

7.2 Other provisions

Other provisions developed as follows to September 30, 2005:

II. 7 OTHER PROVISIONS					in TEuros
	As at 1/1/2005	Utilization	Release	Allocation	As at 30/9/2005
Litigation revenue	17,935	0	0	2,095	20,030
Contractual disputes	4,750	0	-830	0	3,920
Legal/consultancy costs	3,200	-1,840	0	0	1,360
Reorganization	935	0	0	150	1,085
Outstanding invoices	331	-95	0	100	336
Personnel	34	-4	-2	0	28
Miscellaneous	2	0	0	0	2
Total	27,187	-1,939	-832	2,345	26,761

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

The change in the provision for litigation revenue participations results from the

change in damages claims arising from legal disputes described under item II.4.

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

8. Liabilities

Liabilities to banks amount to 2 (31/12/2004: 0) TEuros. This item includes exclusively 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 believed 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. We refer to our statements under Item IV.5, if you require any further details.

Trade liabilities amount to 1,461 (31/12/2004: 911) TEuros and largely result from services received. Other liabilities amount to 89 (31/12/2004: 54) TEuros.

Liabilities relate overall to a total remaining term of less than one year.

III. Explanations to the Group income statement**1. Sales revenues**

Sales revenues amount to 1,002 (30/9/2004: 17,426) TEuros and comprise in the third quarter of 2005 in particular the sale of licenses for film rights.

2. Other operating income

Other operating income amounts to 9,428 (30/09/2004: 3,808) TEuros and comprises:

III. 2 OTHER OPERATING INCOME		in TEuros	
	1/1/- 30/9/ 2005	1/1/- 30/9/ 2004	
Change in provision for contractual disputes	832	112	
Exchange rate gains	92	385	
Valuation of claims for damages	8,494	2,063	
Provisions for taxation	0	940	
Miscellaneous	10	308	
Total	9,428	3,808	

3. Cost of materials

The cost of materials amounts to 1,369 (30/9/2004: 14,566) TEuros and is made up mainly of scheduled amortization of film rights with 784 (30/9/2004: 13,602) TEuros and extraordinary depreciation amounting to 490 (30/9/2004: 0) TEuros.

4. Depreciation of intangible and fixed assets

Depreciation of intangible and fixed assets amounts to 39 (30/9/2004: 43) TEuros.

5. Other operating expenses

Other operating expenses amount to 3,617 (30/9/2004: 3,756) TEuros and comprise:

III. 4 OTHER OPERATING EXPENSES		in TEuros	
	1/1/- 30/9/ 2005	1/1/- 30/9/ 2004	
Change in provision for litigation revenue participations	2,095	1,613	
Legal and consultancy costs	246	445	
Exchange rate losses	154	417	
Rental costs	77	184	
Miscellaneous	1,045	1,097	
Total	3,617	3,756	

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 remained unchanged at 11,739,013 on September 30, 2005. The Group reported net income for the period amounting to 3,040 TEuros at the end of the third quarter for 2005, following on from net income of 888 TEuros in the prior period. Hence, the earnings per share amounted to 0.26 euros,

after 0.08 euros on September 30, 2004. This corresponds to the diluted earnings per share.

2. Other financial commitments

As at September 30, 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 lease and rental contracts	345	810	1,155
	(1,222)*	(836)*	(2,058)*

* as at 30/9/2004

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 FINANCIAL 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 INTER-TAINMENT Licensing GmbH, which the management assumes will come into force. In the opinion of the management of Intertainment, 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 legal disputes with Franchise Pictures as security.

In the business year 2001, Intertainment AG took over a guarantee to the bank for the loan. In the view of the management, this guarantee has extinguished within the framework of the new negotiations with the bank. We refer to item F.1 of the Management Report 2004 and to our statements in item IV.5 of this quarterly report for an assessment of the associated risks.

A surety for the rental of offices in Munich amounts to 43 (prior year 76) TEuros.

