



Company Profile

Business

CDV Software Entertainment AG was founded in 1989 by Wolfgang Gäbler and Christina Oppermann as a private startup and concentrates on the distribution, the publishing as well as its own production of eTainment and affordable application software. For CDV, eTainment software includes entertainment (computer games), edutainment and infotainment. However, the core business is games. Pure distribution products are purchased as finished merchandise, incl. packaging, and are then sold by CDV mainly directly to retailers by its field sales force. As for the publishing sector, CDV usually acquires a license for particular software, which was written by third party. CDV then manufactures the product (out-sourced), performs the marketing activities and sales and distribution. Finally for its own productions, CDV creates the software itself or places a corresponding order with an independent studio, with CDV taking care of parts of the initiative, concept, funding, and risk and – in return – acquiring the marketing rights.

At its headquarters in Karlsruhe as well as its recently opened publishing offices in London and Los Angeles, CDV employs a total number of almost 90 people in software development, in licensing software developed by third parties, in marketing and in public relations, in sales and distribution and in operations. The Executive Board is formed by Wolfgang Gäbler (Chairman) and Christina Oppermann as well as Christoph Gerlinger who joined in 1999 – these are also main shareholders of CDV. CDV marketing activities include the packaging design, advertisements in print media, advertising e-mails to a large number of potential end consumers included in a distribution list, the design of CDV websites

(with an average of more than 3m pageviews or more than 22m hits per month altogether) as well as activities such as the organization of events, 'LAN parties', promotions, etc. Public relations include activities such as maintaining relationships with the German and international press which have grown close over the past ten years in order to ensure frequent reports on CDV products. Sales & distribution in the German-speaking area are performed by our field sales force as well as by means of a key account and telesales team directly to the German retailers. In foreign countries the distribution is performed by an extensive network of distribution partners. These partners, over 200,000 addresses of end consumers, a large number of renowned dealer listings, the regular distribution of flyers and product information to about 1,500 potential dealers as well as the regular participation in international fairs constitute a significant factor for CDV's sales success.

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

Market and Competition

The market for entertainment software is the fastest growing segment of the entertainment market – even faster than the book, music and movie sectors. In Germany, the turnover resulting from the sale of software CD ROMs has exceeded music CDs since 1998. In the USA, the turnover in computer and video game sales was only 10 % lower than the turnover in movie theater box office sales in 1999. In the USA, entertainment is the most popular PC application, ranking even higher than internet surfing, e-mailing and word processing.

Market leading companies with turnover of a few hundred million have established themselves in the USA, England, France, and Japan; however, Germany is more or less a developing country in this sector. This is a strange fact, considering the German market is the biggest market for entertainment software in Europe and has a large number of talented software developers. Already in 2000, CDV was the largest German full-price PC-

games publisher. CDV wants to consistently use the competitive advantages of its location, in one of the biggest markets in the world, in order to quickly catch up with the international 'Majors'. The recent multiplayer real-time strategy title 'Sudden Strike' is a milestone in the sequence of achievements to further this goal. More than 500,000 copies have been sold worldwide, reaching rank 1 of the German GfK-Charts, rank 1 in France and rank 4 in England, thus confirming this title's status as a genuine blockbuster. 'Sudden Strike' has won the Platinum Award of the VUD that has only been assigned 21 times so far. Furthermore, the title 'Cossacks' reached rank 3 of the German MC-Charts and sold 250,000 units.

Strategy

In the past, the core business of CDV was the publishing of software products developed by third parties, since the own production of entertainment software is very capital intensive - for each individual A title, approximately 1 to 2m German marks have to be invested over a development period of 12 to 24 months. Own productions, on the other hand, are very much dominated by fixed costs and, thus, have a significantly higher margin as opposed to third-party publishing products, especially since these productions allow exploitation across multiple countries and formats (PC, games console, etc.) rather than licences purchased for a certain territory and format only. It goes without saying that it is desirable to have several projects in the content portfolio at the same time in order to diversify the risk in the entertainment hit business.

After a successful IPO on the "Neue Markt" in April 2000, CDV is investing the proceeds of the issue mainly in own productions of an entire catalog of interactive content and in its international and general format exploitation. In the course of these efforts, CDV also aims to acquire stakes in developer's studios. The advantages of a rather small company size (in as much as this still applies) regarding creativity and development as well as the competitive advantages of CDV's location will help CDV to catch up quickly with the

economies of of foreign competitors in the publishing sector. Therefore, each successful title, such as 'Sudden Strike' and 'Cossacks', will lead to a stronger international publishing power and, thus, will lead to CDV becoming even more attractive for talented developers. This - on the other hand - will result in an increase in the likelihood that CDV will develop and market real hits in the future as well. As for the years 2001 and 2002, some very exciting titles are already in the pipeline. CDV regards its focus on content - regardless of the genre or the format - as a strategic position for the 'online gaming' market. This promising market of the future is considered very attractive by the whole entertainment industry, however, serious 3D titles still suffer from bandwidth limitations. Regardless of which formats or technologies will prevail in this sector, CDV regards fascinating interactive content under the slogans "Virtual worlds" and "Interactive TV" - around which commerce and community can settle down - as the bottleneck of the multimedia industry with its almost unlimited hardware base.

Flashlight Business Plan

	2000	2003e
Gross sales (million DM)	35.5	92.4
EBIT (million DM)	4.1	17.4
Equity capital (million DM)	25.5	33.8
Employees (Average)	65	112

(e) Target goals without recourse.

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