

2003

QUARTERLY REPORT
III / 2003



ENTERTAINMENT

Aktiengesellschaft

Key indicators (million Euros)	2 0 0 3		2 0 0 2	
	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.
Sales	4.1	2.0	13.8	2.3
EBIT	-5.5	-1.4	-4.8	-2.2
Result from ordinary operations	-5.8	-1.6	-5.4	-2.3
Net loss for the period	-6.5	-1.7	-4.5	-0.4
Earnings per share (Euros)	-0.55	-0.15	-0.38	-0.03
Average number of employees		23		24

Key data for the share

ISIN	ISIN: DE0006223605	
Share capital	15,005,155.09 Euros	
Number of shares	11,739,013	
Issue price 08.02.1999	36.00 Euros	
	after split (1:2)	18.00 Euros
Closing price* at 30.09.2003	2.05 Euros	
High* for 1 st nine-months 2003 (11.07.2003)	5.25 Euros	
Low* for 1 st nine-months 2003 (12.03.2003)	1.45 Euros	
Shareholder structure at 30.09.2003	Rüdiger Baeres	52.86 %
	Family Baeres	9.38 %
	Management, Supervisory Board	0.20 %
	Free float	37.56 %

*Closing prices in Xetra electronic trading

Contact

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 Group: Situation Report

for the third quarter of 2003

Performance during the first three quarters of 2003

During the first half of the current fiscal year, the Intertainment Group was primarily focused on restructuring the company's operating business and making preparations for the lawsuit for damages against US film producer Franchise Pictures in Los Angeles which has been pending since the end of 2000. During the third quarter of 2003 and the two months since the end of that quarter, Intertainment has been concerned above all with the organization measures necessary in response to the further postponement of the trial.

Completion of the thriller "Blackout" in the spring was an important milestone in the operating activities of Intertainment. At the beginning of July 2003, Intertainment additionally agreed a strategic partnership with Munich media company OpenPictures. These gratifying developments were over-shadowed by the news in mid-July of the postponement of the trial date against Franchise Pictures scheduled for August. This was the third time that proceedings had been postponed. The renewed postponement constituted a severe setback for Intertainment.

Immediately after the postponement of the trial had been announced, the management at Intertainment significantly strengthened the cost-cutting measures already introduced within the company in order to relieve the financial burden on Intertainment over the short, medium and long term. Management also introduced additional measures aimed at cutting costs. These measures cover all areas of the com-

pany and all partners of Intertainment, as well as renegotiating and restructuring contracts.

In accordance with expectations, the financial burdens resulting from the fraud perpetrated on Intertainment by Franchise Pictures are reflected in the business figures of Intertainment for the first three quarters of 2003. Consolidated sales fell to EUR 4.1 million during the first nine months from EUR 13.8 million during the year-earlier period. Sales were principally generated by license revenues from pay-TV.

Consolidated EBIT slid to EUR -5.5 (year-earlier period: -4.8) million. The net loss for the first three quarters amounted to EUR -6.5 million against EUR -4.5 million in the first three quarters of 2002.

Intertainment achieved sales amounting to EUR 2 million during the third quarter of 2003. In the equivalent quarter of 2002, Intertainment generated sales of EUR 2.3 million. Comparing the two quarters, earnings from ordinary activities improved to EUR -1.6 from EUR -2.3 million. EBIT of EUR -1.4 million for the third quarter of 2003 compares with EUR -2.2 million for the third quarter of 2002. The net loss for the period deteriorated to EUR -1.7 million (year-earlier quarter: -0.4) million.

On September 30, 2003, the Intertainment Group's liquid funds amounted to EUR 4.3 million. The corresponding figure on June 30, 2003 was EUR 2.3 million and on December 31 last year EUR 3.9 million.

Legal dispute with Franchise Pictures

Trial date for litigation against Franchise Pictures scheduled to start in April 2004

The legal dispute with Franchise Pictures has not yet come to trial. The trial is now scheduled to start on April 20, 2004.

The trial involves a claim by INTERTAINMENT Licensing GmbH for damages against Franchise of at least USD 100 million on the grounds of fraudulently inflated budgets. The claim has already been pending since the end of 2000. At the start of the current fiscal year, Intertainment was still expecting a first-instance ruling by the end of August. At the beginning of this year, the responsible judge at the Federal District Court in Los Angeles had scheduled August 5 as the beginning of the trial. She explicitly confirmed this date at a pre-trial conference in mid-June 2003, allowing a total of 16 days for the trial.

The court cancelled the trial date in mid-July 2003, without stating any reasons. A few days later, Intertainment submitted motion for an expedited trial. At the end of September, the responsible court announced that the trial would start on April 20, 2004. Based on the evidence, Intertainment is confident of winning the lawsuit.

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

Other developments in connection with the lawsuit

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

Lawsuit against Comerica Bank and the bond companies

In December 2002, Intertainment filed a lawsuit for damages with the State Court in Los Angeles against Comerica Bank, the bond companies WorldWide Film Completion and Film Finances and executives of these companies on the grounds of what Intertainment considers fraudulent collaboration with Franchise Pictures. Two of the defendants then filed an application in the first quarter of 2003 for this lawsuit to be heard before the Federal District Court. In April 2003, the US District Court rejected this application. At the end of June 2003, the responsible judge at the State Court ruled at a hearing that the lawsuit filed by Intertainment would be stayed pending in arbitration proceedings initiated by Comerica Bank.

Arbitration proceedings in respect of Franchise films

Comerica Bank initiated these arbitration proceedings during the first quarter of 2003 with the objective of obtaining the second installment for the film "Driven", financed by Comerica Bank. This claim amounts to a total of USD 13.6 million.

However, by filing counter- and cross-claims, Intertainment has ensured that these arbitration proceedings will not simply cover

"Driven". But

– all Franchise films at dispute financed by Comerica Bank

– and all claims for damages that Intertainment had originally filed against Comerica Bank and the insurance companies with the State Court.

In the meantime, Franchise Pictures has also sought to intervene in the ongoing arbitration proceedings by asserting claims against Intertainment. Thereupon, Intertainment filed an application requesting that the arbitration panel dismiss the claims asserted by Franchise Pictures – and hence precludes Franchise from being actively involved in the arbitration proceedings. A decision on this issue is still pending.

The parties involved so far in the arbitration proceedings have agreed on a panel of three arbitrators. At the end of October, this panel first turned to addressing the various applications filed by the parties which relate to the formal conduct of the arbitration proceedings. In this connection, Comerica Bank filed a motion to bifurcate the "Driven" case and to having the "Driven" claims previously submitted for decision. The panel rejected this application with the resolution of November 24.

A date for the proceedings relating to the entire arbitration case has not yet been set. Intertainment expects that the parties will be given ample opportunity for discovery proceedings before this date. Discovery proceedings relate to a process for presenting evidence under American law.

Intertainment assumes that the claims asserted by Comerica Bank against Intertainment are without merits. Should the arbitration court decide otherwise, however,

Intertainment expects that the income obtained by the bank from the films will be set off against the payment claims asserted, and this income will cover or exceed the installments still outstanding.

Arbitration proceedings in respect of "Tracker"

In mid-June, International Motion Picture Corporation Ltd., Hongkong, initiated arbitration proceedings against Intertainment. The company had previously acquired an alleged payment claim from a bank against Intertainment arising from the film "Tracker". The film is part of the proceeding litigation between Intertainment and Franchise Pictures.

Intertainment and International Motion Picture Corporation have never had any business dealings at any time. The company is represented by the same counsel as the bond company Film Finances.

International Motion Picture Corporation is claiming around USD 3.3 million plus interest in the arbitration proceedings. In parallel with the arbitration claim, the company's lawyers attempted through several remedies to secure an attachment application against Intertainment amounting to around USD 4 million. However, the Superior Court in Los Angeles rejected this application on the grounds – among others – that International Motion Picture Association could not provide evidence of the true amount of the budget for "Tracker".

Following rejection by the Superior Court, International Motion Picture Corporation submitted the application for interim relief to the arbitration. The arbitrator appointed by American Film Marketing Association Arbitration ("AFMA") did not feel bound by the court decision but instead directed on November 12 that all payments due to

INTERENTAINMENT Licensing GmbH in the USA should be deposited in a trust account until completion of the arbitration proceedings. The preliminary date for the arbitration hearing was fixed for the end of January 2004.

