

II/2001

QUARTERLY REPORT



ENTERTAINMENT
Aktiengesellschaft

Key figures

| | 30.06.2001 | | 30.06.2000 | | Change |
|---|------------|-----------|------------|-----------|--------|
| | DM mill | Euro mill | DM mill | Euro mill | |
| Sales revenues | 28.8 | 14.7 | 134.4 | 68.7 | -79% |
| EBIT | 1.0* | 0.5* | 63.8 | 32.6 | -98.4% |
| Results of ordinary business activities | -1.4 | -0.7 | 51.4 | 26.3 | -103% |
| Net profit | 2.6 | 1.3 | 23.7 | 12.1 | -89% |
| Average of employees | 27 | | 22 | | |

* including the extraordinary result

Key figures of the stock

| | | |
|---|-------------------------------|--------|
| SECURITIES IDENTIFICATION NUMBER | 622 360 | |
| SHARE CAPITAL | 15,005,155.09 Euro | |
| NUMBER OF SHARES | 11,739,013 | |
| BASIC EARNINGS PER SHARE 30.06.2001 | 0.11 Euro | |
| FINAL PRICE 29.06.2001 | 4.40 Euro | |
| HIGHEST PRICE 1 ST HALF-YEAR 2001 (18.01.2001) | 19.53 Euro | |
| LOWEST PRICE 1 ST HALF-YEAR 2001 (16.03.2001) | 4.10 Euro | |
| SHAREHOLDER STRUCTURE 31.06.2001 | Rüdiger Baeres Management, AR | 52.86% |
| | Free Float | 46.53% |

Dear shareholders



Although, in view of the lawsuit with Franchise Pictures, things have become “quiet” around Intertainment AG over the last few months, the company has not come to a standstill. The imposed quietness is due, above all, to procedural legal reasons and strategies. The company is nevertheless endeavouring to maintain an open information policy.

Probably the most important result in the first half of 2001 was the successful negotiations with a bank regarding a renunciation on claims to the amount of up to DM 108 million. Of this, DM 48 million concern the first half year, and up to DM 60 million concern the third quarter 2001. Our differences of opinion with the bank, which arose in connection with the lawsuit, have been cleared.

Apart from this, some of the films affected by the lawsuit are now about to be shown in European cinemas. Our sales partner, the American major Warner Brothers, is handling the Europe-wide exploitation, in order to secure a near-parallel start, and therefore better exploitation opportunities. The films include “Get Carter” with Sylvester Stallone, which already started in mid August, and “Driven” with Sylvester Stallone and Til Schweiger. In accordance with an in court or out of court settlement, the owner of the rights is entitled to the proceeds secured by Warner Brothers.

In addition, the out of court settlement procedures between Intertainment and Franchise Pictures were intensified last week.

Despite the lawsuit with Franchise, we ended the first half year of 2001 with a surplus of DM 2.6 million / EUR 1.3 million. The half year results include special effects such as an extraordinary result of DM 5.6 million / EUR 2.9 million in connection with the renunciation on claims. At the same time Intertainment AG is setting up a risk provisioning of DM 43 million to take into account the contested excessive budgets.

We have broadened our basis for the future. Intertainment has developed from a pure rights trader into a film producer and with this is positioning itself at the top of the output chain. The contract with Kopelson Entertainment and the partnership with Paramount Pictures were just first steps on this path. In future, the majority of films we bring into the cinemas will also be our own productions or co-productions.

We thank you for your faith in our company.

Rüdiger Baeres
Chairman of the Board, Intertainment AG

Intertainment expands its film production

Intertainment has developed from a pure trader of rights to become a film producer. For this media company the contract with Kopelson Entertainment and Paramount Pictures were only the first steps on the way to putting the business model on a broader basis. This does not mean that Intertainment is quitting the license business. However, in future most of the films that Intertainment will be bringing to the cinemas will originate from its own productions or production alliances. Discussions are being held with various film producers concerning joint projects. With Stephen Brown (“Seven”, “The Fugitive”) we will also be able to fall back on the production experience in our own concern.

With the further development of the business model Intertainment will be securing all rights in film production such as rights of co-determination and control. The company will be deciding on the script, the director, the cast and the budget for the film project in collaboration with experienced producers.

The film productions will be financed according to a model which strictly limits the risks. Intertainment will mainly be banking on security. Only when it is ensured that the film budget is largely covered by territorial pre-sales, will Intertainment give the green light for production. This model of finance will allow Intertainment to start major film projects without entering into major financial commitments itself.

Intertainment has succeeded in winning Paramount Pictures as an initial partner for a production of Intertainment/Kopelson Entertainment. Paramount Pictures is one of the leading studios in the American film industry. The First Look and Co-Financing agreement has initially been signed for two years. The studios will have the rights to market Arnold Kopelson’s films in all areas of the media in North America. In 2002 one or two of this successful producer’s films will already be showing in the cinemas with two to four showing in 2003.

In order to increase the presence of Intertainment in Hollywood and thus to ensure access to attractive projects as early as possible, last year we opened a US branch in Los Angeles. Even now it is evident that this step was the right one to take. Stephen Brown, formerly Head of Productions at Kopelson Entertainment, responsible for business development on Intertainment’s board of directors and at the same time President of Intertainment Inc., USA has taken on the task of building up and heading this US branch. At the same time Intertainment has been able to expand existing contacts to studios and producers and to form new contacts which show promise for the future.

The general meeting of Intertainment AG



The general meeting of Intertainment AG was held on 27 June 2001 in Munich. Despite the difficult situation in which the company currently finds itself due to the litigation with Franchise, the shareholders expressed their confidence in Intertainment and praised the openness with which the board of directors has explained the situation. “The management team on board is the right one”, emphasized a spokesperson from the German Protective Association for Security Ownership.

The board of directors and the supervisory board of Intertainment AG were exonerated for the financial year 2000.

After the supplementary elections to the supervisory board the new appointments were Dipl.-Kfm. Dr. Ernst Pechtl and Dr. Wilhelm Bahner. Dr. Ernst Pechtl replaces Martin Schürmann who retired from the supervisory board in December 2000 for personal reasons. Dr. Wilhelm Bahner is replacing Dr. Andreas Bohn who left Intertainment’s supervisory board in May 2001, likewise for personal reasons.

The general meeting also decided to top up a further authorized capital II with a volume of up to around 4.3 million Euro and granted the management board the right to issue convertible bonds and/or options on convertible bonds, on whose conversion ordinary shares may be issued in respect of a proportionate amount of the nominal capital of some 6 million Euro. With these approved measures the board of directors wished to acquire strategic leeway to act in order to be equipped for all challenges in the future. It explicitly pointed out that the company may use these funds approved on supply for further major film projects or in the event of a possible acquisition or a holding in a company. The board of directors was authorized to acquire up to 10 per cent of the Intertainment shares by 23 December 2002, giving the same reasons.

In addition the general meeting approved a new stock option program with the aim of binding the employees even more strongly to the company and finally it also approved the move of Intertainment AG’s principal place of business from Munich to Ismaning.

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 |
| 31 May 2001 | Intertainment withdraws the law suit against Imperial Bank in order to further pursue the legal proceedings against Franchise Pictures |
| 13 June 2001 | The judge rescinds the temporary suspension of the lawsuit against Franchise Pictures |

**Group Balance Sheet as of 30 June 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

ASSETS

| | 30.6.2001 | 31.12.2000 |
|---|-----------------------|-----------------------|
| | DM | DM |
| A. Fixed assets | | |
| I. Intangible assets | 584,566.81 | 654,241.47 |
| II. Property, plant and equipment | 1,290,210.01 | 1,034,026.37 |
| III. Financial assets | 39,211,189.81 | 39,211,189.81 |
| Total | 41,085,966.63 | 40,899,457.65 |
| B. Current assets | | |
| I. Inventories | | |
| 1. Film rights | 117,219,573.18 | 125,189,483.18 |
| 2. Goods | 750,681.57 | 985,539.01 |
| 3. Down payments made | 92,730,911.46 | 13,502,499.04 |
| | 210,701,166.21 | 139,677,521.23 |
| II. Accounts receivable and other assets | | |
| 1. Trade accounts receivable | 160,110,473.07 | 167,121,072.14 |
| 2. Other assets | 22,695,523.41 | 25,226,336.72 |
| | 182,805,996.48 | 192,347,408.86 |
| III. Cash on hand and in banks | | |
| 1. Securities | 0.00 | 0.00 |
| 2. Liquid funds | 25,989,147.21 | 142,484,877.41 |
| Total | 419,496,309.90 | 474,509,807.50 |
| C. Prepaid expenses | 0.00 | 0.00 |
| D. Deferred taxes | 2,279,101.98 | 1,263,797.66 |
| | 462,861,378.51 | 516,673,062.81 |

**Group Balance Sheet as of 30 June 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

LIABILITIES

| | 30.6.2001 | 31.12.2000 |
|-------------------------------------|-----------------------|-----------------------|
| | DM | DM |
| A. Shareholder's equity | | |
| I. Subscribed capital | 29,347,532.48 | 29,347,532.48 |
| II. Reserves | 292,138,522.64 | 292,444,691.53 |
| III. Statutory reserves | 226,498.00 | 226,498.00 |
| IV. Group retained earnings | 26,675,290.17 | 24,078,677.86 |
| Total | 348,387,843.29 | 346,097,399.87 |
| B. Provisions | | |
| 1. Tax provisions | 2,149,809.60 | 16,669,650.61 |
| 2. Other provisions | 17,038,500.00 | 38,853,926.53 |
| | 19,188,309.60 | 55,523,577.14 |
| C. Liabilities | | |
| 1. Liabilities due to banks | 52,347,624.99 | 52,996,625.65 |
| 2. Down payments received on orders | 7,762,630.70 | 7,762,630.70 |
| 3. Trade accounts payable | 25,380,667.24 | 45,802,701.92 |
| 4. Other liabilities | 6,767,776.69 | 6,509,991.53 |
| | 92,258,699.62 | 113,071,949.80 |
| Total | 111,447,009.22 | 168,595,526.94 |
| D. Deferred tax liabilities | 3,026,526.00 | 1,980,136.00 |
| | 462,861,378.51 | 516,673,062.81 |

**Group Income Statement for 1 April to 30 June 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

| | 1.4.– 30.6.2001 | 1.4.– 30.6.2000 |
|---|-----------------------|-----------------------|
| | DM | DM |
| 1. Sales | 19,299,867.48 | 68,996,157.83 |
| 2. Other operating income | 10,683,917.79 | 11,754,461.90 |
| | <u>29,983,785.27</u> | <u>80,750,619.73</u> |
| 3. Cost of materials | | |
| a) Cost of film rights | -15,973,187.66 | -54,077,334.85 |
| b) Cost of purchased merchandise and services received | -135,085.21 | -60,782.00 |
| | <u>-16,108,272.87</u> | <u>-54,138,116.85</u> |
| 4. Personnel expenses | | |
| a) Wages and salaries | -1,844,231.06 | -861,096.85 |
| b) Social security contributions | -72,908.98 | -60,731.88 |
| | <u>-1,917,140.04</u> | <u>-921,828.73</u> |
| 5. Depreciation | -138,482.94 | -21,143.03 |
| 6. Other operating expenses | -15,513,053.71 | -6,918,054.53 |
| 7. Interest income | 2,970,141.58 | 3,194,446.12 |
| 8. Interest expense | -808,737.51 | -4,630,607.37 |
| 9. Interest income/expense | 2,161,404.07 | -1,436,161.25 |
| 10. Profit/loss on ordinary operations | -1,531,760.22 | 17,315,315.34 |
| 11. Extraordinary earnings | 48,555,371.49 | 0.00 |
| 12. Extraordinary expenditure | -43,000,000.00 | 0.00 |
| 13. Extraordinary results | 5,555,371.49 | 0.00 |
| 14. Taxes on income | -1,431,571.05 | -9,344,597.02 |
| 15. Other taxes | 740.00 | -1,267.00 |
| 16. Group net income | 2,592,780.22 | 7,969,451.32 |

**Group Income Statement for 1 January to 30 June 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

| | 1.1.– 30.6.2001 | 1.1.– 30.6.2000 |
|---|-----------------------|-----------------------|
| | DM | DM |
| 1. Sales | 28,848,916.66 | 134,402,312.18 |
| 2. Other operating income | 18,356,672.21 | 13,965,467.06 |
| | <u>47,205,588.87</u> | <u>148,367,779.24</u> |
| 3. Cost of materials | | |
| a) Cost of film rights | -19,351,245.34 | -71,730,582.58 |
| b) Cost of purchased merchandise and services received | -195,992.38 | -168,907.39 |
| | <u>-19,547,237.72</u> | <u>-71,899,489.97</u> |
| 4. Personnel expenses | | |
| a) Wages and salaries | -3,830,590.86 | -1,657,493.86 |
| b) Social security contributions | -154,839.01 | -115,266.64 |
| | <u>-3,985,429.87</u> | <u>-1,772,760.50</u> |
| 5. Depreciation | -225,932.07 | -98,122.31 |
| 6. Other operating expenses | -28,002,999.34 | -10,810,759.93 |
| 7. Interest income | 4,868,632.01 | 4,170,939.49 |
| 8. Interest expense | -1,757,990.14 | -16,578,381.36 |
| 9. Interest income/expense | 3,110,641.87 | -12,407,441.87 |
| 10. Profit/loss on ordinary operations | -1,445,368.26 | 51,379,204.66 |
| 11. Extraordinary earnings | 48,555,371.49 | 0.00 |
| 12. Extraordinary expenditure | -43,000,000.00 | 0.00 |
| 13. Extraordinary results | 5,555,371.49 | 0.00 |
| 14. Taxes on income | -1,512,702.92 | -27,629,645.72 |
| 15. Other taxes | -688.00 | -1,267.00 |
| 16. Group net income | 2,596,612.31 | 23,748,291.94 |
| Basic earnings per share | 0.22 | 2.45 |

**Consolidated Statement of Cash Flow from 1 January to 30 June 2001
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

| | 30.6. 2001 | 30.6.2000 |
|--|-----------------|----------------|
| | TDM | TDM |
| Net income | 2,597 | 23,748 |
| + Depreciation of fixed assets | 226 | 98 |
| Cash Flow | 2,823 | 23,846 |
| - Change in provisions | -36,335 | 14,553 |
| - Gain from the retirement of fixed assets items | 0 | 0 |
| - Change in inventories, in trade accounts receivable and other assets | -62,498 | -190,447 |
| - Change in liabilities from trading and other liabilities | -19,118 | 53,710 |
| Cash used for current operations | -115,128 | -98,338 |
| + Payments received from disposal of fixed asset items | 0 | 0 |
| - Payments made for investments in property, plant and equipment | -414 | -180 |
| Cash used for investment activities | -414 | -180 |
| + Payments received from capital increases | | |
| - Payments to shareholders (dividends) | 0 | 0 |
| + Change of liabilities due to banks | -649 | 39,789 |
| Cash used for financing activities | -649 | 39,789 |
| Change in cash and cash equivalents | -116,191 | -58,729 |
| - Change in cash and cash equivalents caused by exchange rates and other factors | -305 | 0 |
| + Cash and cash equivalents at the beginning of the period | 142,485 | 105,535 |
| Cash and cash equivalents at the end of the period | 25,989 | 46,806 |

**Movements in Group Equity
in accordance with the International Accounting Standards (IAS)**

INTERENTAINMENT GROUP

| | Share capital | Capital reserv. | Statutory reserv. | Retained earnings | Total |
|---------------------------------|----------------------|-----------------------|-------------------|----------------------|-----------------------|
| | DM | DM | DM | DM | DM |
| Balance 31.12.1998 (HGB) | 18,181,000.00 | 0.00 | 178,395.01 | 345,272.34 | 18,704,667.35 |
| IAS reconciliation | | | | | |
| Difference on | | | | | |
| legal reorganisation | | -15,550,000.00 | | 3,028,689.60 | -12,521,310.40 |
| Foreign currency valuation | | | | 123,168.55 | 123,168.55 |
| Deferred taxation | | | | 12,862.00 | 12,862.00 |
| Balance 31.12.1998 (IAS) | 18,181,000.00 | -15,550,000.00 | 178,395.01 | 3,509,992.49 | 6,319,387.50 |
| Net income 1999 | | | | 13,106,383.27 | 13,106,383.27 |
| Flotation | 6,060,000.00 | 79,276,774.56 | | | 85,336,774.56 |
| IPO expenses | | -3,543,820.32 | | | -3,543,820.32 |
| Dividends | | | | -3,381,666.00 | -3,381,666.00 |
| Appropriated to statutory | | | 48,102.99 | -48,102.99 | 0.00 |
| Balance 31.12.1999 (IAS) | 24,241,000.00 | 60,182,954.24 | 226,498.00 | 13,186,606.77 | 97,837,059.01 |
| Net income 2000 | | | | 10,892,071.09 | 10,892,071.09 |
| Differences on exchange | | 85,970.62 | | | 85,970.62 |
| Share exchange | 481,532.48 | 38,729,657.33 | | | 39,211,189.81 |
| Capital increase | 4,625,000.00 | 198,487,049.67 | | | 203,112,049.67 |
| Cost of capital increase | | -5,040,940.33 | | | -5,040,940.33 |
| Balance 31.12.2000 (IAS) | 29,347,532.48 | 292,444,691.53 | 226,498.00 | 24,078,677.86 | 346,097,399.87 |
| Net income 30.06.2001 | | | | 2,596,612.31 | 2,596,612.31 |
| Differences on exchange | | -306,168.89 | | | -306,168.89 |
| Balance 30.06.2001 (IAS) | 29,347,532.48 | 292,138,522.64 | 226,498.00 | 26,675,290.17 | 348,387,843.29 |

INTERENTAINMENT GROUP

(I) Principles of accounting and valuation

In its interim report Intertainment has used the same accounting, valuation and consolidation principles as in the consolidated statements for the financial year 2000. There is no separate explanation of these principles in the interim report.

(II) Notes on the balance sheet

1. Fixed assets

The increase in the fixed assets is largely due to the expansion of the offices of USA Intertainment Inc. and the resulting investments in fixtures and furnishings.

2. Filmrights

As at 30 June 2001 the film rights had developed as followed:

| | 30 June 2001 | 31 December 2000 |
|--------------------------------------|----------------|------------------|
| | DM | DM |
| Original costs | 228.778.730,40 | 231.955.404,40 |
| Book values at 1 January | 125.189.483,18 | 39.253.756,21 |
| Additions | 0,00 | 149.043.178,00 |
| Retirements | 3.176.674,00 | 0,00 |
| Depreciation | 4.793.236,00 | 63.107.451,03 |
| Book values at the end of the period | 117.219.573,18 | 125.189.483,18 |

The retirements are the result of a later reduction in price for one of the film rights. The depreciation was mainly for the video exploitations of the films "Battlefield Earth" and "Art Of War".

3. Down payments made on film license rights

In the first six months of 2001 Intertainment made down payments of KDM 117,870 for five major film rights which offer potential for cinema exploitation. These film rights are the subject matter of the pending litigation with Franchise Pictures LLC.

INTERENTAINMENT GROUP

In making provision for risk Intertainment assumes that the exploitation of these five film titles could result in losses of approx. 36% in relation to the relevant down payments. These losses are, among others, the result of the excessive budgets which is the subject matter of the legal action.

In order to exploit the affected film rights as soon as possible and with high proceeds, despite the current dispute, these titles will be exploited for the cinema by Warner Brothers before the litigation between Intertainment and Franchise Pictures LLC is decided.

If this is the case, such an exploitation will not mean that Intertainment actually will accept and acquire the rights.

Should Intertainment accept these film rights at the excessive budgets, there is a considerable risk of losses arising through the evaluation resulting in Franchise Pictures LLC paying no compensation to Intertainment.

Should Intertainment not accept these film rights, there is a risk of Franchise Pictures LLC not paying back in full the payments on account made.

For this reason Intertainment has decided to take account of this risk by already devaluing the down payments at the present point in time. It should be emphasized that this is a worse case scenario.

The development of the down payments:

| | |
|----------------------|-------------------|
| As at 1 January 2000 | DM 13.502.499,04 |
| Additions | DM 122.228.412,42 |
| Valuation adjustment | DM -43.000.000,00 |
| As at 30 June 2001 | DM 92.730.911,46 |

The additions to the down payments are mainly for the following films:

- (1) Get Carter
- (2) 3000 Miles to Graceland
- (3) The Pledge
- (4) Angel Eyes
- (5) Viva las Nowhere

INTERENTAINMENT GROUP

4. Accounts receivable (trade debtors)

The accounts receivable (trade debtors) are reduced by KDM 7,011 to KDM 160,110 as compared with 31 December 2000. This mainly reflects the increase in the receivables during this period due to the ongoing video exploitation of "Battlefield Earth" and "Art Of War" and the adjustment of the receivables in US dollars due to the rise in the exchange rate. This increase was compensated for by setting off the print and advertising costs which Intertainment reported under "other provisions" as at 31 December 2000 due to the lack of settlement records.

