

The background of the slide is a solid light yellow color. In the center, there is a large, stylized sun with a thick yellow arc for its body and several smaller yellow circles of varying sizes around it representing rays. Below the sun, there are two thick, wavy yellow lines representing water or waves.

Shareholder's Letter

Result 3rd Quarter 2004

JoWood announces result for Q3 2004:

- **JoWood reports positive operating result for Q3**
- **Group result negative because of extraordinary write off of deferred taxes**
- **Equity ratio still at high level of 73%**

JoWood Productions Software AG, a public listed company at the Vienna Stock Exchange, reported a stable result for Q3 2004 despite significant write offs due to a conservative balance sheet policy. EBIT for the 9 months period ending September 30, amounted to EUR 1,190,899.

The group result after minorities reflects an extraordinary write off of deferred taxes.

Sales revenue of the first 9 months of 2004 amounted to EUR 12.4m. Cumulative revenue for Q3 2003 still included a contribution from (discontinued) distribution activities of EUR 6.9m. The sales revenue of the present reporting period is 20% above the publishing revenue (adjusted for distribution activities) of last year's reference period.

The slight reduction in the gross margin from 57% (2003) to 53% (2004) was caused by depreciations associated with the first releases of several titles in Q3. This fact combined with manufacturing costs led to an increase in cost of goods sold (CoGs) to EUR 5.8m.

JoWood continues to profit from a low cost structure. A small increase of 6% in administration, distribution and other expenses from EUR 6.1m in the previous year to EUR 6.5m was caused on the one hand by an intensification of international sales and marketing activities in particular for upcoming PC and console titles and on the other hand by a one-time write off provision of accounts receivable from trade as well as marketing expenses.

The increased financial result was 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 by a valuation adjustment of own shares coming in during the second quarter.

The negative taxes on income are a consequence of the positive ordinary result and an adjustment of deferred taxes due to a change in Austrian federal income tax.

As of September 30th 2004, JoWood employed 140 full-time employees and 49 free lancers.

Outlook

The first 3 quarters were characterized by high investments into titles due for release in the second half of 2004 and in particular for the highly attractive and ambitious product catalogue of 2005 which includes titles such as Gothic III, SpellForce II, The Guild II, Hotel Gigant II or Stargate. The main strategic target for 2005 is a substantial increase in sales revenue.

Shipment of console and multiplatform titles has commenced in Q3 and will culminate with the release of "Ski Racing 2005 featuring Hermann Maier" in Q4. JoWood has successfully positioned itself as a multiplatform publisher. The market for console games is significantly larger than the market for PC titles.

For the fiscal year 2004 JoWood expects a sales revenue of EUR 23m to 25m. EBIT and group result will be impacted by a non-cash extraordinary write off caused by a change in federal income tax, relatively late release dates of certain titles within the business year, and Jo Wood's conservative depreciation policy as compared to industry peers.

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 cumulative sales from EUR 17,276,000 (2003) to EUR 12,414,000 (2004). Sales adjusted for distribution activities however rose by 20% as compared to the reference period. This increase in sales was caused by successful releases of titles such as "Transport Giant", "Spell Force Addon", "Kao 2" and "Ski Racing 2005 featuring Hermann Maier" as well as by sales activities for the existing product catalogue. In Q3 2004 there was a slight increase in sales of 2% up to EUR 5,111,000 compared to Q3 2003.

The slight reduction in the gross margin from 57% (2003) to 53% (2004) was caused by depreciations associated with the first releases of several titles during the third quarter. This fact combined with manufacturing costs led to an increase in CoGs to EUR 5.8m. Assets are depreciated quarterly.

JoWood continues its restrictive policy of low cost structure. A small increase of 6% in administration, distribution and other expenses from EUR 6.1m in the previous year to EUR 6.5m was caused by an intensification of international sales and marketing activities in particular for upcoming PC and console titles as well as by a one-time write off provision of accounts receivable from trade.

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 increase of income taxes (from EUR 683,000 to EUR 1,983,000) results from a current reform on Austrian tax law, which led to a result effective adjustment of non cash deferred taxes amounted to EUR -1,651,000.

