INFOGRAMES
Entertainment

CORPORATE PROFILE

■

ANNUAL REPORT

■

FISCAL YEAR 2005-2006

# ANNUAL REPORT
# AND
# PROXY STATEMENT

# CONSOLIDATED FINANCIAL STATEMENTS

Period ended March 31, 2006

# FINANCIAL STATEMENTS

Period ended March 31, 2006

INFOGRAMES
Entertainment

# NOTE TO READERS

**I – The financial information contained in this Report was prepared in accordance with International Financial Reporting Standards (IFRS), except for the Infogrames Entertainment SA annual financial statements, which are presented in accordance with French accounting rules.**

**II – The documents below are referenced in this annual report and form part of it:**

- The Group's annual report, the Group's consolidated financial statements and the auditors' report on the Group's consolidated financial statements for the year ended March 31, 2005, as included in the annual report and proxy statement filed with the Financial Markets Authority (*Autorité des Marchés Financiers* - AMF) on August 25, 2005 under no. 05-1115, in accordance with articles 211-1 to 211-42 of its General Regulations;
- The Group's annual report, the Group's consolidated financial statements and the auditors' report on the Group's consolidated financial statements for the year ended March 31, 2004, as included in the annual report and proxy statement filed with the Financial Markets Authority (*Autorité des Marchés Financiers* - AMF) on July 26, 2004 under no. D.04-1088, and the amended report and document filed with the AMF on December 15, 2004 under no.D.04-1088-R01.

The information contained in the two annual reports and proxy statements above has, wherever applicable, been replaced or updated by information included herein.

The two annual reports and proxy statements above can be downloaded from the Web site of the Company, at www.atari.com, or of the AMF, at www.amf-france.org.

This annual report and "*Document de Reference*" was filed with the Financial Markets Authority (*Autorité des Marchés Financiers* - AMF) on September 21, 2006 in accordance with articles 212-13 of its General Regulations.
It may be used for the purpose of financial transactions only if accompanied by a registration statement approved by the AMF.

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[1] The outline of this document includes the headings of Appendix 1 to European Community Regulation 809/2004 of April 29, 2004. A table showing the sections corresponding to those headings can be found at the end of this document.

# GENERAL INFORMATION

## CORPORATE PROFILE

Infogrames Entertainment is the parent company of the Atari Group (the "Group"), one of the world's foremost developers and publishers of interactive game software.

Since its founding in 1983, Infogrames has grown in a sustained manner, both organically and through acquisitions, while vastly expanding its product catalog and consumer base, and developing an international distribution network extending to the United States, Europe and Asia.

After consolidating its position in Europe, the Group expanded its operations and, through a sustained program of acquisitions over the next industrial cycle, developed a strong presence in the United States.

Following a period during which the new acquisitions were integrated into the Group, Infogrames had to face a particularly brutal new series of technological changes (2000/2001). These factors have had an adverse impact on the financial statements since 2002.

In terms of economic conditions, fiscal 2005-2006 was an important transition period between two technological cycles. Overall demand and prices were affected, as so-called next-generation consoles hit the market, including Sony's PSP, Nintendo's DS and Microsoft's Xbox 360. Revenues from ordinary business for the year ended March 31, 2006 was € 391.2 million (at current exchange rates), compared with € 577.2 million last year.
The drop in sales reflected a decline in the number of new releases during the period, stagnant sales in the United States and a sub-par performance by the company's games in the last quarter of the year.

### ▪ FINANCIAL HIGHLIGHTS

| (€ millions) | March 31, 2006 (12 months IFRS) | March 31, 2005 (12 months IFRS) |
|---|---|---|
| Revenue | 391.2 | 577.2 |
| Growth | (32.2%) | not applicable |
| Operating income | (154.1) (*) | (33.9) |
| Financial income | (23.4) | (5.6) |
| Net loss after minority interests | (149.8) | (33.6) |
| Total assets | 386.4 | 506.4 |
| Shareholders' equity net of minority interests | (22.1) | 78.5 |
| Consolidated shareholders' equity | 9.8 | 124.6 |
| Net debt | 173.2 | 207.0 |
| Employees | 982 | 1,221 |

(*) After taking into account goodwill impairments of € 125.4 millions

Europe, the Group's traditional base, was the Group's largest single market this year, accounting for 50% of aggregate sales volume (compared with 40% the previous year). United States operations generated 42% of Group sales, while Asia and the Pacific region accounted for the other 8%.

