



Ad hoc announcement 23.05.2002 16:05 h

CDV Software Entertainment AG (WKN 548 812, symbol OGG)

CDV Continues Successful Performance in First Quarter of 2002

CDV Software Entertainment AG, a publisher of computer games and applications software based in Karlsruhe (Germany), has continued its successful performance by ending the first quarter of the 2002 business year with positive results. Although the important new releases will take place primarily in the second half of the year, CDV was able to attain solid turnover before returns of € 4.4 million (first quarter 2001: € 6.6 million).


The quarterly figures are positive with € 3.2 million in gross profits and earnings after taxes totalling € 0.3 million (first quarter 2001: € 0.9 million).

As expected, the figures are below those for the same time period in the previous year. "Delayed releases are typical in the sector and not a serious problem in light of our excellent product portfolio. We are certain that turnover will markedly increase at the beginning of the second half-year at the latest with the publication of Sudden Strike II in May and the autumn line-up", says Chairman Wolfgang Gäbler.

The company does not expect negative effects in turnover on the world market following the events in Erfurt. CDV will therefore retain its previously published target figures (turnover before returns: € 36.3 million, gross profit: € 16.0 million) for 2002.

Note:

The majority of turnover will likely be generated in the second half-year due to delayed releases typical for the sector. The turnover generated in the first quarter cannot simply be multiplied and used to forecast the annual.



Quarterly Report

First quarter 2002
in accordance with IAS
(unaudited)



Consolidated Key figures

<i>In accordance with IAS</i>	Q1/02 kEUR	Q1/01 kEUR	2001 kEUR	2000 kEUR
Sales	4,424	6,624	26,180	18,150
Return on sales	(689)	(903)	(4,215)	(3,630)
Profit or loss from ordinary Operations	608	1,672	2,018	2,347
Consolidated net gain	310	884	1,289	1,838
Non current assets ¹⁾	9,685	776	5,797	1,150
Current assets ²⁾	10,889	19,322	15,515	17,848
Liabilities ³⁾	6,329	6,569	7,386	5,936
Equity	14,245	13,529	13,926	13,062
Total assets	20,574	20,098	21,312	18,998
Sales EUR per share ⁴⁾	2.73	4.09	16.16	11.20
Profit EUR per share ⁴⁾	0.38	1.03	1.25	1.45
EUR per share ⁴⁾	0.19	0.55	0.80	1.13
Equity EUR per share ⁴⁾	8.79	8.35	8.60	8.06
Average number of employees ⁵⁾	131	88	98	65

¹⁾ incl. accrued and deferred taxes

²⁾ Short-term assets including accrued income. Last year's figures have been adjusted accordingly.

³⁾ Liabilities including provisions, provisions for taxes and prepayment and accrued income. Last year's figures have been adjusted accordingly.

⁴⁾ Undiluted, i.e. not taking contingent capital and approved capital into account

⁵⁾ The per capita representation of the average number of employees contains 23 temporary employees

Referring to the number of 1,620,000 shares after the share split of 28th September 2001 without average calculation.

Dear Shareholders,

We would like to inform you with this report about the course that the business has taken in the first three months of the 2002 financial year and to show you the prospects for further development.

Course of the business

Once again in the 1st quarter we have taken major steps towards strengthening our position as the pioneer manufacturers of PC and Xbox games.

We see one milestone in the conclusion of a \$ 2.3 million master agreement with the Ukrainian developers of Cossacks, GSC Game World. Two of the promising products to emerge from this contract, an additional Add-On to Cossacks and a game with the working title of A. Conq., are expected to be published in Germany before the end of this year. Cossacks II, an Add-On to which has also been agreed, is currently in our release schedule for the end of 2003.

We were able to achieve an outstanding third place in the charts on the British market with the Add-On Cossacks: The Art of War directly after its release (ELSPA w/c 4th February 2002). We have also published the title War Commander in the UK.