4. Anhängige Rechtsstreitigkeiten

PROCEEDING FOR DOCUMENTARY EVIDENCE FILED BY HYPOVEREINSBANK AGAINST ENTERTAINMENT

HypoVereinsbank (HVB) filed a partial claim within the scope of a proceeding for documentary evidence at the Regional Court (Landgericht) Munich I against Intertainment AG and Intertainment Licensing AG seeking payment of 10 million euros. The claim was delivered to Intertainment AG on the afternoon of September 13, 2005. The partial claim relates to the loan described under item II.8 and item IV.4 taken out by Intertainment Licensing GmbH with HVB amounting to around 14 million euros, for which Intertainment AG had given a surety. At this point, we refer to our statements in the Annual Financial Statements for 2004 and in particular to explanations of the facts regarding the risks relating to the company's ability to continue as a going concern. Within the scope of the documentary proceeding, two oral court hearings were held before the regional court (Landgericht) on October 21, 2005 and on November 10, 2005. The presiding judge set the date for handing down a decision on December 22, 2005. If the presiding judge in the proceeding for documentary evidence hands down a judgment in favor of HypoVereinsbank and also permits HypoVereinsbank to enforce the judgment, Intertainment will have to file for bankruptcy.

LEGAL DISPUTES IN THE USA

A comprehensive report on the pending legal disputes is provided in sections B1 and E1 of the Management Report for the business year 2004. We refer readers to this section. In addition to the explanations pro-

vided in these sections, the responsible arbitrators in the arbitration proceeding rejected a petition by Comerica Bank on April 27, 2005. This petition was directed toward excluding all claims by Intertainment from the proceeding. At further hearings, she also reached decisions on the ongoing procedure for document production within the scope of the discovery phase. She also scheduled the timetable for the witness testimonies.

Within the context of the Franchise trial, a hearing on post trial motions was held before the court on May 16, 2005. This related, among other items, to the petition submitted by Elie Samaha and Glickson Investment International LLC in April requesting that the judgment should be declared null and void and a complete retrial be ordered. The presiding judge gave a tentative ruling indicating that she was inclined to reject all post trial motions, i.e. also the petition referred to above. She has not yet reached a final decision on the petitions.

In conjunction with the bankruptcy proceeding against Franchise Pictures and several of the subsidiaries of Franchise Pictures that are also insolvent, the responsible restructuring manager had not yet submitted a restructuring plan by completion of this quarterly report. The restructuring manager was focusing in particular on integrating the assets of subsidiaries of Franchise Pictures not yet included in the bankruptcy proceedings within the insolvency estate.

5. SightSound Technologies concludes contract with General Electric

Shortly before the completion of the quarterly report, the shareholders of SightSound Technologies agreed to an application by the management to transfer the patents for

digital download of audio and video files to General Electric. In return, General Electric will pay to SightSound 50 percent of the exploitation revenues derived from the patents. The signed contracts between SightSound and General Electric were not yet available to Intertainment by completion of this quarterly report.

6. Employees

In the first three quarters of 2005, the Group employed an average of 10 (2004: 13) staff.

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

During the reporting period, the Chairman of the Supervisory Board Rüdiger Baeres sold a total of 729,396 Intertainment shares attributable to Alkmäon Vermögensverwaltungsgesellschaft mbH outside the stock market. The shares were purchased by the wife of Mr. Baeres, Saskia Baeres-Goud and by his mother, Marianne Baeres-Ortner. These two people each acquired 364,698 shares. Intertainment was informed of the sale on September 8, 2005. The share ownership and the option rights of the other members of the executive bodies have not changed since December 31, 2004.

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

The Consolidated Financial Statements for the third 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 the 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 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, in particular against the background of the pending legal dispute with HypoVereinsbank which will be decided on December 22, 2005
- 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 also at

very short notice. This is particularly applicable for the case that Intertainment loses the case against HypoVereinsbank and the responsible court gives HypoVereinsbank the right to enforce the judgment.

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.

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, November 30, 2005

Sole Director

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