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 (17% 2004 vs. 24% 2003) and the EBITA margin (15% 2004 vs. 23% 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 %. Due to a reduction of the Austrian federal income tax rate from 34% to 25% there was a valuation adjustment of result effective but non cash deferred taxes amounted to EUR -1,651,000.

An increase in inventory (finished and unfinished products) by EUR 11.4m 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 the first 9 months of 2004. EUR 6.6m 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 5.5m as compared to year end 2003, respectively EUR 4.4m as compared to First Half Year 2004 is a consequence of the shipment of several new titles around the end of Q3. 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.

The increase in own shares and securities is on the one hand due to an incoming of own shares in the second quarter (EUR 62,000) and on the other hand due to an investment of cash in short-term money market funds. 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.

JoWood's focus on the upcoming product pipeline is also reflected in a decrease in cash from EUR 10m at year end 2003 to EUR 1m at the end of First Half Year 2004. Some of the liquid funds were also used for settling accounts payable from trade. Cash amounted to EUR 2m was invested in short-term money market funds.

Financing of manufacturing costs in order to ship game titles in Q3 and Q4 too caused an increase in short term debt from EUR 612,000 (06-30-2004) to EUR 1,809,000 (09-30-2004).

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 51% at last year's reference period .

Cash status

JoWood's negative cash flow from operating activities of EUR 17.3 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 two capital increases - in Q2 2004 as part of a debt-equity swap and in Q3 2004 as public offering - the cash flow from financing activities rose to EUR 9,039,000. Including repayments pursuant to the agreed payment plans the cash flow from financing activities adjusts to EUR 8,588,000.

Income Statement 1-9/2004

all values in EUR 000	1 st - 3 rd Quarter			
	Jan - Sept 2004	%	Jan - Sept 2003	%
Sales	12,414		17,276	
Costs of goods sold	-2,037	-16%	-2,234	-13%
Development costs	-3,800	-31%	-5,117	-30%
Gross profit	6,577	53%	9,924	57%
Distribution expenses	-3,800	-31%	-3,584	-21%
Administrative expenses	-2,187	-18%	-1,693	-10%
Other operating income	1,085	9%	1,040	6%
Other operating expenses	-484	-4%	-800	-5%
Operating result before restructuring measures	1,191	10%	4,887	28%
Restructuring result		0%	-3,574	-21%
Operating result after restructuring measures	1,191	10%	1,313	8%
Financial result	-744	-6%	-358	-2%
Result from ordinary operations	446	4%	955	6%
Taxes on income	-1,983	-16%	-683	-4%
Net income before minorities	-1,536	-12%	272	2%
Minority interests	-3	0%	-6	0%
Write back of reserves	65	1%	0	0%
Net income after minorities	-1,474	-12%	266	2%
Earnings per share in Euro	-0.054		0.022	
Number of shares (weighted average)	27,188,487		12,144,122	
EBITDA	2,107	17%	4,190	24%
EBITA	1,887	15%	3,949	23%
EBITDA/fixed employee	15	0%	36	0%
Cash flow from operating activities/employee	-123	-1%	-23	0%
Number of fixed employees	140		117	
Number of free lancers	49		26	

all values in EUR 000	3 rd Quarter			
	Jul - Sept 2004	%	Jul - Sept 2003	%
Sales	5,111		5,003	
Costs of goods sold	-1,007	-20%	33	1%
Development costs	-1,594	-31%	-2,503	-50%
Gross profit	2,510	49%	2,533	51%
Distribution expenses	-1,528	-30%	-498	-10%
Administrative expenses	-779	-15%	-571	-11%
Other operating income	264	5%	304	6%
Other operating expenses	-285	-6%	0	0%
Operating result before restructuring measures	184	4%	1,767	35%
Restructuring result		0%	-1,421	-28%
Operating result after restructuring measures	184	4%	346	7%
Financial result	-183	-4%	-144	-3%
Result from ordinary operations	1	0%	203	4%
Taxes on income	-1,998	-39%	-83	-2%
Net income before minorities	-1,997	-39%	120	2%
Minority interests	-4	0%	1	0%
Write back of reserves	0	0%	0	0%
Net income after minorities	-2,002	-39%	121	2%
Earnings per share in Euro	-0.072		0.007	
Number of shares (weighted average)	27,791,222		16,391,779	
EBITDA	620	12%	655	13%
EBITA	441	9%	604	12%
EBITDA/fixed employee	4	0%	6	0%
Number of fixed employees	140		117	
Number of free lancers	49		26	