5. Other assets

The other assets mainly contain claims for the reimbursement of corporation tax and trade tax in 2000. Intertainment is reckoning with a reimbursement in August 2001.

6. Liquid funds and liabilities due to banks

As at 30 June 2001 Intertainment had funds of KDM 25,989 and liabilities of KDM 52,348 due to banks.

Liquid funds:

The decrease in the funds as compared with 31 December 2000 is largely due to investments and down payments for film rights, tax payments and the repayment of loans.

Liabilities due to banks:

The liabilities due to banks fell by KDM 649 as compared with 31 December 2000. The liabilities amount to KDM 50,169 and are due at the latest on 30 June 2004. Receivables from the exploitation of films have been assigned as a collateral for these items.

7. Equity

As at 30 June 2001 Intertainment had a nominal capital of KEUR 15,005, which is divided up into 11,739,013 no-par-value shares.

In addition the company has an authorized capital of KEUR 3,203, an authorized capital II of KEUR 4,300, an authorized, but unissued capital of KEUR 511, an authorized, but unissued capital II of KEUR 383 as well as a contingent capital III of KEUR 6002.

INTERENTAINMENT GROUP

8. Provisions

As at 30 June 2001 provisions for taxation fell by KDM 14,520 to KDM 2,150. In the second quarter of 2001 Intertainment paid the tax debts for the financial years 2000 and 1999.

As at 30 June 2001 the other provisions were mainly for the sale of royalties for which KDM 12,350 has been set aside, provision for an amended sales allocation amounting to KDM 1,720, provision for the risks of litigation to the sum of KDM 1,100 and provisions of KDM 820 for threatened losses.

9. Accounts payable

The decline in the accounts payable is mainly due to payment for various film rights.

(III) Notes on the income statement

1. Sales revenue and cost of sales

In the second quarter of 2001 sales revenue increased by KDM 19,300 to KDM 28,849. The major proportion of this was accounted for by the exploitation of "Battlefield Earth" and "Art Of War" in the video segment. Intertainment already realized the revenue from these films in the Pay TV segment in the first quarter of 2001.

The cost of sales includes the cost of material, sales commission and the depreciation of the capitalized royalties.

2. Other operating revenue

The other operating revenue mainly consists of price gains amounting to KDM 12,343 and reimbursement of costs amounting to KDM 5,064. The price gains are offset by price losses to the sum of KDM 9,173. These are reported under "Other Operating Expenses".

3. Other operating expenses

The other operating expenses mainly consist of price losses to the sum of KDM 9,173, fees of TDM 2,724 paid to film producers, legal and consulting costs of KDM 6,266.

INTERENTAINMENT GROUP

4. The interest result

The interest result consists of interest income amounting to KDM 4,869 and interest payments of KDM 1,758.

5. Extraordinary result

In the first half of 2001 documents were presented by Franchise Pictures LLC or the presenting bank for payments of letters of credit to be made as down payments for the following titles:

Get Carter
3000 Miles to Graceland
The Pledge
Angel Eyes

Despite Intertainment's objection the bank decided to pay out the sums in question, but undertook to waive its claims vis-à-vis Intertainment Licensing GmbH.

Taking waiver of claims into account, this results in extraordinary income of KDM 48,555 in the period under review.

As not all letters of credit in respect of the film rights concerned had been paid out as at 30 June 2001, Intertainment will have further extraordinary income when the bank in question pays out these amounts in the third quarter of 2001 and the following waiver of claims.

The extraordinary expenses of KDM 43,000 result from valuation adjustments for the down payments. For further details we refer to the notes on this balance sheet item.

(IV) Further details

1. Segment reporting

As in 2000, Intertainment had no segments for which it is obligatory to file reports.

2. Result per share

The result per share is calculated by dividing the quarterly result by the weighted number of shares. As at 30 June 2001 the number of shares remained unchanged at 11,739,013 shares. At the same time this therefore represents the weighted number. In the first half of 2001 the result per share was 0.22 DM. This also corresponds to the diluted result per share.

INTERENTAINMENT GROUP

For the diluted result per share the number of shares is increased by the weighted average of the diluted potential shares. This includes option rights which have not yet been exercised.