- **BUSINESS BY REGION (FISCAL 2006)**

| (€ million) | Net revenue | | Operating income (loss) (*) | Net income (***) |
|---|---|---|---|---|
| United States (*) | 163.2 | 41.7% | (200.8) | (174.6) |
| Europe | 194.4 | 49.7% | 5.0 | (2.4) |
| Asia | 33.6 | 8.6% | 1.4 | 1.1 |
| Corporate (**) | - | 0.0% | 40.3 | 26.1 |
| **Total** | **391.2** | **100.0%** | **(154.1)** | **(149.8)** |

*(*) including the impact of the impairment of goodwill*

*"United States" includes Atari, Inc., Atari Interactive, Inc. and Paradigm Entertainment, Inc.*

*(**) including the proceeds from the sale of Hasbro*

*"Corporate" stands for the Group's administrative divisions (general management, finance and information systems, etc.)*

(***) Net loss after minority interests

The Group develops, publishes and distributes interactive software for all video game systems on the market, including special games consoles such as Sony's PlayStation 2 and PSP, Microsoft's Xbox and Xbox 360 or Nintendo's GameCube, GameBoy Advance and DS, as well as personal computers.

For the year ended March 31, 2006, sale figures by format are indicative of the success of Atari games in formats for existing systems, and mainly for PlayStation 2, the leading format, which accounted for 44% of sales volume. The current fiscal year also saw Atari successfully penetrate the next-generation console segment, including PSP and Nintendo DS, which generated 6% of total sales. The portion of sales accounted for by PC games remained stable at 31%.

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| PlayStation 2 | 44% | 43% |
| Xbox | 8% | 10% |
| PC | 31% | 29% |
| GameBoy Advance | 7% | 10% |
| PSP | 3% | - |
| Nintendo DS | 3% | - |
| Retro (Flashback) | 2% | - |
| GameCube | 1% | 4% |
| Other | 1% | 4% |

The Group's catalog covers the main videogame market segments (movies, family/children, action/adventure, car racing, strategy /role-playing, first person shooter/simulation) and it holds significant market positions in action, family/children and car-racing games.

The Infogrames catalog has been developed around best-selling franchises and brands, which serve as a basis for innovative developments.

As of March 31, 2006, the Group owned many popular franchises, such as Driver, Backyard, Roller Coaster Tycoon, Alone in the Dark, and Test Drive. The Group also develops and publishes software based on key international licenses, including Matrix, Dragon Ball Z and Dungeons and Dragons. Infogrames also offers products based on licenses aimed at families and children such as: Titeuf, Asterix, etc. Infogrames also holds the licenses to ten major Hasbro franchises, including Dungeons and Dragons, Monopoly, Scrabble, and Risk. The Dungeons and Dragons rights have been licensed to Infogrames for ten years and those of the nine other franchises for seven years, in formats for cell phones, the Internet (online games) and interactive television.

The Group also acquired title to the Atari name, recognized worldwide as synonymous with interactive entertainment, through its 2001 purchase of Hasbro Interactive, the interactive games division of Hasbro Inc. In May 2003, all of the Group's businesses adopted the Atari name. Accordingly, the US-based and NASDAQ-traded Infogrames Inc. became Atari Inc. (symbol: ATAR). On the other hand, Infogrames Entertainment, the Group’s parent corporation, kept its name and ISIN Euronext code unchanged (FR-0000052573).

Games published by the Group are developed and produced by its own staff - at facilities located in Europe, the United States and Australia - or by independent studios. Its international reach makes it a highly attractive publishing and distribution group to work for. The Group is accordingly able to attract and work with in-house and outside international videogame experts.

The Group also does business with third-party publishers, who contract with it for the distribution or joint publishing of their products, either worldwide or in a specific region. Companies working with the Group in Europe and the United States in 2005 and 2006 include Bandai Namco and other Japanese firms. This activity accounted for 47% of consolidated revenue in fiscal 2005-2006. The Group is highly selective with respect to this business segment.

The Group sells interactive games in more than 60 countries through a worldwide network of 27 subsidiaries, branches and offices. Its distribution system gives it access to more than 50,000 points of sale in Europe and the United States. The Group games are sold by major international retailers, including Wal-Mart, Toys R Us, Auchan, Metro and Carrefour, as well as by large national and regional retail chains, discount stores, specialized retailers and convenience stores.

