

QUARTERLY REPORT

02/99



INTERTAINMENT
AKTIENGESELLSCHAFT



HIGHLIGHTS FROM THE FIRST HALF



To our Shareholders

Intertainment AG can look back on an extremely exciting and successful first half. Since our stock market debut on February 8, 1999, we have been able to close several exceptionally interesting agreements covering both the acquisition and marketing of new film packages. These new agreements will help Intertainment reinforce its position as a major player in the international licensing market.

In March 1999, Intertainment acquired a package of films from Franchise Pictures, and this was immediately followed by another agreement covering the European marketing rights for an additional series of films with a prominent cast from the same producer in May. Also in May, Intertainment acquired a package of films from the ex-head of Paramount Pictures, David Kirkpatrick.

Three month ago, an agreement with Warner Bros. was signed, under which Warner Bros. will market 60 Intertainment films throughout Europe in the next five years.

As a result of agreements signed in the course of the first six months of the year, it is estimated that Intertainment's revenues will go from 15 million Euros in 1998 to 524 million Euros by the year 2003, and per-share earnings (based upon the DVFA method) will go from the 1998 figure of 0.51 Euro to 12.3 Euro in 2003.

The response at our first annual shareholders' meeting, which was held in Munich on July 9, 1999, was nothing less than overwhelming, and all points on the agenda were adopted with an absolute majority. Major items included conversion from Deutschmarks to Euros for reporting purposes and restructuring of the company's equity capital through the issue of new shares (split). The shareholders approved management's proposal to give each shareholder a new no-par-value share for each share now in their possession, each of which would then represent a share of the company's equity capital in the amount of 1.278923 Euros. The stock split will take effect on August 23, 1999.

Intertainment's management is very satisfied with the company's performance and earnings potential and will continue to conduct the company's business in the best interest of our shareholders with an eye to maximum shareholder value.

We would like to take this opportunity to express our sincere appreciation to our shareholders and employees for their confidence and interest in Intertainment AG.

The Executive Board

CASH FLOW STATEMENTS



H1 1999 Group funds statement according to IAS

	Euro '000
Profit for the year (excl. IPO expense)	2,988
+ Depreciation of fixed assets	183
+ Increase in provisions	1,774
- Profit on asset disposal	- 1
+ Decrease in inventories, trade receivables and other assets	4,193
- Decrease in trade accounts payable and other liabilities	- 5,178
Cash flow from current operations	3,959
Inflow from asset disposals	1
- Outflow for investments in fixed assets	- 85
Cash flow from investment activity	- 84
Inflow from capital increases	43,632
- Outflow from the issue of bonds and loans	- 286
- IPO expenses	- 3,275
Cash flow from financing activity	40,071
Cash changes in financial resources	43,946
+ Financial resources at the beginning of the period	23,779
Financial resources at the end of the period	67,725

FIGURES FROM THE FIRST HALF

Income Statement

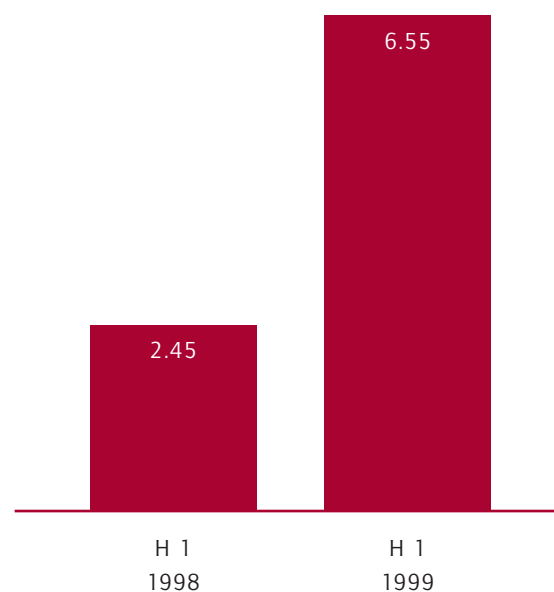
in Euro million

	H 1/1998 DVFA	H 1/1999 IAS
Sales revenues	2.45	6.55
Other operating income	1.28	4.52
Gross performance	3.73	11.07
Cost of materials	1.29	2.64
Personnel expenses	0.27	0.50
Depreciation	0.02	0.18
Other operating expenses	0.43	4.32
Financial result	0.09	0.44
Result on ordinary activities (adjusted for exchange rate effects)	0.85	2.75
Exchange rate effects	0.96	1.12
Result on ordinary activities	1.81	3.87
Taxes	1.08	0.88
Profit for the year	0.73	2.99
IPO expenses	-	3.28
Group profit for the year	0.73*	- 0.29

*pro-forma Group profit for the year

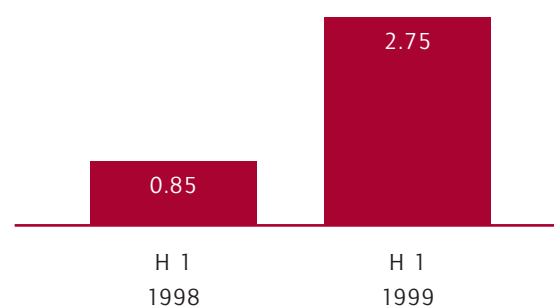
Sales revenues

in Euro million



Result on ordinary activities (adjusted for exchange rate effects)

in Euro million



HIGHLIGHTS FROM THE FIRST HALF

Revenues

First-half revenues were up substantially to 6.55 million Euros compared to 2.45 million Euros for the same period of the previous year. This represents an increase of 267 %.

Earnings

Earnings from operating activities came to 2.75 million Euros for the first half of 1999 as compared with 0.85 million for the same period a year earlier. Taking into account currency translation, Intertainment posted first-half earnings of 3.87 million Euros as compared with 1.81 million Euros for first-half 1998.

Investing Activities

Intertainment acquired the rights to an extensive package of films from Franchise Pictures in the course of the first half of the year. This will entail an investment of approximately 0.66 billion Euros in the course of the next three to five years. Intertainment has also acquired other film rights representing approximately 0.26 billion Euros for productions scheduled to be completed in the next few years.

Payment for the rights to the individual films is due after completion and delivery of the films. The bulk of this investment will be made in the years 2002 and 2003.

Employees

The number of employees increased slightly in the second quarter of 1999, and Intertainment now has 14 employees.

Additions to Management

As a result of the expansion of Intertainment's activities, Andreas Diga, 38, joined the company's board of management on June 10, 1999, and will be in charge of business development. Diga held a managerial position with the Pro-Sieben group and was managing director of H.O.T. Home Order Television, the first German-language teleshopping channel, and then went on to become CEO of Germany's largest media agency, HMS CARAT in Wiesbaden, before joining Intertainment.

Outlook

The agreement concluded in May 1999 under which Warner Bros. will manage the distribution for 60 new productions from Intertainment throughout Europe represented a major step in the direction of inter-

nationalizing Intertainment's activities. Intertainment will continue to strengthen its market position in the European market and enhance its potential for generating revenues and earnings.

Intertainment's management anticipates above-average growth in the years to come. The agreements concluded in the first half of 1999 will permit more accurate forecasts of revenues and earnings for the following years. In addition, these agreements will provide an excellent platform for future business.

Management expects to end the current business year with a substantial increase in revenues and earnings. It is estimated that year-end revenues will amount to 23.37 million Euros and earnings (based upon the DVFA method) to 5.68 million.

Changing Markets Produce Impressive Potential

Interentertainment buys and distributes rights to U.S. feature films. The U.S. film production market is the largest in the world, and 500 of the 700 new productions per year that are commercially marketed at the international level come from the U.S.A. This market is shared by the major film studios (Disney, Warner Bros., Paramount, Columbia-TriStar, 20th Century Fox, Universal, MGM/UA) and independent producers.

Unlike the independents, the majors have strong worldwide distribution networks as well as their own channels through interests in chains of cinemas and video labels in addition to their production facilities. Furthermore they have existing output deals with pay TV stations. The core activities of the major studios include distribution and marketing of films.

In order to keep production costs down, the majors outsource various activities, as do all major corporations. They have many of the films they market in the U.S.A. produced by "satellites".

Satellites are:

- Independent producers
- Lean companies that are structured to produce films at lower cost than majors.
- Companies that do not have their own distribution networks or channels such as cinemas, video labels or TV stations.

In order to obtain financing for their productions, satellites sell the non-U.S. rights to national and international companies that market film rights and use these contractual commitments to obtain funds from banks. Once provisions have been made for optimum marketing of the rights in the U.S.A., banks are willing to provide the necessary financing.

This type of arrangement provides advantages for all parties involved:

- Majors can funnel more films into their distribution channels without having to finance production themselves.
- Satellites can more easily obtain top stars and interesting screenplays from the majors.
- Intertainment acquires the rights to films that are marketed by majors in the U.S.

These are the most attractive film rights now available on the independent market and represent the basis for the future success of companies that market film rights.

Intertainment is positioned to take advantage of changes in the marketplace in various ways:

- Producers like the possibility of doing business with Intertainment because Intertainment purchases rights for all European countries. This allows the producers to keep expense to a minimum because they do not have to carry on negotiations for the rights for each individual country separately.
- Since Intertainment does not have its own distribution channels, it does not compete with major studios and is therefore in a position to have films distributed by the latter. The advantage for both sides is obvious: Intertainment markets films through the most efficient channels, and majors can have the same films distributed in Europe as well as in the U.S.A.

Corporate Timetable

Quarterly Report III/99

November 15, 1999

Annual Report 2000

March 2000

Quarterly Report I/2000

May 2000



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