

II/2000

QUARTERLY REPORT



ENTERTAINMENT

Aktiengesellschaft

Dear Shareholders



In the first half of fiscal year 2000, Intertainment AG has taken the step into a new dimension. This is documented by our business figures, the new alliance with Hollywood success producer Arnold Kopelson, the consolidation of our Los Angeles branch, the specific orientation towards the internet as an important movie-distribution method for the future and finally, the capital increase, which was announced in June and successfully carried out after the reporting period.

Especially the deal with Arnold Kopelson caused a lot of excitement. Kopelson is the personification of success in the movie business. His last ten motion pictures grossed around two billion dollars alone at the international box offices. Thanks to the deal, Kopelson will work and produce exclusively for Intertainment in the next five years. Therefore we will own the unlimited exploitation rights to the movies – and this means on all exploitation levels. Thanks to the contract with Kopelson, Intertainment has not only exclusively bound one of Hollywood's most important producers, but has also become a global player. Thus we have enlarged our European strategy that we have announced last year in a meaningful way.

In the first half of the current fiscal year, Intertainment was able to prove that the 1999 developed business model works. More so: We have backed up the fact that our predictions are deliberately conservative. Commensurately, Intertainment has not only raised sales by 949 per cent during the reporting period, but – and as such huge growth is certainly not self-evident – has also substantially increased earnings. With 51.3 million DEM, the result from ordinary activities increased by 551 per cent compared to the result of the same period of last year. This clearly shows that Intertainment operates highly profitable and provides far better yields than most other companies quoted on the stock exchange. All the more unfortunate is the development of our share price since the publication of our plans for the capital increase. Only upto this point was Intertainment capable to withstand the general weakening tendency on the stock market – particularly for media shares.

Intertainment's excellent fundamental data is currently not reflected in the share price. Therefore, we believe Intertainment will prove to be a solid and profitable medium- to longterm investment, despite the intermediate decline in share value. We would like to thank your for the confidence in our corporation.

Yours sincerely

Rüdiger Baeres, Chairman of the Board

The Licensing Business

As announced, Intertainment expanded its licensing-business activities throughout Europe in the first half-year of 2000. Within this period, among other things, Intertainment sold extensive movie packages in individual European territories. Thereby Intertainment concluded deals particularly for the Spanish, Italian, French and British markets. These package deals alone have a gross volume of approx. 115 million USD. One of the packages went to the Mediaset-Group of Italy's media mogul Silvio Berlusconi. Intertainment sold one large package with free-TV- and video-on-demand rights to the British filmgroup. In the first half-year of 2000, Intertainment established valuable business contacts throughout Europe and is now independent of individual regional markets. Intertainment movies are sought after europe-wide. At present, management is negotiating sales of numerous additional licenses.

The Capital Increase

On June 15th at the second general meeting after going public, Intertainment announced a 5:1 capital increase. Despite the difficult market situation after the end of the reporting period, the increase was successfully completed with a 1.5fold oversubscription. The new funds generated through the increase are to be used in part for the financing of the movie contract with Arnold Kopelson, as well as for further acquisitions of worldwide and Pan-European movie rights. Early subscribers and long-time shareholders were credited with a three Euro discount on the IPO-price of the new shares that they subscribed.

In April 2000, Intertainment brought the first motion picture from last year's production contract with Franchise Pictures, *The Whole Nine Yards* into European cinemas. In Germany, France and Great Britain alone the comedy grossed approx. 16 million USD as of June 30th. In several countries the picture ranked in first position of the movie charts for weeks. Apart from this, Intertainment exploited the science-fiction movie *Battlefield Earth* in cinemas of most European countries. The episode picture *Things You Can Tell Just By Looking At Her*, which Intertainment presented at the Film Festival in Cannes in May received very positive reviews. Intertainment has already sold numerous licenses on the picture. The next picture that Intertainment will release is *The Art Of War* starring Wesley Snipes (see the cover of this 2nd quarter report). The action movie opened at the end of August in the USA and will probably open in November in European cinemas.

*Arnold Kopelson*

The Billion-Dollar-Man

His pictures have been nominated for 17 Oscars and have grossed several billion dollars: Hardly a movie producer is as successful as Arnold Kopelson. For the next five years he will work exclusively for Intertainment.