The Group's global business strategy is aimed at producing quality interactive entertainment software for all consumer game platforms and all market segments, while adhering to two ethical guidelines: respect for human dignity and the rejection of gratuitous violence. As a result, it holds a unique position in the market for videogames and entertainment software.

# STRATEGY

The Group's principal assets are:

## ▪ A GLOBAL PRESENCE

Infogrames currently has publishing and distribution operations in close to 60 countries, in the United States, Europe and Asia. In the United States and Europe, the Group is well established in all of its business sectors, operating through development teams, publishing entities and distribution systems. Its strong local presence means it can offer high-quality product lines matched to specific markets. Its distribution networks in North America and Europe enable it to maintain close relationships with major distributors.

The Group has development, publishing and distribution operations in Australia, Korea, Taiwan and Singapore, which provide it with a presence in the Asia and Pacific region.

## ▪ AN EXTENSIVE PORTFOLIO OF INTELLECTUAL PROPERTIES AND LICENSES

Today, the Group's key properties and catalog of popular titles enable it to have a product line encompassing all of the formats and categories sold to the public. The Group focuses primarily on a number of leading games and a product mix that includes established franchises, best-selling themes and innovative concepts. The Group has also managed to acquire strong market positions in segments such as children, action/adventure, strategy and racing games for both hard-core and casual gamers. No single game accounts for more than 20% of Group sales. Today, the Group has an extensive, first-rate catalog, reducing the risks associated with relying on a single game, genre or format for sales and earnings.

In the course of its principal business of game publishing, the Group may purchase or dispose of assets in order to optimize revenue from its portfolio of intellectual properties.

### ▪ INTEGRATED DEVELOPMENT, PUBLISHING AND DISTRIBUTION

In the United States and Europe, the Group has developed vertically integrated operations that generate the greatest value at each stage of the production and distribution of videogames, modeled on major corporations in other entertainment sectors.

For product development, in addition to the Group's own studios, Atari currently outsources work to many independent studios around the world. The resulting games are then published by the Group or issued jointly with other publishers, who share the financial risk involved. The Group distributes the games it publishes. This model can also be used for products made by third-party publishers.

## HISTORY

| | |
|---|---|
| 1983 | Bruno Bonnell and Christophe Sapet form Infogrames. |
| 1993 | Infogrames Entertainment goes public, on the Second Market (*Second Marché*) of the Paris Bourse. |
| 1994-1995 | Infogrames Entertainment sets up distribution operations in Germany, the United Kingdom and the Benelux countries. |
| 1996 | Infogrames embarks on a significant acquisition program by taking over Ocean, a British game publisher specializing in software for next-generation consoles, including Sony's PlayStation.<br><br>Trading of Infogrames shares moves to the First Market (*Premier Marché*) of the Paris Bourse. |
| 1997 | Infogrames continues to expand through acquisitions, by purchasing the distribution business of Philips Media BV, making it Europe's leading distributor of interactive entertainment software.<br><br>Infogrames releases its first title under the V-Rally franchise. |
| 1998 | Infogrames acquires 62.5 percent of Ozisoft, an Australian distributor.<br><br>Infogrames acquires an exclusive license from Warner Bros to the Looney Tunes characters. |
| 1999 | Infogrames makes a successful, friendly takeover bid for Gremlin, a British company specializing in the simulation of sports events.<br><br>Infogrames adds to its development resources in Asia and the Pacific by acquiring Beam Software, an Australian software firm (now Melbourne House).<br><br>In the United States, Infogrames purchases Accolade, then a 62-percent controlling interest (since increased to 89 percent) in GT Interactive Software Corp., a US game publisher and distributor that became Infogrames Inc. and then Atari, Inc., boosting its development, publishing and distribution business with the addition of a portfolio of titles that include the Driver, Unreal, Unreal Tournament and Deer Hunter franchises. |

2000 Infogrames acquires the Dallas-based Paradigm Entertainment development company.

2001 Infogrames acquires the Hasbro Interactive division of Hasbro Inc., including the Atari trademark, and enters into an exclusive licensing agreement with Hasbro for interactive digital versions of Hasbro games and themes. The agreement is for 15 years and may be extended for another five.

Infogrames signs agreements with:

- Bandai, covering exclusive distribution rights for Digimon in Europe
- Square Soft, for the exclusive distribution in Europe of Final Fantasy IX
- Sega, concerning the publishing and distribution (outside the US and Japan) of Sega software for Xbox, Game Cube and Game Boy Advance.

