

A large, light teal graphic of a sun with rays and waves is centered on the page. The sun is composed of a thick, curved arc and several smaller circles of varying sizes. Below the sun are two thick, wavy lines representing water.

# **Shareholder's Letter Result 1st Half 2004**

## JoWood announces result for H1 2004:

- **JoWood announces stable mid-year result**
- **Group results increase by 260% on a year-on-year basis**
- **Equity ratio at 73%**

JoWood Productions Software AG, a public company listed at the Vienna Stock Exchange, managed to increase its results on a year-on-year basis as well as compared to the previous quarter. The group result after minorities for the first half of 2004 which had a relatively weak release schedule as compared to H2 2003 amounted to EUR 527,000. The group result for the first half increased by more than 260% on a year-on-year basis. The results for the second quarter were nearly 90% higher than the first quarter figures.

Last year's results for the first six months included approximately EUR 6.9 m in revenues from discontinued distribution activities. At EUR 7.3 m this year's mid-year revenues were 35% higher than last year's adjusted mid-year revenues from publishing activities.

JoWood increased its market share considerably during the reporting period. JoWood's German market share of 4.62% for the period from January 1 to June 30, 2004 represents an increase of 1.25 percentage points compared to the previous year. In June 2004 JoWood even reached a market share of 6.59% in the PC games segment. Several second quarter releases such as "Spellforce – The Breath of Winter", "Transport Giant", "Söldner – Secret Wars" or "YetiSports Deluxe" have remained in the Top10 of the sales charts for weeks and also performed strongly outside the German-speaking markets.

The slight reduction in the gross margin from 60% (mid-year 2003) to 56% (mid-year 2004) was caused by depreciations associated with the first releases of several titles during the second quarter. This led to an increase in cost of goods sold to EUR 3.2 m.

A significant improvement in JoWood's cost structure laid the basis for consistently positive results. General administration, sales and other expenses were at approximately EUR 3.1 m. This represents a reduction of approximately 28% compared to the previous year's reference period. The increase in sales expenses as compared to the first quarter reflects an intensification of JoWood's international marketing and sales efforts, especially for upcoming PC- and console titles.

The increased financial result was on the one hand caused by the fact that the majority of last year's liabilities have been set free of interest charges during the fiscal year 2003 as a result of a banking agreement supporting the restructuring plan and on the other hand, by a valuation adjustment of own shares coming in during the second quarter amounting to EUR 257,000. This valuation adjustment is however balanced by reserves of EUR 192,000.

The positive tax result results from a taxation expense on the group result before tax and a tax credit for a subsidiary. Because of the high deficits carried forward potential non-cash effects of the reduction of the corporate income tax rate are presently not accounted for.

As of June 30th 2004, JoWood employed a staff of 136 and 47 freelancers.

### Outlook

The first half of 2004 was dominated by high investments for titles due for release in the second half of 2004 and in particular for the highly attractive and ambitious product catalogue of 2005. Major parts of the development work for 2005 titles such as Gothic III, Spellforce II, The Guild II, Hotel Giant II and Stargate were financed during the first six months of 2004. The main strategic target for the current year is the entry into the market for console games. JoWood aims at establishing itself as the only German-speaking multi-platform publisher. The high guaranteed order backlog which is worth considerably more than EUR 40 m underlines the positive outlook.

### Notes on the financial statements

#### Profitability status

The discontinuation of all third party distribution activities in the course of 2003 led to a reduction in sales from EUR 12.273 m (H1 2003) to EUR 7.303 m (H1 2004). Sales adjusted for distribution activities however rose by 35% as compared to the reference period. This increase in sales was caused by highly successful releases of titles such as "Transport Giant", "Söldner" and "Spell Force Addon" as well as by an intensification in sales activities for the existing product catalogue.

The slight reduction in the gross margin from 60% (mid-year 2003) to 56% (mid-year 2004) was caused by depreciations associated with the first releases of several titles during the second quarter. This led to an increase in cost of goods sold to EUR 3.2 m. In addition, losses from distribution activities were accounted for as restructuring expenses in 2003.

