

I/2001

QUARTERLY REPORT



ENTERTAINMENT
Aktiengesellschaft

Key figures

	31.03.2001		31.03.2000		Change
	DM mill	Euro mill	DM mill	Euro mill	
Sales revenues	9.5	4.9	65.4	33.4	-85,5%
EBIT	-0.9	-0.4	45.0	23.0	-102%
Results of ordinary business activities	0.09	0.04	34.1	17.4	-99.7%
Net profit	0	0	15.8	8.1	-100%
Average of employees	24		19		

Key figures of the stock

SECURITIES IDENTIFICATION NUMBER	622 360
SHARE CAPITAL	15,005,155.09 Euro
NUMBER OF SHARES	11,739,013
FINAL PRICE 31.03.2001	5.10 Euro
HIGHEST PRICE 1 ST QUARTER 2001	19.53 Euro
LOWEST PRICE 1 ST QUARTER 2001	4.10 Euro
SHAREHOLDER STRUCTURE 31.03.2001	
	Rüdiger Baeres Management, AR 54.4%
	Free Float 0.6%
	45%

Dear Shareholders



The first quarter of 2001 of the Intertainment AG was marked by the legal disputes with the American producer Franchise Pictures and the Imperial Bank. All films planned for this period were not supplied free of faults or on time. In the dispute Intertainment is asserting that the budgets of films produced by Franchise were considerably superelevated with the knowledge of the bank entrusted with the financing. The damage incurred so far amounts to about 20 million US dollars. For this reason we have instituted proceedings against Franchise on 21st December 2000 and against the Imperial Bank on 20th February 2001. For us these measures were the only possible way of avoiding further damage to the company.

Because of the difficulties with Franchise Pictures and the outstanding films the turnover is only around nine million DM. The returns on normal business operations are DM 86,392.

In January 2001, despite the legal dispute with Franchise Pictures, we were able to conclude a so-called "First Look Deal" with Paramount Pictures for two years. This means that Paramount is our co-producer for the Arnold Kopelson projects. The studios will be carrying a part of the development costs of each mutual film.

We will continue to keep consistently upon the path which Intertainment is taking at present. Our future still lies in film ideals with excellent producers, cooperation with experienced distribution partners and a strategic participation in the Internet sector.

We thank you for your confidence in our company.

Your Rüdiger Baeres
Chairman of the Board of the Intertainment AG

The history of the legal dispute with Franchise Pictures

In May 1999 Intertainment concluded a multi-picture film licensing agreement with Franchise Pictures for a term of five years. Under this agreement Intertainment is to acquire the European and Chinese rights to at least 60 films during this period. In return Intertainment will bear 47 per cent of the production costs for these films, but these will not be due for payment until the films have been delivered and the technical acceptance tests completed. The budgets for the films produced by Franchise were far too high. So far Intertainment has paid some 20 million US dollars in excess to Franchise Pictures.

The progress of the litigation:

- 18 December 2000** Negotiations with Andrew Stevens, President and COO of Franchise Pictures, concerning an amicable settlement break down
- 21 December 2000** Intertainment takes legal action against Franchise Pictures before the Federal District Court of Los Angeles

Franchise Pictures reacts by taking legal action before the California State Court
- 20 February 2001** Intertainment also takes legal action against Imperial Bank
- 18 April 2001** Judge decides that the general case is to be suspended and that priority should be given to the arbitration proceedings against Imperial Bank

Intertainment and Paramount Pictures sign agreement

At the beginning of 2001 the production company, Paramount Pictures, one of the leading studios of the American film industry, signed a 2-year first-look agreement (giving the right of first refusal for productions) and a co-financing agreement with Intertainment AG. This means that Paramount is co-producer of the films which Intertainment produces with Arnold Kopelson. The studios are to bear part of the development costs for each film. In return Paramount Studios will have the possibility of marketing the films in all areas of the media in North America.

For Intertainment AG this is an important step in achieving a broader diversification in its partnerships with US producers.

Paramount Pictures, who was co-producer of the *Titanic*, one of the most successful films of all Hollywood times, is known for having an almost infallible instinct for spotting blockbusters. In a global business situation which is not necessarily easy for the film industry this Hollywood production studio has decided to work with a German company.

The first project with Hollywood star producer, Arnold Kopelson, is already a signed and sealed deal and now that it looks as though the strike planned by American actors from July 2001 has been averted, it is realistic to reckon that the shooting for the first Kopelson film will start in the current financial year, so that the film will be showing at the cinemas in 2002.

Arnold Kopelson, who with his last ten films (including *Outbreak*, *Seven* and *The Fugitive*) has brought two billion dollars to the box offices of American cinemas, is a guarantor for the success of major film productions.