Intertainment made an application to the Superior Court requesting that the arbitration proceedings on the case "Tracker" should be consolidated with the arbitration proceedings initiated by Comerica Bank. The responsible judge asked Intertainment to submit the application to the Federal Court.

Preliminary proceedings by the Federal Financial Services Regulatory Agency (BaFin) brought to an end

Shortly before the Annual General Meeting on September 22, Intertainment found out through the press that the Federal Financial Services Regulatory Agency (BaFin) had instituted a routine inquiry against Intertainment on account of suspicion of insider trading. The suspicion was aroused by unusually high trading in Intertainment shares immediately before the ad-hoc press release about the postponement of the Franchise trial on July 14. Intertainment expressly welcomed these investigations, but the suspicions were not confirmed. In mid-November, BaFin therefore brought the investigation to an end.

Segmental development

Film production and sale of rights

In the film production and sale of film rights segment, activity focused on production and post-production of "Blackout", a thriller that Intertainment produced with US studio Paramount Pictures and Kopelson Entertainment. Paramount decided not to release the film on cinema screens in the fall of 2003 but to wait until 2004. The major studio hopes that this move will improve box-office takings. The precise date for cinema launch was recently set for February 27, 2004. The film will also start screening in other worldwide territories close to the launch date.

Intertainment sold numerous territorial rights for "Blackout" in advance during the current fiscal year. These presales will be sales-relevant on delivery of the film. The film will be delivered at the end of the fourth quarter of 2003 and the beginning of the first quarter of 2004.

Strategic partnership with OpenPictures

Intertainment is also strengthening its operating business over the medium to long-term through a strategic partnership with OpenPictures AG, Munich. The two companies signed an agreement to this effect at the beginning of July 2003. The main objective of this partnership is joint development and production of films. OpenPictures will also market films from Intertainment's film library in German-speaking areas and intends to sell individual territorial rights relating to the jointly produced films. In the medium term, the possibility of OpenPictures acquiring a stake in Intertainment has not been ruled out.

Animation & Merchandising

During the course of the fiscal year, Intertainment Animation & Merchandising GmbH concentrated on developing new products for the Christmas classic "Rudolph the Red-Nosed Reindeer". This year the company is looking back on a successful five-year collaboration with UNICEF on the theme "Kids for Kids". Intertainment Animation & Merchandising is also working intensively on developing new material for the children's and family market. It intends to present a new product line at the Nuremberg Toy Fair at the start of February 2004.

Digital distribution

In the third quarter, Intertainment holding SightSound Technologies also had to accept post-ponement of a patent trial. This related to the trial originally scheduled to start in September as part of a patent lawsuit that SightSound is conducting against Bertelsmann subsidiary CDNow. CDNow failed in its application to the court in October to have all patent right claims asserted by SightSound rejected in a summary judgment. This ensures that all claims by SightSound will actually be tried in a main hearing. The new date for these proceedings was set for spring 2004.

Change in Management Board

On August 13, Stephen Brown left the Management Board of Intertainment AG. However, he is continuing to work for the Group as President of USA-Intertainment, Inc., Los Angeles. Brown had been a member of the Management Board since October 31, 2000 and was appointed Vice-Chairman of the Management Board in 2001. In conjunction with Brown's departure, Intertainment streamlined its management and

transferred Brown's former Business Development division to USA-Intertainment, Inc. This means that Brown's experience in film development and production remains within the Intertainment Group.

Change in Supervisory Board

The deputy Chairman of the Supervisory Board of Intertainment AG, Dr. Ernst Pechtl, stepped down from the Supervisory Board on September 21, 2003. He is succeeded by auditor and tax adviser Wolfgang Blauberger. Dr. Pechtl had been a member of the Intertainment Supervisory Board since December 23, 2000. He played a significant role in supporting Intertainment during his period of office.

Fifth Ordinary General Meeting

On September 22, Intertainment held its fifth Ordinary General Meeting. Around 150 shareholders attended this meeting in Munich. The focus of this meeting was the impending trial against Franchise Pictures and the financial situation of the company. At the Ordinary General Meeting, Intertainment presented new facts relating to the fraud perpetrated by Franchise Pictures which had so far been subject to secrecy regulations as a result of a long-standing protective order. These revelations included the admission by Elie Samaha, CEO of Franchise, that Franchise had actually worked with falsified budgets.

Ismaning, November 28, 2003

Management Board

Intertainment Group: Consolidated Balance Sheet

as at September 30, 2003 in Accordance with IFRS

ASSETS	TEUR	
	30.9.2003	31.12.2002
A. FIXED ASSETS		
I. Intangible assets		
1. Licenses, commercial property rights and similar rights as well as licences to such rights	539	631
2. Payments made on account	10,957	9,513
	11,496	10,144
II. Property, plant & equipment		
Other plant, business and office equipment	1,797	2,206
III. Financial assets		
Participations	15,036	15,036
	28,329	27,386
B. CURRENT ASSETS		
I. Inventories		
1. Film rights	10,831	10,831
2. Merchandise	264	425
3. Payments made on account	33,170	33,107
	44,265	44,363
II. Receivables and other assets		
1. Trade receivables	21,888	37,165
2. Other assets	8,569	9,452
	30,457	46,617
III. Cash on hand and in bank balances	4,290	3,922
	79,012	94,902
C. DEFERRED TAXES	5,123	5,132
	112,464	127,420

EQUITY & LIABILITIES	TEUR	
	30.9.2003	31.12.2002
A. EQUITY		
I. Subscribed capital	15,005	15,005
II. Capital reserve	149,469	149,426
III. Revenue reserves		
Statutory reserve	116	116
IV. Retained earnings	-90,620	-74,496
V. Net loss for the period	-6,485	-16,124
	67,485	73,927
B. PROVISIONS		
1. Tax provisions	0	117
2. Other provisions	2,671	6,966
	2,671	7,083
C. LIABILITIES		
1. Liabilities due to banks	14,265	16,172
2. Payments received on account	1,313	419
3. Trade accounts payables	20,681	24,233
4. Other liabilities	3,587	3,782
	39,846	44,606
D. DEFERRED TAX LIABILITIES	2,462	1,804
	112,464	127,420

Intertainment Group: Income Statement

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

TEUR	1.1.-30.9.2003	1.1.-30.9.2002
1. Sales revenues	4,066	13,801
2. Other operating income	2,730	5,520
	6,796	19,321
3. Cost of materials		
a) Cost of film rights and associated performances	-1,279	-8,271
b) Expenses for bought-in merchandise and services	-157	-726
	-1,436	-8,997
4. Personnel expenses		
a) Wages & salaries	-2,234	-2,442
b) Social security contributions	-110	-99
	-2,344	-2,541
5. Depreciation on property, plant & equipment and amortization of intangible fixed assets	-302	-415
6. Other operating expenses	-8,201	-12,169
7. Net interest	-318	-563
8. Result of ordinary business activity	-5,805	-5,364
9. Extraordinary result	0	+1,060
10. Taxes on income and earnings	-679	-183
11. Other taxes	-1	-1
12. Group net loss for the period	-6,485	-4,488
Basic earnings per share	-0.55	-0.38
Diluted earnings per share	-0.55	-0.38

Intertainment Group: Income Statement

for the period from July 1, to September 30, 2003 in Accordance with IFRS

TEUR	1.7.-30.9.2003	1.7.-30.9.2002
1. Sales revenues	2,025	2,324
2. Other operating income	491	1,719
	2,516	4,043
3. Cost of materials		
a) Cost of film rights and associated performances	-547	-1,568
b) Expenses for bought-in merchandise and services	-21	-506
	-568	-2,074
4. Personnel expenses		
a) Wages & salaries	-680	-754
b) Social security contributions	-35	-33
	-715	-787
5. Depreciation on property, plant & equipment and amortization of intangible fixed assets	-94	-153
6. Other operating expenses	-2,573	-3,182
7. Net interest	-117	-166
8. Result of ordinary business activity	-1,551	-2,319
9. Extraordinary result	0	0
10. Taxes on income and earnings	-161	1,965
11. Other taxes	0	-1
12. Group net loss for the period	-1,712	-355
Basic earnings per share	-0.15	0.03
Diluted earnings per share	-0.15	0.03

Intertainment Group: Consolidated Cash Flow Statement

as at September 30, 2003 in Accordance with IFRS

TEUR	30.9.2003	30.9.2002
Period result prior to extraordinary items	-6,485	-5,548
Amortization & depreciation of fixed assets	302	415
Changes in provisions	-4,412	-7,252
Changes to inventories	98	4,440
Changes in trade receivables	15,276	13,903
Changes in other assets	893	894
Changes in trade payables as well as in other liabilities	-2,195	-3,440
Inflow from current operations	3,477	3,412
Non-cash effects of extraordinary items	0	1,060
Inflow of funds from extraordinary items	0	1,060
Outgoing payments for investments in fixed assets	-1,244	-6,117
Outflow of funds from investment activity	-1,244	-6,117
Changes in liabilities to banks	-1,908	-4,445
Outflow of funds from financing activity	-1,908	-4,445
Changes in cash and cash equivalents	325	-6,090
Changes in cash and cash equivalents resulting from exchange rate and other influences	43	24
Cash and cash equivalents at beginning of period	3,922	14,231
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,290	8,165

Intertainment Group: Development of the Group-Shareholders' Equity

in Accordance with IFRS

TEUR	Share capital	Capital reserve	Revenue reserve	Balance Sheet profit/loss	Total
Result 2001				-86,807	-86,807
Currency difference		-2			-2
BALANCE AT 31.12.2001	15,005	149,523	116	-74,496	90,148
Result 31.12.2002				-16,124	-16,124
Currency difference		-97			-97
BALANCE AT 31.12.2002	15,005	149,426	116	-90,620	73,927
Result 30.09.2003				-6,485	-6,485
Currency difference		43			43
BALANCE AT 30.09.2003	15,005	149,469	116	-97,105	67,485

Entertainment Group: Notes

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

I. General information

Entertainment AG and the companies included in the consolidated financial statements have used the same accounting, valuation and consolidation policies for the Interim Report as were applied for the consolidated financial statements of the financial year 2002. A detailed explanation of these policies is not included in the Interim Report. The consolidated financial statements relate to Entertainment AG and its subsidiaries ENTERTAINMENT Licensing GmbH, Entertainment Animation & Merchandising GmbH and USA-Entertainment, Inc. Entertainment AG (also referred to below as Entertainment) has stated the figures in these Notes in thousand Euros (TEUR). The corresponding figures for the previous year are presented alongside the figures for the period under review in order to assist in making comparisons. December 31, 2002 is given as the comparative reporting date in the balance sheet and September 30, 2002 is given in the income statement.

II. Notes to balance sheet

1. Fixed assets

PAYMENTS ON ACCOUNT FOR INTANGIBLE ASSETS include in particular TEUR 5,509 (31.12.2002: 5,509) for the acquisition of film rights and TEUR 5,448 (31.12.2002: 4,004) for other film productions.

FINANCIAL ASSETS comprise the shareholding in the company SightSound Technologies Inc.

2. Inventories

II. 2 INVENTORIES		TEUR	
	30.9.2003	31.12.2002	Change
Film assets	10,831	10,831	0
Merchandise held for sale	264	425	-161

The value of **FILM RIGHTS** amounting to TEUR 10,831 was unchanged compared with December 31, 2002. The volume of **MERCHANDISE HELD FOR SALE** totals TEUR 264 (31.12.2002: 425) and comprises merchandising articles, videos and DVDs.

PAYMENTS ON ACCOUNT FOR FILM RIGHTS of TEUR 33,170 (31.12.2002: 33,107) consist mainly of payments relating to the first installment for film rights of Franchise Pictures that are directly connected with the pending legal actions. Entertainment paid the first installment and part of the second installment for these film titles and has reported the total amount of the payments reduced by depreciation reserves as payments on account for film rights.

3. Trade accounts receivable

Trade receivables amount to TEUR 21,888 (31.12.2002: 37,165), of which TEUR 7,187 (31.12.2002: 19,214) have a residual term of more than one year. Long-term accounts receivable were discounted by a total of TEUR 1.068 (31.12.2002: 2,446).

4. Other assets

Other assets consist mainly of:

II. 4 OTHER ASSETS		TEUR	
	30.9.2003	31.12.2002	Change
Blackout Productions Inc.	6,476	6,820	-346
Paramount Pictures	448	506	-58
Input tax not yet due	1,337	1,337	0

The change in the third quarter results in particular from fluctuations in exchange rates.

5. Cash on hand

Liquid funds totaling TEUR 4,290 (31.12.2002: 3,922) comprise fixed term deposits of TEUR 572 (previous year 900), current account balances of TEUR 3,718 (31.12.2002: 3,022) and cash on hand. Fixed term deposits all have terms of less than one year. Liquidity of TEUR 362 (31.12.2002: 717) is not unconditionally available due to a surety and a letter of credit in connection with rental obligations relating to office premises

6. Equity

We refer you to the Schedule of Shareholders' Equity for development in equity. The share capital is made up of 11,739,013 no-par-value shares in issue.

The authorized unissued capital and contingent capital has changed since December 31, 2002 as follows:

The resolution adopted at the Annual General Meeting on September 22, 2003, authorizes the Management Board to increase the nominal capital up to September 23, 2008, with the consent of the Supervisory Board, once or more than once, in the total amount of up to TEUR 3,203 against cash contribution or contribution in kind, and the subscription rights of shareholders can be excluded (authorized capital 2003/1). The authorized capital for January 18, 1999 (authorized capital 1999/1) was extinguished. The nominal capital of the company was further contingently increased by resolution of the Annual General Meeting on September 22, 2003 by TEUR 383 (contingent capital 2003/1). The contingent capital allows options to be exercised by employees, members of the executive management or members of the Management Board of the company or affiliated companies.

7. Provisions

During the current fiscal years, provisions for taxation were utilized in the sum of TEUR 116 and in the sum of TEUR 1.

Other provisions developed as follows:

II. 7 PROVISIONS					TEUR
	Status 1.1.2003	Utilized	Released	Appropriated	Status 30.9.2003
Litigation risks	3,000	-1,200	0	0	1,800
Outstanding invoices	2,623	-1,017	-1,317	201	490
License fees	127	0	0	60	187
Personnel	372	-256	-1	0	115
Provision for license sales	765	-264	-501	0	0
Miscellaneous	79	0	0	0	79
Total	6,966	-2,737	-1,819	261	2,671

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

The provision for litigation risks encompasses the estimated costs still to be incurred for the pending legal actions with Franchise Pictures.

The provision for personnel relates to vacation not yet taken.

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

8. Liabilities

LIABILITIES TO BANKS relate exclusively to a loan with HypoVereinsbank AG. This amounted to TEUR 14,255 (31.12.2002: 15,185) on 30.09.2003. An outstanding loan from BHF Bank at 31.12.2002 with a residual amount of TEUR 987 was settled in full in the first quarter of 2003.

The loan with HypoVereinsbank is being repaid on a regular basis and is due for repayment at the latest on June 30, 2004. The loan is subject to variable interest which is geared to base interest rates. Intertainment has used the loan to finance the acquisition of film license rights and in this connection has agreed with the bank to assign these exploitation rights, assign the material as security and assign the accounts receivable from sales contracts.

PAYMENTS RECEIVED ON ACCOUNT FOR FILM RIGHTS amount to TEUR 1,313 (31.12.2002: 419) and include payments

from licensees for film titles which Intertainment has not yet supplied.

TRADE PAYABLES amount to TEUR 20,681 (31.12.2002: 24,233). The long-term liabilities included here amounting to TEUR 9,845 (31.12.2002: 18,206) are discounted with TEUR 1,068 (31.12.2002: 2,277).

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

III. Notes on the income statement

1. Sales revenues

III. 1 SALES REVENUES				TEUR
	30.9.2003	30.9.2002	1.7.-30.9.2003	
Total sales	4,066	13,801	2,025	

Sales revenues total TEUR 4,066 (30.09.2002: 13,801) and in the third quarter result in particular from pay-TV exploitation of the film titles "Art of War" and "Battlefield Earth".

2. Other operating income

Other operating income amounts to TEUR 2,730 on 30.09.2003 (30.09.2002 5,520) and includes among other items:

III. 2 OTHER OPERATING INCOME			TEUR
	30.9.2003	30.9.2002	1.7.-30.9.2003
Release of provisions	1,810	36	0
Currency gains	875	2,257	468

Currency gains are set against currency losses amounting to TEUR 2,541 (30.09.2002: 2,434). These are reported under other operating costs.

3. Cost of materials

The cost of materials consists mainly of marketing costs amounting to TEUR 1,065 (30.06.2002: 2,398) relating to the exploitation of films.

4. Other operating costs

Other operating costs total TEUR 8,201 at 30.09.2003 (30.09.2002 12,169) and are comprised as follows:

III. 4 OTHER OPERATING COSTS				TEUR
	30.9.2003	30.9.2002	1.7.-30.9.2003	
Currency losses	2,541	2,434	616	
Administrative costs of producers	1,458	595	349	
Legal and consultancy fees	1,314	1,536	367	

5. Interest result

The interest result is made up of interest income amounting to TEUR 1,424 (30.09.2002: 1,063) and interest expenses of TEUR 1,742 (30.09.2002: 1,626). The interest result for the third quarter is TEUR -117.

IV. Other information

1. Earnings per share

Under IAS 33, earnings per share are calculated by dividing the result for the period under review by the weighted average number of shares in circulation.

The number of Intertainment shares is 11,739,013. The Group recorded a net loss of TEUR 6,485 in the third quarter of 2003, following a loss of TEUR 4,488 in the equivalent year-earlier period. Earnings per share therefore amount to EUR -0.55 against EUR -0.38 as at September 30, 2002. Diluted earnings per share in the reporting period and the same period the previous year correspond to undiluted earnings.

2. Other financial commitments

Intertainment records the following future payment obligations:

IV. 2 OTHER FINANCIAL COMMITMENTS			TEUR
	Remaining term up to 1 year	Remaining term more than 1 year	Total
Obligations arising from film productions	32,522 (7,570)*	4,288 (22,534)*	36,810 (30,104)*
Obligations arising from lease and rental agreements	1,089 (1,360)*	411 (3,284)*	1,500 (4,644)*
Total	33,611 (8,930)*	4,699 (25,818)*	38,310 (34,748)*

* at 30.09.2002

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

3. Other contingent obligations

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

During the financial year 2001, Intertainment AG assumed a guarantee to Hypo-Vereinsbank AG of TEUR 16,361. This serves as security for a loan taken out by INTERTAINMENT Licensing GmbH and falls due on 30.06.2004. At September 30, 2003, the loan amounted to TEUR 14,255 (31.12.2002: 15,185).

Intertainment AG gave a surety of TEUR 76 (31.12.2002: 76) in 2000 for the tenancy of office premises in Ismaning and this continues unchanged. There is also a letter of credit from Intertainment AG for TUSD 333 (31.12.2002: 666) for the rental obligations

relating to the tenancy of the office premises of USA Intertainment, Inc. in Los Angeles.

4. Employees

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

5. Share ownership and option rights held by members of the executive bodies

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

IV. 5 SHARE OWNERSHIP AND OPTIONS

MANAGEMENT BOARD	Shares	Options
Rüdiger Baeres	6,205,635	0
Achim Gerlach	10,000	100,000
Stephen Brown (until 13.08.2003)	0	50,000
SUPERVISORY BOARD		
Dr. Matthias Heisse	12,980	0
Dr. Ernst Pechtl (until 21.09.2003)	0	0
Dr. Wilhelm Bahner	0	0
Wolfgang Blauburger (from 22.09.2003)	0	0

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

6. Litigation against Franchise Pictures

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

7. Events after the balance sheet date

We refer you to the Situation Report included in this quarterly report for the developments in the legal dispute with Franchise Pictures and the arbitration proceedings relating to the Franchise Pictures case.

8. Risks prejudicial to continued existence

The consolidated financial statements of Intertainment AG for the third quarter in 2003 have been prepared on the premise of a going concern.

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

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

If the inflows of funds, the outflows of funds or the premises on which the financial budget is based fail to materialize as planned, the continued existence of Intertainment AG and INTERTAINMENT Licensing GmbH is highly imperiled on account of impending inability to pay – also in the short term – and the consequent opening of insolvency proceedings.

We refer you to the section “D. Risks of future development” in the situation report for the fiscal year 2002 for further details of the risks to continued existence.

Intertainment AG, November 28, 2003

Management Board

Publication details

Publisher: Intertainment AG,
Ismaning

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