The successful implementation of a new distribution strategy and a scaled down group structure through several deconsolidations led to a reduction of distribution expenses as compared to the reference period. The increase in distribution expenses on a quarter-on-quarter basis is explained by an intensification of JoWood's international marketing and sales efforts, especially for upcoming PC- and console titles.

The increased financial result was on the one hand caused by the fact that the majority of last year's liabilities have been set free of interest charges during the fiscal year 2003 as a result of a banking agreement supporting the restructuring plan and on the other hand, by a valuation adjustment of own shares coming in during the second quarter amounting to EUR 257,000. In contrast to other assets, the inflow of own shares is accounted for as an expense (allocation to reserves) and selling or adjusting their value is accounted for as a reduction in the allocation reserve. Thus, the inflow of own shares led to an expense of EUR 192,000 in the results. The inflow of own shares was a precaution to avert or reduce potential liabilities from former acquisitions. The shares were valued at the market price on the balance sheet date.

The change in reserves results from an allocation to reserves caused by an inflow of own shares and a liquidation of reserves in connection with a valuation adjustment of own shares.

The positive tax result results from a taxation expense on the group result before tax and a tax credit for a subsidiary. Because of the high deficits carried forward potential non-cash effects of the reduction of the corporate income tax rate are presently not accounted for.

A change in the accounting of acquired game licenses which was initiated in Q1 2003 and completed in Q4 2003 led to a reduction in the EBITDA margin (20% H1 2004 vs. 29% H1 2003) and the EBITA margin (20% H1 2004 vs. 27% H1 2003). Until the end of 2002 these licenses were capitalized and depreciated as non-current assets (thus an effect on EBITA and EBITDA). Meanwhile they are capitalized as current assets and their depreciation does no longer affect EBITA and EBITDA.

A further increase in the company's head count was mainly targeted at quality assurance (mainly free lancers) and the publishing area in order to back JoWood's internationalization strategy.

#### Balance status

The deferred taxes on the asset side are mainly due to losses carried forward from the crisis year 2002. They are reduced with each quarterly result. They affect only the mother company JoWood AG. Because of simplicity considerations tax expenses were calculated with an average tax rate of 34 %.

An increase in inventory (finished and unfinished products) by EUR 7.5 m since the end of 2003 was caused by substantial investments into the product catalogue for 2005 and the fact that only few new titles were released in H1 2004. EUR 4.6 m were spent on 2005 titles during the reporting period. The remainder was spent on titles with scheduled completion dates in 2004. All titles older than one year (with the relevant date being the date of first release) have been fully depreciated.

The increase in receivables from trade of EUR 1 m as compared to year end 2003 is a consequence of the shipment of several new titles around the end of Q2 and the signing of new distribution agreements. The amount of trade receivables will, however, decrease soon. JoWood pursues a policy of increasing payment terms in specific cases if this is justified by an increase in market potential. This is the case for example when payments are linked to release dates and JoWood decides to delay these dates for marketing reasons and higher sales potential.

JoWood's focus on the upcoming product pipeline is also reflected in a decrease in cash from EUR 10 m at year end 2003 to EUR 1 m at the end of H1 2004. Some of the liquid funds were also used for settling accounts payable from trade. This trend has however already reversed since July with a successful capital increase and the signing of new distribution agreements.

Since year end 2003 short term debt was reduced by way of a debt-equity swap by EUR 0.9 m to EUR 612,000. JoWood thus possesses an excellent financing structure which is almost completely long term. The registration of another debt-equity swap over EUR 600,000 which was already approved in 2003 is scheduled for Q3 2004.

JoWood's persistent financial strategy is underscored by an increase in the equity ratio to 73% which compares to 67% at year end 2003 and 39% in Q2 2003.

#### Cash status

JoWood's negative cash flow from operating activities of EUR 9.6 m results almost completely from expenses for titles under development. These expenses are laying the basis for a promising product portfolio for the coming years.

In the course of a capital increase as part of a debt-equity swap the cash flow from financing activities rose to EUR 740,000. Including repayments pursuant to the agreed payment plans the cash flow from financing activities adjusts to EUR 661,000.

Income Statement 1-6/2004

all values in EUR 000	1 st Half			
	Jan - Jun 2004		Jan - Jun 2003	
		%		%
Sales	7,303		12,273	
Costs of goods sold	-1,030	-14%	-2,268	-18%
Development costs	-2,206	-30%	-2,614	-21%
<b>Gross profit</b>	<b>4,067</b>	<b>56%</b>	<b>7,391</b>	<b>60%</b>
Distribution expenses	-2,272	-31%	-3,086	-25%
Administrative expenses	-1,409	-19%	-1,122	-9%
Other operating income	820	11%	736	6%
Other operating expenses	-199	-3%	-799	-7%
<b>Operating result before restructuring measures</b>	<b>1,007</b>	<b>14%</b>	<b>3,120</b>	<b>25%</b>
Restructuring result		0%	-2,153	-18%
<b>Operating result after restructuring measures</b>	<b>1,007</b>	<b>14%</b>	<b>967</b>	<b>8%</b>
Financial result	-562	-8%	-215	-2%
<b>Result from ordinary operations</b>	<b>446</b>	<b>6%</b>	<b>752</b>	<b>6%</b>
Taxes on income	15	0%	-600	-5%
<b>Net income before minorities</b>	<b>461</b>	<b>6%</b>	<b>152</b>	<b>1%</b>
Minority interests	2	0%	-7	0%
Write back of reserves	65	1%	0	0%
<b>Net income after minorities</b>	<b>527</b>	<b>7%</b>	<b>145</b>	<b>1%</b>
Earnings per share in Euro	0.020		0.014	
Number of shares (weighted average)	26,162,722		10,714,161	
EBITDA	1,487	20%	3,535	29%
EBITA	1,446	20%	3,344	27%
EBITDA/fixed employee	11	0%	28	0%
Cash flow from operating activities/employee	-70	-1%	21	0%
Number of fixed employees	136		125	
Number of free lancers	47		21	

all values in EUR 000	2 nd quarter			
	Apr - Jun 2004		Apr - Jun 2003	
		%		%
Sales	5,532		3,829	
Costs of goods sold	-586	-11%	-60	-2%
Development costs	-2,032	-37%	-835	-22%
<b>Gross profit</b>	<b>2,914</b>	<b>53%</b>	<b>2,933</b>	<b>77%</b>
Distribution expenses	-1,652	-30%	-1,682	-44%
Administrative expenses	-761	-14%	-257	-7%
Other operating income	61	1%	161	4%
Other operating expenses	-10	0%	-755	-20%
<b>Operating result before restructuring measures</b>	<b>552</b>	<b>10%</b>	<b>401</b>	<b>10%</b>
Restructuring result		0%	-238	-6%
<b>Operating result after restructuring measures</b>	<b>552</b>	<b>10%</b>	<b>162</b>	<b>4%</b>
Financial result	-392	-7%	-125	-3%
<b>Result from ordinary operations</b>	<b>160</b>	<b>3%</b>	<b>37</b>	<b>1%</b>
Taxes on income	119	2%	-19	0%
<b>Net income before minorities</b>	<b>279</b>	<b>5%</b>	<b>19</b>	<b>0%</b>
Minority interests	1	0%	91	2%
Write back of reserves	65	1%	0	0%
<b>Net income after minorities</b>	<b>345</b>	<b>6%</b>	<b>110</b>	<b>3%</b>
Earnings per share in Euro	0.013		0.010	
Number of shares (weighted average)	26,367,666		10,714,161	
EBITDA	762	14%	534	14%
EBITA	772	14%	538	14%
EBITDA/fixed employee	6	0%	4	0%
Number of fixed employees	136		125	
Number of free lancers	47		21	



Balance sheet as of 30.6.2004

all values in EUR 000	30.06.2004	31.12.2003	30.06.2003
<b>Assets</b>			
Intangible assets	1,507	1,584	3,369
Goodwill	647	687	650
Tangible fixed assets	568	620	1,065
Financial assets	7	1	18
Deferred tax assets	12,272	12,365	12,950
<b>Total non- current assets</b>	<b>15,001</b>	<b>15,257</b>	<b>18,051</b>
Inventory merchandise	473	751	1,195
Inventory finished products ( JoWood products )	8,725	6,725	1,595
Inventory unfinished products ( JoWood products )	12,654	7,209	9,736
Accounts receivable from trade	6,890	5,836	3,260
Accounts receivable others	2,580	1,989	944
Own shares	63		
Cash on hand and in banks	1,087	10,298	1,847
Prepaid expenses and deferred charges	52	118	134
<b>Total current assets</b>	<b>32,523</b>	<b>32,927</b>	<b>18,710</b>
<b>Total assets</b>	<b>47,524</b>	<b>48,184</b>	<b>36,762</b>
<b>Shareholders' Equity and Liabilities</b>			
Share Capital	27,017	25,652	10,714
Additional paid - in capital	36,501	35,853	28,148
Reserves from retained earnings and group result	-28,748	-29,266	-24,689
<b>Total shareholders' equity</b>	<b>34,770</b>	<b>32,239</b>	<b>14,173</b>
<b>Minority interests</b>	<b>20</b>	<b>4</b>	<b>-8,108</b>
Longterm debts to banks	7,452	7,826	3,455
Provision for termination payments	258	242	383
Deferred taxes			15
Long term payables others		128	260
<b>Total longterm accounts payable</b>	<b>7,711</b>	<b>8,196</b>	<b>4,113</b>
Shortterm debts to banks	612	1,472	15,981
Accounts payable from trade	1,625	2,006	1,986
Accruals for taxes and other accruals	1,078	2,338	2,190
Advanced payments	1,176	1,213	2,020
Other liabilities and deferred income	532	716	4,404
<b>Total short term accounts payable</b>	<b>5,023</b>	<b>7,746</b>	<b>26,583</b>
<b>Total Shareholders' Equity and Liabilities</b>	<b>47,524</b>	<b>48,184</b>	<b>36,762</b>
Equity ratio	73%	67%	39%



Cash flow statement 1-6/2004

	Jan - Jun 2004	Jan - Jun 2003
<b>all values in EUR 000</b>		
Operating Cash flow before working capital changes	1,052	2,925
Cash flow from operating activities	-9,571	2,594
thereof in titles of current assets	-8,279	-2,852
Cash Flow from investment activities	-302	-1,114
thereof in titles of non current assets	0	-836
Cash Flow from financing activities	662	-1,076
Total cash flow	-9,211	404
Cash on hands and in banks at the beginning of periode	10,298	1,444
Cash on hands and in banks at the end of periode	1,087	1,847

Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserves from retained earnings and group result	Total
<b>all values in EUR 000</b>				
<b>as per 31.12.2001</b>	<b>6,037</b>	<b>20,472</b>	<b>3,743</b>	<b>30,252</b>
Capital increase 21.06.2002	1,600	8,000		9,600
Additional Capital from Shareholders		694		694
Capital increase not yet registrated	3,077			3,077
Costs of Capital increase		-1,084		-1,084
Other changes in Equity			-12	-12
Group result 2002			-28,585	-28,585
<b>as per 31.12.2002</b>	<b>10,714</b>	<b>28,083</b>	<b>-24,855</b>	<b>13,942</b>
Capital increase 12.7.2003	6,387			6,387
Capital increase 5.12.2003	8,551	8,551		17,102
Costs of Capital increase		-782		-782
Changes into group consolidation			-8,121	-8,121
Group result 2003			3,711	3,711
<b>as per 31.12.2003</b>	<b>25,652</b>	<b>35,852</b>	<b>-29,265</b>	<b>32,239</b>
Capital increase 29.01.2004	625	625		1,250
Costs of Capital increase		-40		-40
Capital increase 19.06.2004	740			740
Other changes in Equity		64	-10	54
Group result 2 nd quarter 2004			527	527
<b>as per 30.06.2004</b>	<b>27,017</b>	<b>36,501</b>	<b>-28,748</b>	<b>34,770</b>

Financial Calender/ Stock identification

Result 2.quarter 2004	12. August 2004
Result 3.quarter 2004	4. November 2004
Number of shares	27,017,222
Share identification number	074735
Vienna Stock exchange	JWD
Reuters	JOWO.VI
Bloomberg	JWD AV
Datastream	O:JOW

Investor Relation

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