JoWood Group Balance sheet as of 30.9.2004

all values in EUR 000	30.09.2004	31.12.2003	30.09.2003
Assets			
Intangible assets	1,402	1,584	2,889
Goodwill	626	687	599
Tangible fixed assets	532	620	929
Financial assets	7	1	18
Deferred tax assets	10,512	12,365	12,950
Total non- current assets	13,079	15,257	17,384
Inventory merchandise	409	751	1,010
Inventory finished products (JoWood products)	9,943	6,725	3,570
Inventory unfinished products (JoWood products)	15,432	7,209	8,984
Accounts receivable from trade	11,303	5,836	5,400
Accounts receivable others	1,229	1,989	1,373
Own shares	2,061	0	0
Cash on hand and in banks	1,129	10,298	2,343
Prepaid expenses and deferred charges	72	118	73
Total current assets	41,578	32,927	22,753
Total assets	54,658	48,184	40,137
Shareholders' Equity and Liabilities			
Share Capital	30,089	25,652	17,101
Additional paid - in capital	40,454	35,853	27,911
Reserves from retained earnings and group result	-30,743	-29,266	-24,597
Total shareholders' equity	39,801	32,239	20,416
Minority interests	24	4	-8,109
Longterm debts to banks	7,151	7,826	3,412
Provision for termination payments	301	242	456
Deferred taxes	0	0	0
Long term payables others	0	128	185
Total longterm accounts payable	7,452	8,196	4,053
Shortterm debts to banks	1,809	1,472	15,907
Accounts payable from trade	1,364	2,006	804
Accruals for taxes and other accruals	1,159	2,338	1,813
Advanced payments	2,491	1,213	2,085
Other liabilities and deferred income	559	716	3,168
Total short term accounts payable	7,381	7,746	23,777
Total Shareholders' Equity and Liabilities	54,658	48,184	40,137
Equity ratio	73%	67%	51%

Cash flow statement 1-9/2004

all values in EUR 000	Jan - Sept 2004	Jan - Sept 2003
Operating Cash flow before working capital changes	1,179	3,898
Cash flow from operating activities	-17,284	-2,739
thereof in titles of current assets	-13,659	-4,075
Cash Flow from investment activities	-473	-1,301
thereof in titles of non current assets	0	-1,455
Cash Flow from financing activities	8,588	4,938
Total cash flow	-9,169	899
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	1,129	2,343

Changes in Shareholders' Equity

all values in EUR 000	Share capital	Additional paid in capital	Reserves from retained earnings and group result	Total
as per 31.12.2001	6,037	20,472	3,743	30,252
Capital increase 21.06.2002	1,600	8,000		9,600
Additional Capital from Shareholders		694		694
Capital increase not yet registered	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
as per 31.12.2002	10,714	28,083	-24,855	13,942
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
as per 31.12.2003	25,652	35,852	-29,265	32,239
Capital increase 29.01.2004	625	625		1,250
Costs of Capital increase		-427		-427
Capital increase 19.06.2004	740			740
Other changes in Equity		63	-3	60
Capital increase 16.7.2004	2,672	3,741		6,413
Capital increase 8.9.2004	400	600		1,000
Group result 1st-3rd quarter 2004			-1,474	-1,474
as per 30.09.2004	30,089	40,454	-30,742	39,801

Financial Calender/ Stock identification

Result 3rd quarter 2004	November 4th, 2004
Preliminary result years end 2004	March 1st, 2005
Result years end 2004	March 23rd, 2005
General meeting 2004	April 20th, 2005
Result 1st quarter 2005	May 3rd, 2005
Result 2nd quarter 2005	August 9th, 2005
Result 3rd quarter 2005	November 3rd, 2005
Number of shares	30,089,360
Share identification number	074735
Vienna Stock exchange	JWD
Reuters	JOWO.VI
Bloomberg	JWD AV
Datastream	O:JOW

Investor Relation

Dr. Michael Pistauer
JoWood Productions Software AG
Technologiepark 4a
A- 8786 Rottenmann

email: investor@jowood.com
Tel: ++43/3614 2966 1022
Fax: ++43/3614 2966 1023
www.jowood.com