In parallel with the planned new release, a large number of licence contracts was signed at the beginning of the year with international marketing partners. These included, for instance, Combat Mission in France, Scandinavia, and Portugal), Divine Divinity (Greece and Portugal), War Commander (China, France, Poland, South Korea and Far East) and Cossacks: The Art of War (Greece, Poland, Scandinavia, Italy, Far East, Australia and Japan), and will ensure the international marketing of these products.

Our ambitious growth targets cannot be attained without highly qualified employees. In the quarter under review the number of people we employ rose once again, although

not at the same rate as in the financial year just ended. According to the German weekly business magazine "Wirtschaftswoche" of 7th March 2002, our company was amongst the Top 100 job-creators in Germany in 2001. This is a distinction of which we are surely entitled to be proud, particularly in times like these.

Following the departure from the company of Christoph Gerlinger at the end of 2001, a new CFO has been appointed with effect from 1st January in the person of Professor-Dr Walter Ruda. He has gained many years' management experience in the international business of the adidas group and as a member of the Managing Board or as managing director of various medium-sized companies.

To enable us to push ahead with expansion on the US market and exploit its great potential we have engaged two experienced new managers: Robert Pickens (CEO) and J. R. Johnson (COO). Robert Pickens in particular is no stranger to the industry, having been a founder-member of Interactive Magic and a member of the Managing Board of Red Storm Entertainment, where he gained extensive experience in the world's biggest entertainment market.

In view of the large number of publications planned between now and the end of the year, staffing levels are being increased in the Development and Quality Assurance departments. A Legal Manager has also been appointed to meet the increasing requirement for legal work arising from the contracts with national and international business partners.

Gross sales came to € 4.4 million (-33%) and gross profits to € 3.2 million (-11%) in the 1st quarter. Profits after tax, at € 0.3 million (1st quarter last year: € 0.9 million) were down from last year's level, whilst absolute equity capital improved to € 14.2 million.

The trend in sales reflects the typical situation of a manufacturer of PC games. Sales in the 1st quarter cannot be extrapolated by simple multiplication in order to forecast the full year's sales. During the current financial year the greatest part of the sales will be

generated in the second half of the year because of the postponements of launches that is now usual in this industry.

Prospects for the current financial year

We see no reason to change our plans for the whole of 2002, and are expecting gross sales of € 36.3 million and a forecast EBIT of € 4.7 million, with a net profit for the year of € 3.2 million.

In May of this year we will be publishing Sudden Strike II, the second part of the blockbuster game Sudden Strike in Germany. The international marketing of this game, particularly in the USA and the UK, will then follow step by step, and the dynamic extension of the market presence of CDV will form a good basis for the international success of the product.

Once again in 2002 we will be presenting ourselves and the staff from our foreign offices and from CDV headquarters with our own stand at the Electronic Entertainment Expo (E3) in Los Angeles from 21st to 24th May. Our appearance at the world's biggest Software Entertainment Exhibition once again underlines the importance of the appropriate international strategy. The Event Management Department in particular has been engaged on the intensive preparation these past weeks so that this important exhibition appearance will once again be a major international success.

With Divine Divinity in the summer, Neocron as the first product in the autumn, and such highly promising products as Project Nomads, Breed, Grom, Imperium Galactica III, A. Conq (working title) and a further Add-On to Cossacks, we are looking forward to a large number of big-selling publications during the second half of 2002 in Germany and in some cases in other countries as well, the rate of which will depend on the amount of localisation work needed.

Project Nomads has the potential to develop into a real top-seller because of its numerous new features and the unusual game play.

With Neocron we are for the first time bringing a massive multiplayer online role-play game onto the market that is superior to the existing games in this segment in many of its features. An exciting off-line demo, which can also be played without Internet access, the outstandingly good graphics, and a fan club that already, even before publication, has several tens of thousands of members are the clear guarantors of an imminent sales success.

We are also planning a number of games that are to be developed and licensed for the console games market and particularly for the Xbox[™] from Microsoft. During the period under review, CDV received approval from Microsoft to develop the CORE title for the Xbox. Given the number of Xbox units that Microsoft is planning to sell and the relatively low porting expense for transferring PC games to the Xbox, here again we are looking forward to an exciting development.*

Our Investor Relations activities are being further intensified. On Stock Day, 18th April 2002, CDV made a successful presentation of itself to interested parties from the international financial community. In addition to presenting the company to investors and analysts there was also a round of questions and discussions and the opportunity was taken for one-on-ones and interviews with the investment professionals. This was one more practical application of the strategy of regular and intensive communication with financial analysts, investors, and representatives of the press.

The Annual Press Conference and the Analysts Conference were held at the stock exchange metropolis of Frankfurt am Main on 30th April 2002. We also regard the Annual General Meeting scheduled for 13th June 2002 as more than just a mandatory ritual; indeed, we are already looking forward to presenting you, our shareholders, with an account of the 2001 financial year and the prospects for the current year of 2002.

Further prospects

The successful growth course of past years will be continued with tried-and-trusted titles and highly promising new publications.

After CORE we received Microsoft's approval to develop two further games, Vultures and Project Nomads, for the Xbox.

Vultures is a 3D-Beat`em up game, full of variety, which is being developed by the well-known Swedish developer Grin Inc. The re-release is expected in the second half of 2003.

Project Nomads has already gained a major distinction with the 2001 ECTS "Best PC Game of the Year" award. The Xbox version is likewise expected to be published in the 2nd half of 2003.

We intend to develop further titles for the Xbox in the future as part of our multi-platform strategy.

The continual and deliberately planned increases in sales and in the proportion of successful in-house productions for national and international marketing are enabling CDV to create the basis for further solid growth in the coming years.

The Managing Board

*Wolfgang Gäbler (Chairman)
Professor-Dr Walter Ruda
Christina Oppermann*

***Microsoft, Xbox, and the Xbox Logos are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries and are used under license from Microsoft.**

Consolidated Profit and Loss Statement	quarterly report 1/2002	quarterly report 1/2001
	01.01.2002 31.03.2002	01.01.2001 31.03.2001
	kEUR	kEUR
1. Revenues	4,424	6,624
Returned sales	(689)	(903)
2. Other operating income	569	46
3. Changes in inventories of finished goods and work in progress	37	(3)
4. Production of own fixed assets capitalized	0	15
5. Cost of purchased materials and services	(1,185)	(2,201)
6. Personnel expenses	(1,491)	(855)
7. Depreciation and amortization	(156)	(89)
8. Other operating expenses	(1,037)	(1,126)
Operating income (EBIT)	472	1,508
9. Interest income and expense	69	130
10. Foreign currency exchange gains / losses	67	34
Result before income taxes (EBT)	608	1,672
11. Income Tax	(323)	(782)
12. Accrued and deferred taxes	25	(6)
Net income	310	884
Net income EUR per share (basic) ¹⁾	0.1914	0.5457
Net income EUR per share (diluted) ¹⁾		
Weighted average shares outstanding (basic)	1,620,000	1,620,000
Weighted average shares outstanding (diluted)		

1) Taking into account the adjustment resulting from the capital increase out of retained earnings

Consolidated Balance Sheets	3 month report 2002	annual report 2001
	31.03.2002	31.12.2001
	kEUR	kEUR
ASSETS		
Current assets		
1. Cash and cash equivalents	6,162	7,679
2. Short-term investments / marketable securities	2,002	2,002
3. Trade accounts receivable	1,459	4,361
4. Inventories	578	527
5. Prepaid expenses and other current assets	688	946
Total current asset	10,889	15,515
Non current assets		
6. Deferred tax asset	56	0
7. Tangible assets		
1. Leasehold and similar rights, incl. buildings on thirdparty land	18	19
2. Plans and machinery	73	73
3. Other fixtures and fittings, tools and equipment	406	374
8. Intangible assets		
1. Concessions, industrial property rights and similar rights and licenses thereto	262	284
2. Development costs	461	489
3. Prepayment on intangible assets	8,409	4,558
Total non current assets	9,685	5,797
Total assets	20,574	21,312

Consolidated Balance Sheets	3 month report 2002	annual report 2001
	31.03.2002	31.12.2001
	kEUR	kEUR
Liabilities and shareholders' equity		
Current liabilities		
1. Short-term debt and current portion of long-term debt	2	1
2. Trade accounts payable	1,653	1,453
3. Advance payments received	89	34
4. Accrued expenses	3,067	4,210
5. Income tax payable	833	576
6. Other current liabilities	275	684
7. Due to body members	108	91
8. Capital resulting from profit participation rights (short-term)	93	93
Total current liabilities	6,120	7,142
Non-current liabilities		
9. Deferred tax liability	76	95
10. Capital resulting from profit participation rights (long-term)	133	149
Total non-current liabilities	209	244
Shareholders equity		
11. Share Capital	1,620	1,620
12. Additional paid-in capital	9,660	9,660
13. Revenue reserve and other revenue reserves	19	19
14. Retained earnings (incl. earnings reserves)	2,925	2,615
15. Equity difference resulting from currency conversions	21	12
Total shareholders equity	14,245	13,926
Total liabilities and shareholders equity	20,574	21,312

Consolidated cash flow statement		Quarterly Report (current year)	Quarterly Report (comparative period)
		01.01.2002 31.03.2002	01.01.2001 31.03.2001
		kEUR	kEUR
1.	Cash flow from operating activities (before tax)	608	1,672
2.	Depreciation on fixed assets	156	89
3.	Appreciation on intangible assets	(435)	0
4.	Currency translation	(67)	(6)
5.	Proceeds from financial investments	(70)	(134)
6.	Interest expense	1	3
7.	Operating result before change in working capital	193	1,624
8.	Increase/decrease in other accrued liabilities	(1,143)	21
9.	Increase/decrease in inventories	(51)	35
10.	Increase/decrease in trade account receivable	2,901	221
11.	Increase/decrease in prepayments and accrued income (incl. receivable due from body members)	257	(562)
12.	Increase/decrease in trade account payable	200	145
13.	Increase/decrease in other liabilities (incl. liabilities due to body members)	(336)	(231)
14.	Changes in assets and liabilities	1,828	(371)
15.	Paid income tax	(116)	(153)
16.	Paid interest expense	(1)	(3)
17.	Net cash from operating activities	1,904	1,097
18.	Interest income	70	134
19.	Investments in short term financial assets	0	0
20.	Deposits resulting from sales of tangible assets	0	0
21.	Investments in intangible assets	(3,418)	(36)
22.	Cash paid for investments in tangible assets	(134)	(76)
23.	Cash flow from investing activities	(3,482)	22
24.	Deposits resulting from capital increases	0	0
25.	Deposits resulting from capital accrued from profit participation rights	(16)	9
26.	Payments/Deposits from finance loans	1	7
27.	Cash flow from financing activities	(15)	16
28.	Increase in cash & cash equivalents (total amount lines 17, 23 and 27)	(1,593)	1,135
29.	Currency translation	76	34
30.	Cash & cash equivalents at beginning of period	7,679	10,325
31.	Cash & cash equivalents at end of period	6,162	11,494

Appendix including divisional reporting according to geographic markets

- 1) *The same accounting and valuation methods were used in the interim reporting period as in the consolidated financial statement.*
- 2) *Investments made during the reporting period, including partial payments on intangible economic assets, totalled kEUR 3,552.
kEUR 435 were attributed to payments to intangible assets, as reported und other operating incomes.*
- 3) *There were 24,719 individual convertible profit-sharing rights for employees and business associates and own unchanged as of 31st March 2002.*
- 4) *Level of incoming orders*

CDV sells standard software products mainly computer games which it has produced and licensed itself or purchased as finished products. These are sold as finished products from our warehouse to wholesalers and retailers or are sold abroad, in part as sales licenses to sales partners. A significant level of orders awaiting fulfillment does not develop as purchase orders from wholesalers and retailers are usually filled right away. The only exception are preorders for titles that have not yet been released. These orders collect in a time period of only approximately six weeks before the release date. Whether such advanced orders exist and how many of them there are on a key reporting date is primarily a matter of coincidence as depending of the titles for release in the subsegment six weeks on the precise day of publication. Because of the limited meaning of the above figures we decided to refrain from publishing them.

- 5) *Research and Development*

CDV is constantly involved in the development of computer software, both in its own production and through contracting with developer studios. Software development is, however, primarily limited to the individual software titles. No significant basic research and development is conducted above and beyond these activities.

- 6) *Development of prices*

While CDV has observed a slight downward trend in prices in the computer game industry for many years now, we did not see any significant changes. This ascertainment is not based on a statistically precise study, however.

- 7) *Development of average number of employees*

The per capita representation of the average number of employees contains 23 temporary employees

8) Classification of sales revenue according to regions

Revenues split by geographic markets	01.01.2002 31.03.2002	%	01.01.2001 31.03.2001	%
	kEUR		kEUR	
Germany	1,168	26	3,158	48
Europe	2,424	55	1,541	23
Other foreign countries	832	19	1,925	29
Sales revenues	4,424	100	6,624	100

The allocation of sales revenues to regions result from the ordinary business activities. The table contains the sales proceeds before returned sales.

Changes in equity	31.12.2001	Changes 01.01.2002 31.03.2002	31.03.2002
	kEUR	kEUR	kEUR
a. Share Capital	1,620	0	1,620
b. Capital reserves	9,660	0	9,660
c. Revenue reserves	19	0	19
d. Retained earnings / accumulated deficit	2,615	310	2,925
e. Equity difference resulting from currency conversions	12	9	21
Shareholders equity	13,926	319	14,245

Share holdings of CDV Software Entertainment AG to be filed

*Proportion of the
share capital at
31.03.2002¹⁾*

*No per
value
shares*

As %

Management board

1	Wolfgang Gäbler (chairman)	617,438	38.11
2	Christina Oppermann	307,718	18.99
3	Prof. Dr. Walter Ruda	800	0.05

Supervisory board

1	Gerhard Koning (chairman)	200	0.01
2	Rüdiger Burkart (vice-chairman)	2,000	0.12
3	Stephan Wiedorfer	192	0.01

Own shares

1	CDV Software Entertain- ment AG	0	0.00
---	------------------------------------	---	------

<i>total</i>		<i>928,348</i>	<i>57.29</i>
--------------	--	----------------	--------------

¹⁾ After share split 1:1 at 28th September 2001



Company profile

Business activity

CDV Software Entertainment AG was set up in 1989 by Wolfgang Gäbler and Christina Oppermann as a partnership. It distributes, publishes and produces eTainment- and value for money application software. The company groups together entertainment (computer games), edutainment and infotainment, with the focus being on games. The distributed products are bought in as packaged manufactured merchandise and are then mostly sold directly to the trade by CDV through its field service team. As a rule in the publishing division CDV acquires a licence for specific software which has been written by third parties. CDV then reproduces it to pass on to third parties, then markets and distributes it. For its own productions CDV also either develops the software itself or has it programmed by independent studios. In doing so CDV takes over some of the initiative, concept, financing and risk and in return acquires the distribution rights.

CDV employs a total of about 130 staff at its headquarters in Karlsruhe, its publishing office in London, and its subsidiary in Los Angeles. They are involved in software development, in buying in international licences for software developed by third parties, in marketing, in Public Relations and in sales and dispatch. The marketing measures undertaken by CDV include product and packaging design, placing advertisements in online and offline media, sending out e-mail advertisements to a large circulation list of potential end customers, designing CDV websites (with an average of more than 3 million pageviews or more than 22 million hits a month), right up to organising events, 'LAN parties', promotions, or similar. The activities collated under the heading Public Relations cover the cultivation of relationships which have developed over the years

with the German, and in the meantime also with the international, games press in the interest of editorial reporting on CDV products. Sales are effected within German speaking regions through its own field service, a key account and telesales team selling directly to the German retail trade, and to other countries which are not German speaking regions through a network of sales associates providing local coverage. These associates, a list of more than 300,000 end customer addresses, a large number of noteworthy dealer listings, the regular dispatch of sales flyers and product information to about 2,000 potential dealers as well as participating in international trade fairs on a regular basis all play an important role in the success of CDV's sales campaigns.

CDV is a member of the associations for its industry VUD and ELSPA.

Market and competition

The market for entertainment software is in the final analysis the fastest-growing sector of the entertainment market ahead of books, music, and film. In Germany the turnover with software CD-ROMs overtook sales for music CDs as long ago as in 1998. In the USA, turnover from the sale of computer and video games came to within 10% of the turnover generated at box offices for films. There entertainment is already the most frequent reason for using a PC ahead of even internet surfing, sending e-mails and word processing.

Whereas the market leaders have established themselves in Japan, the USA, England and in the meantime in France, too, with turnover in the three and four figure millions bracket, Germany is more or less a third world country in this "industry". Even so, Germany is the biggest market for entertainment software in Europe and has a large number of talented software developers. Even in 2000 and 2001, CDV was the largest German full-price PC-games publisher. CDV intends to exploit the comparative advantages of being located in one of the largest markets in the world on a systematic basis, in order to catch up with the big international players. The real time strategy game 'Sudden Strike' also made a large contribution to this since it sold more than

600,000 copies to the trade and achieved the number 1 ranking in the German GfK charts as well as the number 1 spot in France and the number 4 spot in England. Not for nothing was 'Sudden Strike' honoured with the Platinum Award by the VUD. The game called 'Cossacks' sold more than 500,000 copies throughout the world and amongst its ranks was the third slot in the German MC charts, number 1 spot in the English Elspa charts and top spot in the French GfK charts. 'Cossacks' was also awarded the 'Golden Computer' an award voted by the readers of the German PC magazines 'ComputerBild' and 'ComputerBild-Spiele'.

Strategy

In the past the business activity of CDV has concentrated on publishing software products developed by other companies, since it requires a great deal of capital to manufacture entertainment software in-house — an investment of about € 1 – 2 million has to be made over a period of about 12 - 24 months for a single A title. However, in-house productions are very much dominated by fixed costs and this means that if they are successful they have much greater margin leverage than third party publishing products, all the more so, since in contrast to licences acquired for a specific territory and one platform, they can be sold internationally and on a cross format basis (PC, games consoles etc.). It is of course desirable in the entertainment hit business to pursue a policy of risk diversification and to have several projects running at the same time in the contents portfolio.

Following a successful launch on to the Neuer Markt in April 2000, CDV is investing the issue proceeds mostly in the in-house production of a whole catalogue of interactive contents and in selling them internationally on a cross format. These efforts also include the acquisition of holdings in developer studios. The advantages of being small enough not to lose an overview (as long as this is possible) in terms of creativity and in development as well as the comparative advantages of location should make a contribution to catching up with the economies of scale enjoyed by non-German competitors in the publishing business. Consequently every successful title such as 'Sudden Strike' and 'Cossacks' contributes to strengthening international publishing power

and making CDV even more attractive for talented developers. This in turn increases the probability that CDV will in future also produce and market real hits. There are already some very exciting titles in the pipeline for 2002 and 2003.

CDV regards concentrating on content regardless of genre or format as a strategic position for 'Online Gaming'. This future market is thought to be very lucrative by the entire entertainment industry, but at the moment it is still suffering from the transmission bandwidth which is still too low for serious 3D titles. Regardless of which formats and technology will prevail in this sector, CDV sees the bottleneck of the multimedia world as being the fascinating interactive content, around which commerce and community will be based.

Extract of the business plan

	2001	2002e	2003e
Gross revenues (million €)	26.2	36.3	47.2
EBIT (million €)	1.5	4.7	8.9
Employees (Average)	98	120	140

e) Budget figures with no guarantee.

Contact

CDV Software Entertainment AG,
Neureuter Str. 37b, D- 76185 Karlsruhe
Tel 0049 721 97224-0
Fax 0049 721 97224-24
www.cdv.de www.cdv.ag

Contact :

- Public Relations: Eric Standop, PR Director.
- Investor Relations: Professor Walter Ruda (CFO).

Date 03/2002