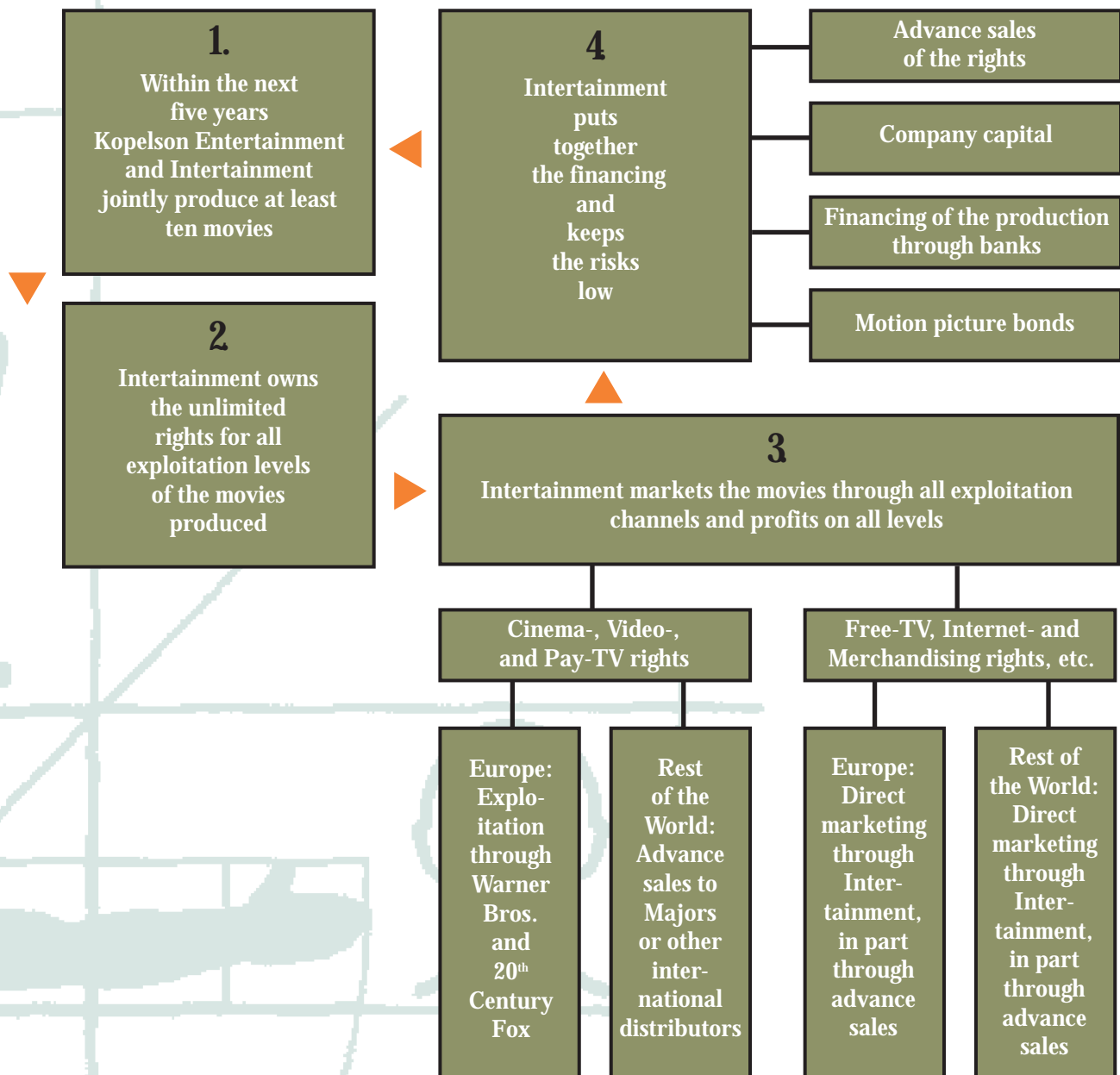
They have known each other for quite some time: Intertainment-boss Rüdiger Baeres, his representative David Williamson and Arnold Kopelson have met time and again over the past years. On June 8th, their talks led to an agreement thanks to which Kopelson will work exclusively for the next five years for Munich-based Intertainment. Up to that point, success-producer Kopelson mainly produced his pictures for the large Hollywood-Studios Warner Bros. and 20th Century Fox.

The bottom line of the agreement is that Kopelson and Intertainment will produce at least ten pictures together during that period. Of course, that is only the bottom line.

The producer says "We are all assuming that it will be a bunch more" (see: The Contract).

"Arnold Kopelson is a one-of-a-kind in the business of producing movies. He is a legal and economics professional and besides that a highly creative person. Kopelson is extremely particular with his pictures, he works very strategic, his company is perfectly organized" and, as Stephen Brown concludes his opinion about the success-producer, "he always has the complete world market in view when producing movies". Brown knows Kopelson better than just about anybody. Before the 39-year-old became the head of Intertainment's American office on June 1st, he had been working together with Kopelson for more

The Contract



THE CONTRACT

The contract with Arnold Kopelson provides for the American producer to work exclusively for Intertainment in the next five years. Within the framework of cooperation between both parties, a minimum of 10 motion pictures are to be produced. Intertainment is granted extensive say on all levels of the productions. In this way, Kopelson and Intertainment jointly decide which projects will be realized, which actors are cast for what role or who the directors for the movies will be. As Intertainment puts the financing of the pictures together, they become de facto the producer of the movies. In exchange, Intertainment obtains the unlimited rights for the movies on all exploitation levels and also markets them. In terms of financing, Intertainment follows multiple-tracked approach. Apart from the pre-sales of individual country- or territory rights to Majors or independent distributors, the company will draw on own capital, bank funds or motion picture bonds. The provisionally estimated total volume of the contract, being in the range of 500 million USD must not be provided at once, as the pictures will not be produced at the same time. This will allow the reinvestment of the proceeds of the first productions into the following projects. Intertainment holds the option to extend the agreement with Kopelson for five further years.

ARNOLD KOPELSON

than ten years, the last years of which as President of Production at Kopelson Entertainment. Be prepared for a new version of the Kopelson/Brown dream-team.

Surprisingly Arnold Kopelson wasn't even directly drawn to the movie business. After finishing school he studied law at the New York Law School. Shortly after taking his finals the New Yorker made his first contacts with the media industry: He specialized in show-business banking, with the focus on financing motion pictures. Back in those days Anne Feinberg, today his wife and production partner, was working in his chambers. Together with her Kopelson founded InterOcean Sales, Ltd. in 1972. The firm dealt with the international financing of motion pictures as well as the sales of the various exploitation rights and had first class clients right from the start, such as Sergio Leone and John Cassavetes.

In 1979 the Kopelsons began producing their own motion pictures with their new company Arnold Kopelson Production – today's Kopelson Entertainment – initially in a joint venture with General Cinema Corporation. Under this label, movies such as *The Odd Couple* and *Foolin' Around* were created. In 1986 the Kopelsons producing career reached a first peak: Their Vietnam motion picture *Platoon*, highly acclaimed by critics and viewers, won the Oscar in the category for "Best Picture". 17 further Oscar Nominations for Kopelsons masterpieces were to follow in the coming years.

Kopelson's success particularly reflects in his outstanding balance: Worldwide his last ten motion pictures grossed around 10 billion dollars alone at the box offices. With this, he made his mark as a guarantor for block-buster movies. Apart from commercial success and awards, his movies always stood for outstanding cinema, some of which setting milestones in the prevailing genre – no matter which one was served. In this *The Fugitive*, his remake of the *Dr. Kimble* series, marked the beginning of a line of box office movies that were based on old US TV series. In the mid-nineties the thriller *Seven* set new standards – both in terms of content and aesthetics. Time and again, Kopelson's productions touched on topics that made for public discussion. Just think of the virus-thriller *Outbreak*, which became red-hot right after opening at the box office or the much discussed masterpiece *Falling Down* that caused a global stir (see "Top Movies from Arnold Kopelson").

The realm of Intertainment's future opportunities through the Kopelson deal were indicated in a study carried out by Investment Bank Merrill Lynch in early August. They recommended Intertainment shares as a clear "buy", reasoning among other arguments that for Intertainment "the deal has opened a new potential of first-class contents, which can be sold worldwide. This has intensified Intertainments credibility and the corporation will profit from Kopelson's excellent track-record on the production of successful motion pictures".

One of Arnold Kopelson's

secrets to success:

When producing movies, he always has

the complete world market in view.

Top Movies from Arnold Kopelson



The Fugitive:

In the 1993 action-thriller, innocently accused Harrison Ford and U.S. marshal Tommy Lee Jones deliver an exciting duel packed with impressive acting. The motion picture is based on the successful TV series *The Fugitive*. Tommy Lee Jones was awarded an Oscar for his role.

U.S. Marshals:

The congenial episode of *The Fugitive* followed in 1998. Oscar-winning “hunter” Tommy Lee Jones went after Wesley Snipes in this thriller. On board of the cast was Robert Downey jr., at the time one Hollywood’s most acclaimed talents.

Eraser:

In this 1996 produced spectacle, Arnold Schwarzenegger as a Federal marshal is out on a secret mission to protect Vanessa Williams – also starring James Coburn. Europe’s leading movie magazine “Cinema” gave the review “Action-entertainment with loads of fun”.

Falling Down:

On a day just as any day, laid off white-collar worker Michael Douglas runs amok. Robert Duvall, as a police officer just a step away from retirement tries everything to stop him. The masterpiece made for international, socio-political discussions.

The Devil’s Advocate:

As a young and striving lawyer, Keanu Reeves is recruited by a very special partner: The devil, portrayed by no less than the “Godfather” himself Al Pacino. The 1997 shot thriller – a Faustian struggle about good and evil.

Murder At 1600:

In this 1997 thriller Wesley Snipes gets into a fatal situation: The murder suspect, of all persons, is the President of the United States. Apart from all motion picture qualities, *Murder at 1600* also comprises clear criticism on the corruption within Americas political arena. Diana Lane assists Snipes in bringing down the network of corruption.

Outbreak :

Director Wolfgang Petersen raised the topic of viral danger in the 1995 action-thriller. Dustin Hoffman, Rene Russo and Morgan Freeman are in a race against time, to avoid the military destruction of a city contaminated by a virus.

Platoon:

Produced in 1986, *Platoon* ranks as one of the best Vietnam-movies ever and was awarded with an Oscar in the category “Best Picture”. Oliver Stone directed the movie and stars included Tom Berenger, Willem Dafoe and Charlie Sheen as well as at the time unknown Johnny Depp and Forest Whitaker.

Seven:

Brad Pitt and Morgan Freeman as very different police partners chasing a serial killer, who chooses his victims by the seven mortal sins. In this 1995 thriller, director David Fincher came up with surprisingly new and by now often copied images, accompanied by an ending not to forget.

Attractive Alliances

Hardly another company holds so many international rights to such a large number of potential success movies as does Entertainment. For the exploitation of the movies, Entertainment follows a dual-track approach.

The analysts of Netherlands ABN Amro bank brought it down to the point: "Entertainment is the largest studio-independent owner of current American blockbuster movie rights in Europe", is what the investment experts wrote in a study in April 2000. Entertainment achieved this position through three cooperation agreements concluded in 1999. Not only do they secure the company the rights to a continuously growing flow of new, high-quality motion pictures from the USA for the next years, but above all they represent a turning point away from the traditional orientation towards the German market. Instead of focusing only on the German market and thus being dependent of a single, local market, Entertainment has since been selling motion pictures europewide – and thanks to the deal closed in June with Arnold Kopelson even worldwide. Throughout all agreements Entertainment ensured that they received the rights for all exploitation levels and marketing channels (see "Top Movies from Top Producers"). Nearly no other media corporation listed on the Neuer Markt pursues such a consequent exploitation- and internationalization strategy.

And yet it makes perfect sense, because the real bottleneck-factor in the movie industry are the rights to good, commercially exploitable motion pictures. Only high-quality mass media motion pictures are suitable for exploitation at the same time in various countries. The best distribution channels for this are in hands of the large Hollywood Studios, the so-called Majors.

Entertainment has taken advantage of this: Instead of building up their own distribution networks for big money and maintaining these with high fixed overheads, Entertainment signed contracts this past year with Warner Bros. and 20th Century Fox. Both will distribute Entertainment movies europewide in the next years through cinema, video and Pay-TV (see "Strong Distribution Partners"). By taking this step, Entertainment has secured itself excellent exploitation channels which guarantee not only experience and market dominance, but also synergy-effects through europewide releases. At the same time, Entertainment still owns the rights to the movies and therefore determines for instance, the advertising volume of the theatrical release or the opening date.

Top Movies from Top Producers

Production Agreement with	Number of Movies	Production Period	Exploitation Region	Exploitation Rights	Duration of the Rights	Year of Contract
Franchise Pictures	at least 60	5 Years	Europe and China	All exploitation levels and channels	25 Years	1999
Original Voices	10	5 Years	Western Europe and China	All exploitation levels and channels	25 Years	1999
20 th Century Fox	up to 20	10 Years	Europe	All Exploitation levels and channels	25 Years	1999
Arnold Kopelson	at least 10	5 Years*	Worldwide	All exploitation levels and channels	Unlimited	2000

* Intertainment has the option to extend the contract with Kopelson Entertainment for an additional five years

Another advantage of the deal: Intertainment can remain a slender and fast responding company.

Intertainment markets the rights for all other exploitation channels – for example free-TV, merchandising and internet – directly. A major component of the company strategy thereby is to minimize possible exploitation risks by selling rights in advance for a guaranteed minimum amount. By doing this, Intertainment covers the bottom line on sales and profits, but at the same time secures its share in the possible success of the movies through participation provisos. Despite of all this, Intertainment's projections are based on very conservative assumptions: Possible earnings at the box-offices are not even included in the anticipated figures.

In the mid-term range, choosing movies via the internet will become one of the most important movie-distribution channels. Intertainment's strategy in this section is therefore not limited to securing and exploiting the internet-rights to movies, but goes way beyond this. Since January of this year, Intertainment holds 26.8 per cent of SightSound.com, the American market leader for down-

loads of movies through the internet. Additionally, Intertainment also holds an option of upto 20 per cent for the British filmgroup, who are also very well positioned in the internet-movie business. This clearly shows that in the internet-sector, Intertainment is not only creating a high-class library of internet-movie rights, but is also pursuing a platform strategy with the aim to build up an international virtual videostore-rental business, under the decisive influence of Intertainment.

Strong Distribution Partners

Distribution Agreement with	Number of Movies	Period of Time	Exploitation Areas	Year of Contract
Warner Bros.	60	5 Years	Cinema Video Pay-TV	1999
20 th Century Fox	60	10 Years	Cinema Video Pay-TV	1999

Movies with Block Buster Potential



Wesley Snipes, *Art Of War*

Art Of War

Wesley Snipes stars as secret agent Shaw, who works for the UN Secretary General. During a UN conference with the aim of an approach to China, terrorists try to prevent this and discredit the UN. In the course of the malicious plan, Shaw also becomes a suspect and gets entangled in the web of terror and justice.

Wesley Snipes (*Blade*, *Drop Zone*) and Donald Sutherland (*Don't Look Now*, *MASH*) will enrich cinemas in the second half-year of 2000 with plenty of action and excellent special-effects. According to a recent poll, 41 per cent of all 18- to 34-year-old US Americans are going to see *Art Of War*, which has been running in US cinemas since August 25th. Intertainment will put the picture on Europe's movie screens in November.

Get Carter

Things also get down-right dirty in *Get Carter*. In the action-thriller Sylvester Stallone, as New Yorker Jack Carter, follows a call for help from his brother who lives in Los Angeles. Arriving there he soon finds out that his brother had been killed. Carter starts digging for the culprits and the backgrounds. In the course of this he is con-

fronted with the dark sides of the porn-industry and finds himself in mortal danger. *Get Carter* is a remake of the same named classic with Michael Caine. The already shot picture offered Stallone a prime roll as his brother's avenger with loads of dynamics and action.

The Pledge

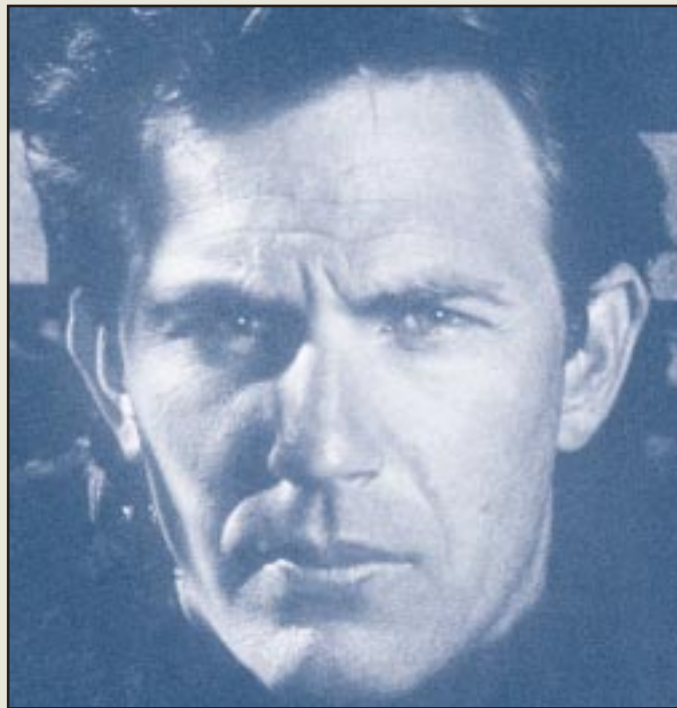
Only every three years does Jack Nicholson, the superstar of Hollywood's superstars, step in front of the cameras and currently it is that time again. In *The Pledge* Nicholson plays police officer Holmgren, who serves and protects in a small township of the Midwest and is just a step away from retirement. As a young girl is found dead, Holmgren is the one who has to break the news to the parents – and he promises the mother to find the criminal who did it. A supposed perpetrator is found but kills himself, which closes the case for the police. Holmgren, however, does not believe to have caught the right culprit and takes on his own search for the killer after retiring from the police.

The exciting thriller is Jack Nicholson's second project with Sean Penn, after *Crossing Guard*. Once more, be prepared for top-class cinema.

3000 Miles To Graceland

While all of Las Vegas is celebrating “Elvis Week”, a group of Elvis-impersonators rob a casino and escape with millions. After this rather humorous start, things get rather serious, because the leader of the gang is out to kill his compadres one by one and leaving a trail of blood through Nevada.

Kevin Costner (*Dances With Wolves*) as the head of the gang and supposedly the illegitimate son of Elvis goes at it in a gripping duel with Kurt Russel (*Escape From New York*, *Big Trouble In Little China*) in this nail-biting thriller, pictured against the fascinating background of Nevada’s deserts.



Kevin Costner, 3000 Miles To Graceland

Champs

Stallone – Take two! – In *Champs* the great action star plays former racing driver Joe Tantos, who gets a shot at re-entering the racing arena. Former world champion Joe is supposed to lend talented young racing driver Jimmy Blye a hand to get his act together and become world champion himself. In the course of the movie the two learn that aside from adrenalin and trophies, there is a lot more to life. The shootings to the movie have been running since July 2000. Director Renny Harlin (*Cliffhanger*) promises: “We are shooting scenes unseen before. For instance, I just love the camera setting from the view of the driver”. Although the thriller on people and

motors won’t make it into Europe’s cinemas before mid-next-year, the picture has already caused quite a stir in Germany. The reason: Apart from Stallone two German stars will also be participating in the movie. Til Schweiger has accepted one of the leading male roles and Verona Feldbusch will celebrate her debut in a Hollywood feature.

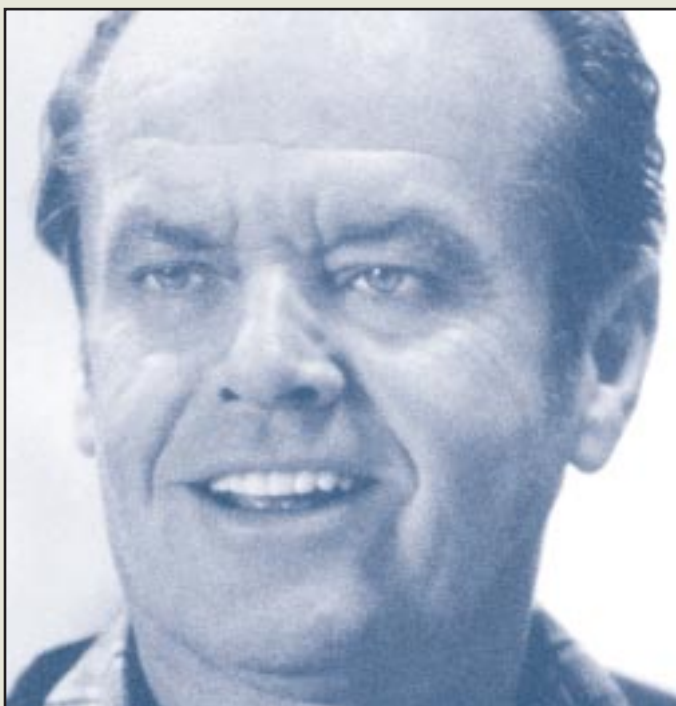
The Caveman’s Valentine

Samuel L. Jackson (*Pulp Fiction*, *Shaft*) portrays Romolus, who was once a brilliant student and member of the American elite before he dropped out of society, driven by depression and paranoia. Since then he has been living in New York’s Central Park. Of all people, the police are dependent on the help of the idiosyncratic weirdo to investigate a homicide: A young boy had been killed and a member of New York’s high society is charged.

Samuel L. Jackson is at his prime in this complex role as drop-out Romolus, who meanders about between New York’s glitter and the world of the stranded, in search of the truth as an amateur detetive.

In addition, the following Intertainment movies are currently being produced: *City By The Sea* starring Robert DeNiro, *Angel Eyes* starring Jennifer Lopez and *Heist*, a thriller in which Gene Hackman, Matt Dillon and Danny DeVito are at each other as jewel thieves in the coup of their life.

Jack Nicholson, The Pledge

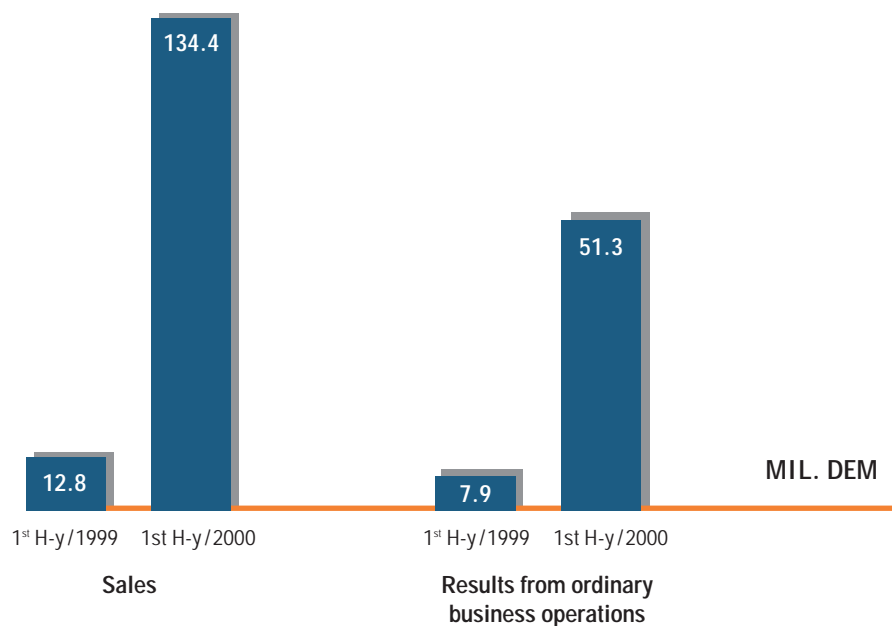


Consolidated Profit and Loss Statement for January 1 through June 30, 2000 (IAS)

INTERENTAINMENT GROUP

	1. Half-year/2000	1. Half-year/1999*
	DEM	DEM
1. Sales	134,402,312.18	12,817,731.00
2. Other operating income	13,965,467.06	8,851,087.76
	148,367,779.24	21,668,818.76
3. Costs of materials	71,899,489.97	5,174,366.62
4. Personnel expenses	1,772,760.50	974,921.55
5. Depreciation on intangible and tangible assets	98,122.31	38,103.14
6. Other operating expenses	10,860,759.93	8,449,281.22
7. Net interest income (including discounted receivables)	-12,407,441.87	858,334.06
8. Profit/Loss from ordinary business operations	51,329,204.66	7,890,480.29
9. Taxes on income	27,629,645.72	4,291,489.28
10. Other taxes	1,267.00	2,300.00
11. Net result	23,748,291.94	3,596,691.01

*:For reasons of comparability last years figures have been conformed in accordance with IAS regulations by the IPO costs ranging at 6.4 million DEM and concerning the treatment of the entering of the Intertainment Licensing GmbH into the Intertainment AG as a legal reorganisation.



