

1/2000

QUARTERLY REPORT



ENTERTAINMENT  
Aktiengesellschaft



## Dear Shareholder

Intertainment consistently pursued its European strategy in the film licensing business throughout the first quarter of 2000. This resulted in a number of major agreements that, although only playing a minor role in terms of turnover for 1Q/2000, will nevertheless contribute substantially to the Group's returns in the course of the year. The movies that were marketed originated from the big deals closed last year. The first of these to be released theatrically was *The Whole Nine Yards*, an action comedy with Bruce Willis that was extremely successful in the U.S. movie theaters, as well as in European cinemas, judging from reports received after the period under review. In the first three months of the year, Intertainment also concentrated on strengthening a new business segment, film distribution via the Internet.

We're glad that you've decided to accompany us on the way we've chosen, and thank you for your trust and interest in Intertainment AG.

Barry Baeres, Chairman of the Board

## Licensing Business

As part of its corporate strategy, Intertainment is marketing the films from deals concluded in recent years through two channels. Firstly, Intertainment uses the two majors Warner Bros. and 20<sup>th</sup> Century Fox as distributors for the movie theater, video and pay-TV sectors. The free-TV and Internet rights of the films, on the other hand, are marketed by Intertainment itself for the whole of Europe. In this context Intertainment concluded a licensing agreement with the independent Spanish marketer Manga Films at the end of February 2000. The deal is valued at USD 22.4 million. Manga obtained from Intertainment the Spanish distribution rights to a film pack-age comprising productions that will be released theatrically or start as videos by February 2001. In March Intertainment arranged a strategic partnership with Silvio Berlusconi's Mediaset Group. As a first step, Mediaset purchased the Italian free-TV rights for six feature films. Intertainment also sold the Italian distribution rights for two more films to other corporations. These Italian deals are valued at approx. USD 20 million. Negotiations conducted during the first quarter in Britain and France finally led to further film contracts in April, i.e. after the end of the quarter, valued at more than USD 70 million.

## Internet Activities

In December 1999, in tune with its strategy of selling films through the Internet, Intertainment had acquired a 26.8 percent share in Sight-Sound.com, Inc., today's technology leader in downloading films over the Internet. In February 2000 the U.S. enterprise registered its fourth patent. The patent comprises pioneering data-compression technology that substantially reduces the time to download movies from the Internet while maintaining optimum picture and sound quality. Thus Sight-Sound.com could extend its technological lead and underscored its dominant role in the online film business.

SightSound.com also strengthened its position in the content sector by a cooperation agreement in March 2000 with the renowned US film producer Franchise Pictures, who will initially put 35 films into the virtual video library of SightSound.com and who will also purchase shares in the Internet enterprise. After the period under review SightSound.com concluded a cooperation agreement with film the distinguished producer Miramax, a subsidiary of the Disney Group.

SightSound.com is also preparing its initial public offering.

Intertainment itself plans to buy further shares of Internet-based film distribution companies in Europe. In the period under review the management therefore conducted serious negotiations with potential partners.

Consolidated Profit and Loss Statement  
for January 1 through March 31, 2000 (IAS)

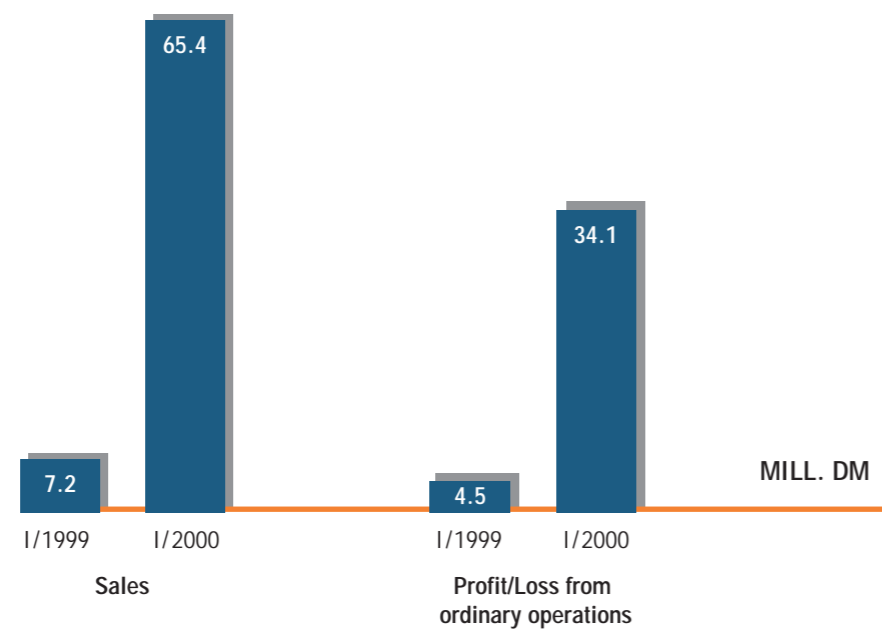
Cash Flow Statement  
as of March 31 (IAS)