**Group Balance Sheet as of 31 March 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

ASSETS

	31.3.2001	31.12.2000
	DM	DM
A. Fixed assets		
I. Intangible assets		
Similar rights and assets	620,812.11	654,241.47
II. Property, plant and equipment		
Other fixed assets fixtures, fittings and equipment	1,058,556.33	1,034,026.37
III. Financial assets	39,211,189.81	39,211,189.81
B. Current assets		
I. Inventories		
1. Film rights	121,612,093.19	125,189,483.18
2. Goods	0.00	985,539.01
3. Down payments made	38,434,702.09	13,502,499.04
II. Accounts receivable and other assets		
1. Trade accounts receivable	177,519,926.85	167,121,072.14
2. Other assets	22,265,821.63	25,226,336.72
III. Cash on hand and in banks	140,924,047.32	142,484,877.41
C. Prepaid expenses	163,188.35	0.00
D. Deferred taxes	2,725,689.82	1,263,797.66
	544,536,027.50	516,673,062.81

**Group Balance Sheet as of 31 March 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

LIABILITIES

	31.3.2001	31.12.2000
	DM	DM
A. Shareholder's equity		
I. Subscribed capital	29,347,532.48	29,347,532.48
II. Reserves	292,358,720.90	292,444,691.53
III. Statutory reserves	226,498.00	226,498.00
IV. Group retained earnings	24,082,509.95	24,078,677.86
V. Difference in exchange rate resulting from consolidation	-16,275.65	0.00
B. Provisions		
1. Tax provisions	16,353,253.94	16,669,650.61
2. Other provisions	39,323,494.03	38,853,926.53
C. Liabilities		
1. Liabilities due to banks	86,303,766.80	52,996,625.65
2. Down payments received on orders	320,000.00	7,762,630.70
3. Trade accounts payable	44,199,603.96	45,802,701.92
4. Other liabilities	8,552,997.21	6,509,991.53
D. Deferred tax liabilities	3,483,925.88	1,980,136.00
	544,536,027.50	516,673,062.81

I/2001 Explanations

Turnover

Due to the legal disputes with Franchise Pictures Intertainment did not accept any films during the period of this report. This meant that no turnover was made during the first quarter with new films. However, due among other things to the successful Pay-TV marketing by the major distributions partners, the concern was still able to achieve a turnover of DM 9.55 million.

Material expenditure

The material expenditure mainly arises from the cost of purchasing partial rights on the evaluated film rights. The amount has decreased proportionally to the decline in turnover in comparison to the same period in the previous year.

Profit situation

Despite the strongly increased expenditure for legal consultation fees arising from the legal dispute, the company has still achieved a balanced result during the first quarter of 2001. Furthermore about DM 3.8 million were spent on expanding the production business with Arnold Kopelson as an additional leg to stand on. This expenditure was not activated but were carried to miscellaneous operating expenditure. Positive contributions towards the overall profits will result from these over the successive periods.

Personnel

Intertainment is continuing to operate as a lean organisation. This strategy contributes towards the fact that the company works cost efficient even in quarters with negligible new business. On average during the first quarter of 2001, the concern employed 24 members of staff in the locations Ismaning near Munich and Los Angeles, USA.

Prospects

In particular in view of the cooperation with the producer Arnold Kopelson the company can expect positive result in the further course of the year. The first film is even due for completion within this year. The US-American rights have already been sold by Intertainment to Paramount, one of the leading major film companies. The remaining world rights will be marketed within the course of this year. Intertainment is immensely increasing its market volume by specialising in worldwide rights on real quality productions.

The still uncertain outcome of the legal dispute with Franchise Pictures can have considerable effects on the turnover and profits of the company for the current business year.

Shareholdings and option rights of the members of the executive bodies

The members of the Board of Directors and of the Supervisory Board held the following no-par-value equity shares or options in the company as at 31st March 2001:

<u>Board of Directors</u>	<u>Shares</u>	<u>Options</u>
Ruediger Baeres	6,388,177*	–
David Williamson	48,500	125,000
Achim Gerlach	10,000	100,000
Stephen Brown	–	50,000

Supervisory Board

Dr. Matthias Heisse	12,980**	–
Dr. Andreas Bohn	–	–
Dr. Ernst Pechtl	–	–

* In March 2001 424,223 pledged shares of Ruediger Baeres were realised by the lending bank

** In February 2001 Dr. Matthias Heisse assigned those shares held for third persons to the same after termination of the lock-up period



INTERTAINMENT
Aktiengesellschaft

CORPORATE CALENDAR:

27 JUNE 2001 **THIRD GENERAL MEETING OF INTERTAINMENT AG IN MUNICH**

END OF AUGUST 2001 **PUBLICATION OF QUARTERLY REPORT II / 2001**

END OF NOVEMBER 2001 **PUBLICATION OF QUARTERLY REPORT III / 2001**

INTERTAINMENT AG • OSTERFELDSTRASSE 84 • D-85737 ISMANING

PHONE: +49 89 216 99-0 FAX: +49 89 216 99-11

E-MAIL: INVESTOR@INTERTAINMENT.DE INTERNET: [HTTP://WWW.INTERTAINMENT.DE](http://WWW.INTERTAINMENT.DE)