Infogrames Inc. acquires US publishing rights to the Dragon Ball Z franchise.

2002 Infogrames enters into an agreement with the Bioware developing company covering worldwide publishing rights to Neverwinter Nights, a game from the designers of Baldur's Gate based on the Dungeons and Dragons license.

Infogrames purchases Eden Studios S.A. (a French development studio) in charge of work on the V-Rally franchise.

Infogrames acquires Shiny Entertainment, a US development studio in charge of developing the Matrix game, after securing a license to sequels from the film Matrix ("The Matrix Reloaded" and "The Matrix Revolution") from Warner Bros.

Infogrames buys an exclusive worldwide license to Terminator 3 games in console and PC formats from C-2 Pictures.

2003 Infogrames changes the year-end date of its consolidated fiscal year from June 30 to March 31.

"Enter the Matrix" proves highly popular worldwide, with more than 5 million units sold in fiscal 2004.

Infogrames changes its name and adopts the Atari brand name for its commercial operations worldwide. All major Group entities, with the exception of Infogrames Entertainment S.A., adopt Atari as their company name, including Infogrames, Inc., which becomes Atari, Inc.

Infogrames sells shares of its Atari, Inc. US subsidiary to the public; following the offering, Infogrames' interest in Atari, Inc. is reduced from 88.20% to 67.36%.

Infogrames makes a tender offer to exchange OCEANE 2004 and 2005 bonds, resulting in a restructuring of some € 200 million in convertible bond debt.

2004 Infogrames appoints Jean-Michel Perbet chairman of Atari Europe, the entity overseeing all European subsidiaries.

The Group releases the third game in the Driver series, which immediately rises to the top ten sellers worldwide.

The Group announces that it has entered into an agreement with Marc Ecko, an urban culture and graffiti art pioneer, to develop a new game.

Infogrames develops an online strategy and adopts a new distribution approach through specialized entities.

Infogrames terminates the June 2004 financing arrangement with Nexgen, bringing its interest in Atari Inc. to 61%.

2005 In January, Infogrames sells 11 million shares of Atari, Inc., reducing its interest in the company to 52%.

The distribution of warrants to stockholders in connection with the planned retirement of OCEANE 2005 bonds proves successful as their exercise raises € 39 million in new equity.

Atari, Inc. negotiates a five-year extension on the Dragon Ball Z license in the United States.

Infogrames continues its financial restructuring and issues a tender offer for its OCEANE 2005 bonds, which ultimately results in the restructuring of € 93.7 million in debt. As a result, the number of Infogrames Entertainment's shares outstanding increases to 183,496,508.

On June 9, 2005, the Company entered into an agreement with Hasbro Inc, covering the sell-back of digital rights to all Hasbro properties for 65 million dollars. It is part of an effort by the Group to streamline its games catalog, started during fiscal 2004-2005, and designed to enable it to invest more in future developments.

Infogrames Entertainment purchases the business of Humongous from Atari, Inc.

2006 New measures are taken to deal with the Group's financial obligations, including:

- the signature of a new agreement with banks
- a program of asset disposals resulting in the sale of Games.com, Timeshift, Driver, Stuntman and the Paradigm development studio in the United States.

A financial restructuring plan is announced.

# THE MARKET FOR INTERACTIVE ENTERTAINMENT SOFTWARE

The video game software industry primarily comprises software for dedicated game consoles or platforms (such as PlayStation 2, PlayStation 3, Xbox, Xbox 360, Wii, and GameCube), handhelds (such as Game Boy Advance, Nintendo DS and Sony PSP) and PCs. Publishers of video game software include the console manufacturers, or "first-party publishers", and third-party publishers, such as ourselves, whose primary role is to develop, publish and distribute video game software. Additionally, the use of wireless devices (such as mobile phones and personal digital assistants) as a gaming platform, known as "mobile gaming", is growing rapidly. According to International Data Group (IDG), an independent technology, media, research, and event company, sales of PC, console, and handheld games (excluding wireless) in North America and Europe in 2005 reached $14.0 million. We anticipate an expanding market for interactive entertainment software over the next several years as a result of the introduction of next-generation console platforms. We believe that greater online functionality and the expanded artificial intelligence capabilities of the new platforms will improve game play and help our industry grow. In addition, according to DFC Intelligence and Montgomery & Co., new revenue opportunities from wireless gaming, online console gaming, and in-game advertising are expected to grow from $1 billion in 2005 to $5 billion in 2009.

## ▪ THE CONSOLE AND HANDHELD MARKET

Console platforms as they exist today have made significant technological advances since the introduction of the first generation of modern consoles by Nintendo in 1985. Hardware manufacturers have historically introduced a new and more technologically advanced gaming console platform every four to five years. Handhelds have also made advances since their introduction. However, handhelds have typically experienced longer product cycles. With each new cycle, the customer base for video game software has expanded as gaming enthusiasts mature and advances in video game hardware and software technology engage new participants, generating greater numbers of console units purchased than the prior cycle. The beginning of each cycle is largely dominated by hardware (console) sales as consumers upgrade to the next-generation technology.

Sony was the first manufacturer to introduce the last generation of console hardware with the introduction of the PlayStation 2 platform in 2000. Nintendo introduced its current generation platforms a year later, launching the GameCube and Game Boy Advance in 2001. This generation also saw the entrance of Microsoft into the industry with the introduction of the Xbox console.

In 2005, Microsoft initiated a new generation of console hardware when it introduced Xbox 360. Sony is expected to launch PlayStation 3 in November 2006, and Nintendo announced that its new generation system, Wii, will launch in November 2006 as well. These systems will represent a significant advance in gaming technology, with the potential eventually to reach broader audiences. However, the shortage of Xbox 360 units after it was introduced, and delays in releasing PlayStation 3 and Wii led to a severe transition period slowdown in sales of video games.

In addition to these technological innovations, there has been greater competition for shelf space and creative talent as well as increased buyer selectivity. As a result, the video game industry has become increasingly hit-driven, which has led to higher per-game production budgets, longer and more complex development processes, and generally shorter product life cycles. The importance of the timely release of hit titles, as well as the increased scope and complexity of the product development process, have increased the need for disciplined product development processes that control cost and overruns. This in turn has increased the importance of leveraging the technologies, characters or storylines of existing hit titles into additional video game software franchises in order to spread development costs among multiple products.

Innovation also continues in the handheld market with manufacturers offering more sophisticated units, such as Sony's PSP and Nintendo DS, that offer multiple features and capabilities in addition to game play functionality and wi-fi connectivity.

### ▪ PERSONAL COMPUTERS

Advances in personal computer technology occur in a more straight-line manner than advances in console and handheld technology. Advances in microprocessors, graphics chips, hard-drive capacity, operating systems and memory capacity have greatly enhanced the ability of the PC to serve as a video game platform. These technological advances have enabled developers to introduce video games for PCs with enhanced game play technology and superior graphics. The PC market has typically not been marked by technological cycles and, coupled with the fact that publishers are not required to pay hardware royalties and high manufacturing costs for PC products, this is an attractive market for video game publishers. Though retailers have been allocating diminished shelf space to PC products, this trend may be offset by demand for Massively Multiplayer Online Games, or MMOG. Additionally, the advancements in high-speed connectivity have increased the casual online gaming community. Coupled with dramatically lower development costs, casual gaming is a very attractive market for us to compete in in the future.

## BUSINESS

The Group produces, publishes and distributes interactive entertainment software for the leading interactive systems on the market.

### ▪ PRODUCTION / DEVELOPMENT

involves combining all factors needed to develop interactive software content, including technical development, the coordination of human resources and financial management. The production and development stage brings interactive games to life, based on original concepts by Atari or third parties. The creation of interactive game software combines several skills (scriptwriting, graphics, music, photo-realistic images, etc.) and uses specially developed computer technology (programming).

The Group's technical and artistic know-how enables it to make use of existing franchises and to create new ones, as well as to take full advantage of licenses, jointly with the owners of copyrights.

The Group does business on a regular basis with leading entertainment and interactive software firms.

As of March 31, 2006, game production by the Group was divided between:

- Its own development studios:

  **Shiny Entertainment** - Newport Beach, USA – Workforce: 44 persons.
  Original developer of games under the Matrix license (Enter the Matrix, Matrix: Path of Neo). Currently, Shiny is working on Earthworm Jim on the PSP platform.

  **Reflections** – Newcastle, England - Workforce: 96 persons.
  Reflections is responsible for the creation and development of the Driver franchise, which has sold more than 15 million units worldwide, including the latest installment, