

2004

QUARTERLY REPORT
I / 2004



INTERTAINMENT

Aktiengesellschaft

Sales	1.1	0.7
EBIT	2.5	-2.3
Result of ordinary business activities	0.9	-2.5
Net loss for the period	1.6	-2.8
Earnings per share (euros)	0.13	-0.24
Average number of employees	13	23

Key data for the share

ISIN	DE0006223605	
Share capital	15,005,155.09 euros	
Number of shares	11,739,013	
Issue price 8/2/1999	36.00 euros	
	after split (1:2)	18.00 euros
Closing price* at 31/3/2004	3.90 euros	
High* for 1 st Quarter 2004 (2/2/2004)	4.70 euros	
Low* for 1 st Quarter 2004 (20/1/2004)	3.40 euros	
Shareholder structure at 31/3/2004	Rüdiger Baeres	52.86 %
	Family Baeres	9.38 %
	Management, Supervisory Board	0.20 %
	Free float	37.56 %

* Closing prices in Xetra electronic trading

Corporate calendar

Annual General Meeting	October 29, 2004
Publication of 3 rd Quarterly Report 2004	November 30, 2004

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Intertainment Group: Situation Report

for the first quarter of 2004

A. Performance during the first quarter of 2004

During the first quarter of 2004, Intertainment AG progressed its consistent policy of implementing measures geared toward restructuring and cost-cutting, making significant agreements to secure the future of the company. The agreements related to restructuring American business activities and license sales in the area of Animation & Merchandising. These measures are a consequence of the litigation that Intertainment has been pursuing for a number of years against US film producer Franchise Pictures and other parties on account of fraud. This legal dispute has placed a heavy burden on the operating activities of Intertainment. The dispute was decided in favor of Intertainment during the summer of 2004.

The consequences of the fraud are reflected in the figures of Intertainment for the first quarter of 2004. However, Intertainment achieved net income for the first quarter amounting to 1.6 million euros compared with a loss of -2.8 million euros in the first quarter of 2003. Earnings before interest and taxes (EBIT) amount to 2.5 million euros for the first three months of 2004 compared with -2.3 million euros for the equivalent year-earlier period. Earnings from ordinary activities are also positive for the first quarter of 2004. They rose to 0.9 million euros after -2.5 million euros in the first quarter of 2004.

Extraordinary earnings amounting to 1.6 (1st quarter 2003: 0) million euros made a significant contribution to net income for the first quarter, mainly due to exchange-

rate gains arising from the valuation of damages receivable from Franchise pictures and other parties.

Sales rose by 47 % to 1.1 (1st quarter 2003: 0.7) million euros compared with the equivalent quarter in 2003, but remained at a low level. Sales revenues were generated from ongoing marketing of film rights. Intertainment received no revenues from exploitation of the thriller "Twisted" during the reporting period. They only came onstream during the second quarter of 2004.

Cash and cash equivalents have been significantly reduced. Liquid funds fell by 1.7 million euros compared with December 31, 2003 and amount to 0.5 million euros at March 31, 2004. The liquidity situation of the Group was therefore tense on the balance sheet date, but the situation improved during the subsequent months.

B. The Franchise Pictures case

During the first quarter of 2004, the management of Intertainment concentrated on preparing for the start of the trial in the lawsuit against Franchise Pictures and others relating to compensation for damages. This was scheduled for mid-April 2004 in Santa Ana near Los Angeles. The trial was decided in favor of Intertainment in mid-June 2004. The jury unanimously held all 18 defendants – Franchise Pictures, Elie Samaha (CEO of Franchise Pictures) personally, and 16 subsidiaries of Franchise

Pictures – to be guilty of having perpetrated fraud against Intertainment. The jury granted Intertainment compensation for damages amounting to a total of 77.1 million US dollars and punitive damages totaling 29 million US dollars. The presiding judge also approved Intertainment's claims for a further 15.6 million US dollars in interest when she executed her judgment in August 2004. This raised the total amount of damages granted to Intertainment to 121.7 million US dollars. A few days after the judgment, in August 2004, Franchise Pictures and most of the convicted subsidiaries filed for insolvency pursuant to "Chapter 11" of the US Insolvency Law.

After the judgment was handed down, the parties involved in the wider Franchise Pictures case agreed to seek a potential alternative out-of-court settlement to the dispute. The parties have reached a basic agreement that an attempt should be made to reach a solution in this way. Negotiations are currently underway on this issue. From today's perspective, it is not possible to make any statements on the prospects for the success of these negotiations. In spite of the negotiations, Intertainment is continuing to make consistent preparations for the arbitration proceedings against Comerica Bank and the bond companies involved in the fraud perpetrated by Franchise Pictures.

The following developments occurred in the course of the other proceedings in the Franchise Pictures case during the quarter under review:

Arbitration proceeding for the film "Tracker"

In mid-June 2003, International Motion Picture Corporation Ltd (IMPC), Hong Kong, commenced arbitration proceedings against INTERTAINMENT Licensing GmbH, relating to an alleged claim arising from the film "Tracker". Two decisions were reached in the first quarter of 2004 in favor of Intertainment. The presiding judge in the main trial hearing the lawsuit against Franchise Pictures decided in mid-January 2004 that the arbitration proceeding would be postponed until a judgment was handed down in the main trial relating to the Franchise Case. She also released frozen assets of INTERTAINMENT Licensing GmbH at the end of March 2004. The arbitrator had ordered that these funds should be paid into a trustee account in the USA in November 2003. This money amounted to a total of 1.1 million US dollars.

We refer to the Annual Report 2003 for a detailed explanation of the background to the legal dispute and the proceedings associated with the Franchise Pictures case up until the beginning of September 2004.

C. Development of individual segments

Film production, sale of rights and US Activities

Following the renewed postponement of the Franchise trial, Intertainment was compelled to focus on reorganization and cost-cutting measures for its US activities. In this connection, Intertainment and US producer Kopelson Entertainment agreed to end the cooperation they had agreed in mid-2000 on February 11, 2004, after several months

of negotiations. Terminating the contract has released Intertainment AG from substantial financial obligations.

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

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

Intertainment Animation & Merchandising GmbH

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

Digital distribution

The American Intertainment participation SightSound Technologies made significant progress in asserting its US patent rights

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

Intertainment AG believes that the settlement will have far-reaching effects on the entire sector for downloading music and films. It substantially improves the prospects of SightSound for also asserting its patent rights in the USA against other commercial providers of film and music downloads from the Internet. In addition, it allows SightSound to promote its license business and significantly increases the appeal of SightSound patents.

We refer to the Annual Report 2003 for further information.

Staff

Intertainment also reduced the number of staff during the course of its restructuring measures. The number of people employed in the Group fell to 13. On average, Intertainment had employed a staff of 23 for the business year 2003.

Ismaning, September 27, 2004

The Board of Management

Intertainment Group: Consolidated Balance Sheet

as at March 31, 2004 in Accordance with the IFRS

ASSETS	in TEuros	
	31/3/2004	31/12/2003
A. FIXED ASSETS		
I. Intangible assets		
1. Licenses, commercial property rights and similar rights as well as licences in such rights	2	3
2. Payments made on account	2,147	2,147
	2,149	2,150
II. Property, plant & equipment		
Other plant, business and office equipment	180	194
III. Financial assets		
Participations	15,036	15,036
	17,365	17,380
B. CURRENT ASSETS		
I. Inventories		
1. Film rights	6,591	7,100
2. Merchandise	205	305
3. Payments made on account	1,063	235
	7,859	7,640
II. Receivables and other assets		
1. Trade receivables	1,036	755
2. Other assets	72,725	69,304
	73,761	70,059
III. Cash on hand, bank balances	485	2,138
	82,105	79,837
C. DEFERRED TAXES	14,857	14,977
	114,327	112,194

EQUITY & LIABILITIES	in TEuros	
	31/3/2004	31/12/2003
A. EQUITY		
I. Subscribed capital	15,005	15,005
II. Capital reserve	70,045	70,045
III. Earnings reserves		
Statutory reserve	116	116
IV. Group retained earnings	-23,698	-25,249
V. Currency differences	-83	-81
	61,385	59,836
B. PROVISIONS		
1. Tax provisions	0	0
2. Other provisions	33,194	33,099
	33,194	33,099
C. LIABILITIES		
1. Liabilities due to banks	5	7
2. Payments received on account	1,318	1,318
3. Trade accounts payables	896	1,142
4. Other liabilities	193	358
	2,412	2,825
D. DEFERRED TAXES	17,336	16,434
	114,327	112,194

Intertainment Group: Income Statement

for the period from January 1, 2004 to March 31, 2004 in Accordance with the IFRS

in TEuros	1/1/-31/3/2004	1/1/-31/3/2003
1. Sales revenues	1,052	716
2. Other operating income	1,342	1,579
	2,394	2,295
3. Cost of materials		
a) Cost of film rights and associated performances	-152	-313
b) Expenses for bought-in merchandise and services	-5	-89
	-157	-402
4. Personnel expenses		
a) Salaries	-514	-759
b) Social security contributions	-26	-36
	-540	-795
5. Depreciation on plant & equipment and amortization on intangible fixed assets	-16	-106
6. Other operating expenses	-807	-3,341
7. Net interest	1	-164
8. Result of ordinary business activities	875	-2,513
9. Extraordinary income	2,690	0
10. Extraordinary expenses	-1,110	0
11. Extraordinary result	1,580	0
12. Taxes on income and earnings	-904	-320
13. Other taxes	0	-1
14. Consolidated net income for the period (p.y. net deficit)	1,551	-2,834
15. Accumulated loss	-25,249	-90,620
16. Group retained earnings	-23,698	-93,454
Basic earnings per share	0.13	-0.24
Diluted earnings per share	0.13	-0.24

Intertainment Group: Consolidated Cash Flow Statement

as at March 31, 2004 in Accordance with the IFRS

in TEuros	31/3/2004	31/3/2003
Period result prior to extraordinary items, interest and taxes	-30	-2,657
Amortization & depreciation on items of fixed assets	16	106
Changes in provisions	-715	-2,357
Changes to inventories	-219	-63
Changes in trade receivables	-281	10,382
Changes in other assets	-911	-273
Changes in trade payables and other liabilities	492	-3,407
Interest received	1	9
Interest paid	0	-186
Outflow of funds (p. y. inflow) from current business activities	-1,647	1,554
Outgoing payments for investments in fixed assets	-2	-649
Outflow of funds from investment activities	-2	-649
Changes in liabilities to banks	-2	-987
Outflow of funds from financing activities	-2	-987
Changes in cash and cash equivalents	-1,651	-82
Changes in cash and cash equivalents resulting from exchange rate and other influences	-2	-9
Cash and cash equivalents at beginning of period	2,138	3,922
CASH AND CASH EQUIVALENTS AT END OF PERIOD	485	3,831

Entertainment Group: Development of the Group Shareholders' Equity

in Accordance with the IFRS

in TEuros						
	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency differences	Total
BALANCE AT 31/12/2001	15,005	149,481	116	-74,496	42	90,148
Result 31/12/2002				-16,124	0	-16,124
Currency difference					-97	-97
BALANCE AT 31/12/2002	15,005	149,481	116	-90,620	-55	73,927
Result 31/12/2003				-14,065	0	-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 31/3/2004				1,551		1,551
Currency difference					-2	-2
BALANCE AT 31/3/2004	15,005	70,045	116	-23,698	-83	61,385

Entertainment Group: Notes

to the Consolidated Financial Statements for the Interim Report for the period to March 31, 2004 in Accordance with the IFRS

I. General information

The Intertainment AG (referred to as Intertainment below) and the subsidiaries included in the consolidated financial statements have used the same accounting, valuation and consolidation policies for the Interim Report as were applied for the consolidated financial statements of the business year 2003. A detailed explanation of these policies will not be repeated here and we refer to the Annual Report 2003 for any details required.