**INTERENTAINMENT GROUP**

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	I/2000	I/1999
	DM	DM
1. Sales	65,406,154.35	7,187,551.50
2. Other operating income	2,211,005.16	3,568,858.25
	<u>67,617,159.51</u>	<u>10,756,409.75</u>
3. Costs of materials	17,761,373.12	1,632,329.86
4. Personnel expenses	850,931.77	455,595.80
5. Depreciation on intangible and tangible assets	76,979.28	19,938.39
6. Other operating expenses	3,892,705.40	4,321,416.91
7. Net interest income	<u>-10,971,280.62</u>	<u>192,268.87</u>
8. Profit/Loss from ordinary operations	<b>34,063,889.32</b>	<b>4,519,397.66</b>

	31.03.2000	31.03.1999
	TDM	TDM
Net profit for the year	15,779	2,235
+ Depreciation and amortisation on fixed assets	77	20
+ Increase of accrued liabilities	16,192	626
- Profit from the sale of assets	0	0
- Increase of inventories, trade accounts receivable and sandry assets	-66,027	-3,442
- Decrease of trade accounts payable	0	-2,230
+ Increase of trade accounts payable and other payables	<u>6,653</u>	<u>0</u>
Inflow of funds from operations	-27,326	-2,791
+ Proceeds from the disposal of assets	0	0
- Payments for investments in assets	-97	-52
Money outflow used in investment activity	-97	-52
+ Proceeds from capital increases	0	81,924
- Payments to shareholders (dividends)	<u>0</u>	<u>0</u>
Inflow of funds provided by investment activity	0	81,924
Change in cash and cash equivalents	-27,423	79,081
+ Liquid funds at the beginning of the period	<u>105,354</u>	<u>46,508</u>
Liquid funds at the end of the period	<b>77,931</b>	<b>125,589</b>



# I/2000 Notes

## Cost of Materials

Cost of materials result essentially from the costs of acquisition of partial rights to film rights sold. The massive increase in license sales consequently led to substantially higher expenses for film rights and associated services.

## Profitability

Similarly to sales, the results from ordinary operations also climbed in 1Q2000, reaching DM 34.1 million thus exceeding the comparable figures of last years period by 654%. For 1Q1999 Intertainment had shown a result of DM 4.6 million from ordinary operations. So in 1Q2000 Intertainment generated higher profits than for the whole of the previous year.

## Employees

Intertainment remained a very lean enterprise. In the first quarter the Group had on average 19 employees. This translates into more than DM 3.4 million per capita sales, a top rating for corporations quoted on the German stock exchange. All the more reason to express one's appreciation for the great performance of all employees for the benefit of the company.

## Perspective

The performance for the first quarter is very good. It is expected, that the potential of the films that Intertainment will be releasing theatrically in this year will have a distinct impact on the operating results in the following quarters. Management expects Group turnover for the ongoing year of approx. DM 290 million and a profit of more than DM 76 million from ordinary operations. The Internet will play an increasingly important role in marketing films. Intertainment will pursue its elected Internet strategy and expand it throughout Europe.

## **N** Note:

Intertainment changed its accounting method regarding the transition to IAS in the course of fiscal year 1999 (cf 1999 report, pp 55 and 56). To allow for a comparison, Intertainment has consequently audited the figures for 1Q/1999 retrospectively by this new standard and presented them next to the 1Q/2000 figures.

## Sales

Intertainment significantly expanded its business in 1Q2000, with sales climbing to DM 65.4 million. This represents an increase of 810% compared to the first three months of last year, when sales reached DM 7.2 million. For the whole accounting period of 1999 Intertainment's sales totaled DM 56.1 million. Thus Intertainment already exceeded the total sales of 1999 in just the first quarter of 2000.

# CORPORATE CALENDAR

## FOR THE REST OF THE YEAR

June 15, 2000

Second Intertainment AG shareholders' meeting in Munich.

August 18, 2000

Quarterly Report II/2000 is published.

November 17, 2000

Quarterly Report III/2000 is published.



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