3. Other financial liabilities

The other financial liabilities include fees paid to producers amounting to KUSD 26,000. These obligations cover a period of 5 years.

There are no further financial liabilities which are of major importance for the assessment of the group's financial situation.

The financial obligations reported on 31 December 2000 and 31 March 2001 for film rights no longer exist as Intertainment has decided not to pay the second installment for the film concerned on grounds of the ongoing litigation.

Due to this litigation it still has not been clarified who will receive these rights and exploit them. Intertainment will certainly not accept the rights on these conditions and may demand the return of the down payments.

In the framework of the exploitation in trust of the film title in question, Intertainment could make use of the possibility of acquiring these film rights. In this case even more payments for acquiring film rights could prove to be necessary.

4. Pending litigation

As at 30 June 2001 the action against Franchise Pictures LLC was still pending. The reasons for this action were already explained in the consolidated notes as at 31 December 2000. The risks and the probability of losses occurring remain unchanged.

5. Number of employees

In the first half of 2001 Intertainment was employing an average of 27 staff.

Intertainment AG, 27 August 2001

– The Board of Directors –

II/2001 Explanations

Outlook for the Intertainment group

The present and future situation of the Intertainment group continues to be determined by the pending litigation with Franchise Pictures LLC. A reliable forecast for the current financial year can only be made on the basis of various scenarios. What is important are the various solutions as regards the outcome of the litigation.

Intertainment thereby assumes that the film rights are used either at the actual or excessive budget. In the framework of the exploitation Intertainment originally reckoned with a total of 315 million DM sales revenue for the fiscal year 2001. From today's standpoint the complete exploitation will be partially postponed to the fiscal year 2002, which also means a corresponding postponement of sales revenue.

Regardless of this, a renunciation on claims by a credit institute will affect the fiscal year 2001 by up to 108 million DM.

Furthermore, Intertainment will achieve further revenue from the exploitation of film rights in the second half of 2001 in respect of the films that have already been accepted, namely "Whole Nine Yards", "Battlefield Earth" and "Art Of War". The current Europe-wide exploitation by Warner Brothers of all three titles through video shops is showing a very pleasing development so that Intertainment is also reckoning with good results in video sales. Furthermore Intertainment Animation & Merchandising GmbH reckons with sales revenue of 10 million DM from the marketing of "Rudolf" during the coming Christmas season.

In general the TV marketing of film rights is proving to be rather difficult at the moment, particularly in Germany. The strategy of selling film rights throughout Europe and world-wide which Intertainment pursued last year, has now turned out to be a strategic advantage.

Intertainment is increasing building on the forthcoming productions with Arnold Kopelson. Here Intertainment will be taking on the role of film producer and has the corresponding rights to issue instructions, rights of control and rights of co-determination. A particular point is that Intertainment has a considerable influence on the preparation of the budget and will take the final decision concerning the contents and the casting of the film productions after consulting its partner, Paramount Pictures. In this connection Intertainment is able to benefit hugely from the experience of Stephen Brown, Member of the Board of Directors. Stephen Brown was Head of Productions at Kopelson Entertainment for many years where he was responsible for films such as "Seven" and "Auf der Flucht".

Major Paramount Pictures has already signed a contract (First Look Deal) for the American rights to the future film productions.

Intertainment is planning on launching the first Kopelson project in the fourth quarter of 2001. In this case we can reckon with this film coming to the cinemas at the end of 2002.

Ismaning, 27 August 2001

– The Board of Directors –

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 30 June 2001:

| <u>Board of Directors</u> | <u>Shares</u> | <u>Options</u> |
|-------------------------------|---------------|----------------|
| Rüdiger Baeres | 6,205,635* | – |
| David Williamson | 48,500 | 125,000 |
| Achim Gerlach | 10,000 | 100,000 |
| Stephen Brown | – | 50,000 |
| <u>Supervisory Board</u> | | |
| Dr. Matthias Heisse | 12,980 | – |
| Dr. Ernst Pechtl | – | – |
| Dr. Wilhelm Bahner | – | – |
| <u>Own company shares</u> | – | – |

* In April 182,542 pledged shares of Ruediger Baeres were realised by the lending bank



INTERTAINMENT

Aktiengesellschaft

CORPORATE CALENDAR:

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)