Cash Flow Statement
as of June 30 (IAS)

INTERENTAINMENT GROUP

	30.06.2000	30.06.1999
	TDEM	TDEM
Net profit for the year	23,748	3,597
+ Depreciation and amortisation on fixed assets	98	38
+ Increase of accrued liabilities	14,553	2,551
- Profit from the sale of assets	0	-1
-/+ Increase/Decrease of inventories, trade accounts receivable and sandry assets	-190,447	8,201
+/- Increase/Decrease of trade accounts payable and other payables	93,499	-10,127
Inflow of funds from operations	-58,549	4,259
+ Proceeds from the disposal of assets	0	1
- Payments for investments in assets	-180	-167
Money outflow used in investment activity	-180	-166
+ Proceeds from capital increases	0	82,417
- Payments to shareholders (dividends)	0	-560
Inflow of funds provided by investment activity	0	81,857
Change in cash and cash equivalents	-58,729	85,950
+ Liquid funds at the beginning of the period	105,535	46,508
Liquid funds at the end of the period	46,806	132,458

For reasons of comparability last years figures have been conformed in accordance with IAS regulations by the IPO costs and concerning the treatment of the entering of the Intertainment Licensing GmbH into the Intertainment AG as a legal reorganisation.

1st Half-year 2000 Notes

Sales

In the first half-year of 2000, Intertainment has massively increased the sales revenues. They jumped to 134.4 million DEM, which is an increase of 949% in comparison to the same period of the previous year, in which Intertainment had realized 12.8 million DEM. In all of the fiscal year 1999, Intertainment had sales revenues of 56.1 million DEM. With this, Intertainment already surpasses the total sales revenues of the previous year by 140% after the first 6 months. The considerable increase in sales revenues were based on the consequent expansion of business operations across the complete European market.

Interest Result

According to the regulations of the IAS (International Accounting Standards), Intertainment discounts long-term receivables. The amount of discount is revealed in the results of interest. An equal high amount as reduction of receivables is opposed, which is resolved pro rata. In this manner these are not costs incurred.

Profit Situation

Intertainment continues to be a highly profitable company. The profits of ordinary operating activities have increased by 551% to 51.3 million DEM.

In the first half-year of 2000, Intertainment has released two motion pictures in several European territories. These were *Battlefield Earth* with John Travolta and *The Whole Nine Yards* with Bruce Willis.

All incurring costs in conjunction with cinema exploitation, including license fees accounting for theatrical rights, are accounted for in the figures. Intertainment's business model clearly shows to be highly profitable and forward-looking.

Employees

During the first half-year of 2000, Intertainment employed an average of 22 people (June 30, 1999: average 14 employed). With that, Intertainment was able to remain a very lean company, despite the increase in business activities. This, among other things, can be put down to the cooperation with high-class distribution partners – 20th Century Fox and Warner Bros.-, that enable Intertainment to successfully exploit motion pictures throughout Europe, without the high amount of overhead and personnel costs required for one's own theatrical distribution operations.

Outlook

For all of the current year 2000, management is estimating consolidated sales revenues in the range of approx. 290 million DEM, an EBIT of approx. 84 million DEM and a profit out of ordinary operating activities ranging at approx. 76 million DEM.



Comments

In the course of fiscal year 1999, Intertainment has changed its accounting policy in view of the transition to IAS (see Annual Report 1999, Pages 55 and 56). In order to improve the comparability, Intertainment has also determined the figures for the first half-year of 1999 retrospective to the new method, as to allow direct comparison of the ascertained values with those of the 2000 half-year report.

CORPORATE CALENDAR

November 17th 2000:

Quarterly Report III/2000 is published.

Presumably at the end of March 2001:

Annual Report 2000 is published.

Presumably in May 2001:

Quarterly Report I/2001 is published.

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