The consolidated financial statements relate to Intertainment AG and its subsidiaries INTER-TAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc. The balance sheet date for the consolidated financial statements is March 31, 2004.

In these explanatory notes, the figures are stated in thousand euros (TEuros). Alongside the figures for the period under review, the corresponding figures for the prior year are given for purposes of comparison. The comparative date in the balance sheet is December 31, 2003 and in the income statement March 31, 2003.

II. Notes to the consolidated balance sheet

1. Fixed assets

Payments on account for intangible assets amount to 2,147 (31/12/2003: 2,147) TEuros and relate to the acquisition of film rights. Property, plant and equipment amount to a volume of 180 (31/12/2003: 194) TEuros and consists of office and business equipment.

Financial assets comprise the shareholding in SightSound Technologies Inc. totaling 15,036 (31/12/2003: 15,036) TEuros. We refer in particular to the "Notes to the consolidated financial statements" and Management Report for the year ending December 31, 2003 for further explanations, in particular relating to value and risks.

2. Inventories

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

II. 2 FILM RIGHTS AND LICENSE			in TEuros	
Position	31/3/2004	31/12/2003		
Balance at January 1	7,100	10,831		
Writeups	0	710		
Non-scheduled amortization	0	-4,951		
Reclassifications	0	510		
Disposals	-509	0		
Balance at March 31 (Dec. 31)	6,591	7,100		

The disposals relate to the sale of license rights in "Rudolph the red-nosed reindeer". In January 2004, Intertainment Animation & Merchandising GmbH sold these licenses and another project which was currently being developed and which was posted under payments on account at December 31, 2003.

The merchandise comprises merchandising articles or video and DVD stocks. Their value amounts to 205 (31/12/2003: 305) TEuros on the basis of loss-free valuation. The payments on account amount to 1,063 (31/12/2003: 235) TEuros. During this period, Intertainment has reported under this item payments for the acquisition of films rights which were made prior to technical acceptance of the film material.

3. Trade accounts receivable

Trade receivables amount to 1,036 (31/12/2003: 755) TEuros and relate exclusively to a remaining term of less than one year.

4. Other assets

Other assets amount to 72,725 (31/12/2003: 69,304) TEuros. These receivables refer exclusively to a remaining term of less than one year.

II. 4 OTHER ASSETS		in TEuros	
	31/3/2004	31/12/2003	
Damages receivable from legal disputes	70,090	67,700	
Deposited securities	1,096	1,096	
Input tax not yet due	0	0	
Tax rebates	943	72	
Miscellaneous	596	436	
Total	72,725	69,304	

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 the 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 financial statements for 2003. 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, 2003 results from the change in the exchange-rate between the euro and the US dollar. This effect can be seen under the extraordinary result shown in the income statement.

5. Cash on hand, bank balances

Liquid funds totaling 485 (31/12/2003: 2,138) TEuros result from current accounts and cash on hand. The fixed-term deposits have short remaining terms of less than one year and fall due in the business year 2004.

Because of a letter of credit, which is

connected with the rent obligations for office premises, 333 (31/12/2003: 333) TUSD were not freely available on the balance sheet date.

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 -23,698 (31/12/2003: -25,249) TEuros on March 31, 2004. The consolidated net income for the period amounts to 1,551 (31/12/2003: consolidated deficit for the quarter -14,065) TEuros. The authorized and contingent capital remained unchanged compared to December 31, 2003.

7. Provisions

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

II. 7 OTHER PROVISIONS					in TEuros
	Balance 1/1/2004	Utilization	Release	Allocation	Balance 31/3/2004
Litigation revenue participations	19,800	0	0	1,110	20,910
Litigation risks	6,500	-516	0	0	5,984
Contractual disputes	3,500	0	-300	0	3,200
Reorganization	2,100	0	0	20	2,120
Outstanding invoices	938	-156	-12	40	810
License fees	119	0	0	1	120
Miscellaneous	142	-15	-77	0	50
Total	33,099	-687	-389	1,171	33,194

The provision for litigation revenue participations relates to the participation of third parties in the litigation revenues flowing to Intertainment. This provision is directly connected with the damages receivable under item II.4. The amount of the participations is defined by the contractually agreed percentages based on the expected inflows of funds. The litigation revenue participations are only due at the point in time when the inflows of funds are received. The provision for litigation risks comprises the estimated costs still due for all the pending legal disputes within the context of the Franchise Pictures case. Apart from the provision for trial costs, no provisions were made for any payment obligations arising from the arbitration proceedings because the management is not assuming any further outflows of funds.

The provision for contractual disputes is for risks arising in the settlement of agreements which in the opinion of the management are binding and concluded. The release of this provision is reported under extraordinary income.

The provision for reorganization includes obligations to contractual partners for the settlement and termination of existing contracts. This includes inflows of funds arising from the security deposits assigned to contractual parties reported under other assets. We also refer to item II.4 of these notes.

8. Liabilities

Trade liabilities amount to 896 (31/12/2003: 1,142) TEuros. Other liabilities total 193 (31/12/2003: 358) TEuros. Liabilities relate overall to a remaining term of less than one year.

The **LIABILITIES TO BANKS** amount to 5 (31/12/2003: 7) 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 on June 30, 2004. The rescheduling provides for the bank issuing a debt waiver with an undertaking to repay. Within the context of this undertaking to repay, receivables are reinstated when the conditions come into force. The total sum of the receivables reinstated through the undertaking to repay is limited to 115 % of the original loan debt. In order to secure the claims of the bank, the assets and claims described under other liabilities (item IV.4) were assigned.

An expert opinion by a lawyer's office forms the basis 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.

III. Explanations to the Group income statement

1. Sales revenues

Sales revenues amount to 1,052 (31/3/2003: 716) TEuros and in the period under review result in particular from "Art of War", "The Whole Nine Yards", "Battlefield Earth" and "Grey Owl".

2. Other operating income

Other operating income amounts to 1,342 (31/3/2003: 1,579) TEuros and comprise:

III. 2 OTHER OPERATING INCOME	in TEuros	
	1/1/-31/3/2004	1/1/-31/3/2003
Tax rebates	940	0
Release of provisions	89	1,304
Currency gains	27	264
Miscellaneous	286	11
Total	1,342	1,579

3. Cost of materials

The cost of materials amounts to 157 (31/3/2003: 402) TEuros and includes expenses for film rights and associated services amounting to 152 (31/3/2003: 313) TEuros and expenses for related goods and services amounting to 5 (31/3/2003: 89) TEuros.

4. Other operating expenses

The other operating expenses amount to 807 (31/3/2003: 3,341) TEuros and are made up as follows:

III. 4 OTHER OPERATING EXPENSES	in TEuros	
	1/1/-31/3/2004	1/1/-31/3/2003
Legal and consultancy costs	310	755
Rents and accommodation costs	77	70
Currency losses	28	1,199
Administrative costs of producers	0	728
Miscellaneous	392	589
Total	807	3,341

5. Extraordinary result

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

5.1 Extraordinary income

Extraordinary income amounts to 2,690 (31/3/2003: 0) TEuros and essentially comprises the value of the damages receivable from Franchise Pictures and other parties amounting to 2,390 (31/3/2003: 0) TEuros and the change in allowances for disputes in contract processing in the sum of 300 (31/3/2003: 0) TEuros.

5.2 Extraordinary expenses

Extraordinary expenses amount to 1,110 (31/3/2003: 0) TEuros. The change in provision for litigation revenue participation of third parties in the Franchise Pictures case is included under this item and amounts to 1,110 (31/3/2003: 0) TEuros.

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

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

The number of Intertainment shares is 11,739,013. During the first quarter of 2004, the Group generated net income of 1,551 TEuros, following on from a deficit of -2,834 TEuros in the prior period. Hence, the earnings per share amounted to 0.13 euros, after -0.24 euros on March 31, 2003. The diluted earnings per share amount to 0.13 (31/3/2003 -0.24) euros.

2. Other financial commitments

At March 31, 2004, the following future payments 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	16,453 (31,119)*	0 (6,481)*	16,453 (37,600)*
Obligations arising from lease and rental contracts	1,216 (1,395)*	1,337 (2,695)*	2,552 (4,090)*
Total	17,669 (32,514)*	1,337 (9,176)*	19,005 (41,690)*

* as at 31/3/2003

OBLIGATIONS ARISING FROM FILM PRODUCTIONS

The obligations arising from film productions relate in the prior period to payments to productions 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 effective from the first quarter of 2004. 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.

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

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

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

The arbitration proceeding that originally related to the film "Driven" was extended to all the disputed films financed by Comerica Bank and all claims for damages being asserted by Intertainment against Comerica Bank and the bond companies. Comerica Bank is demanding in this arbitration proceeding all outstanding installments for the films it financed. The total amount is more than 70,000 TUS dollars. We refer to our statements in the Annual Report 2003 for further information.

OTHER OBLIGATIONS ARISING FROM LITIGATION REVENUE PARTICIPATIONS

Insofar as cash-inflows of funds from the legal dispute with Franchise Pictures and other parties exceed the damages receivable amounting to 70,090 TEuros reported under other assets, other contractual obligations for litigation revenue participations arise on the basis of contractual agreements for which no provisions were formed during the year under review.

4. Contingent obligations

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

In the business year 2001, Intertainment AG 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.

There is also a letter of credit from Intertainment AG amounting to 333 (31/12/2003 333) TUS dollars for the rental obligations arising from the offices leased by USA-Intertainment, Inc. in Los Angeles.

5. Pending legal disputes

No events occurred apart from the explanations provided in the Annual Report 2003.

ALTERNATIVE SETTLEMENT TO THE DISPUTE

It is possible that alternative solutions could be found for settling the pending disputes in the Franchise case. The parties have reached a basic agreement that an attempt should be made to achieve a solution in this way. In this connection, negotiations are currently under way directed toward obtaining an alternative settlement to the dispute. However, it is not possible to make any statement about the prospects for success from today's perspective.

6. Employees

On average during the first quarter of 2004, the Group employed 13 (2003: 23) staff.

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

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

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

The consolidated financial statements for the first quarter of 2004 were prepared on the assumption that the Intertainment AG Group still has the ability to continue as a going concern. The Management of Intertainment has a positive assumption regarding its ability to continue as a going concern, so that the Group will in all probability be able to continue its business activities in the current and the subsequent business years and meet its payment obligations. The positive assumption regarding the Intertainment AG Group's ability to continue as a going concern is based on a detailed finance plan. This is made up of the financing of future business activity, the planned investments and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by three main areas of uncertainty that cannot be judged definitively at the present time. In particular, these are:

- Settlement of the bank loan which has been called in on the basis of the assumptions by the legal representatives
- Cash-inflows of funds from the legal disputes with Franchise Pictures, Comerica Bank and others parties referred to above
- Positive outcome of current arbitration proceedings
- Cash-inflow from the disposal of financial assets

- Fulfillment of the other assumptions of the finance plan including the incoming payments planned for the near future, in particular the transfer of equity capital or outside capital envisaged in the finance plan amounting to a total of 4 million euros in September and October 2004.

If the inflows of funds, the outflows of funds or the assumptions on which the financial plan is based fail to materialize as planned, the ability to continue as a going concern of Intertainment AG, INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertain-

ment, Inc. is highly endangered because of being unable fulfill their payment obligations and the associated risk of filing for insolvency proceedings – also a very short notice under certain circumstances.

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

Intertainment AG, September 27, 2004

The Board of Management

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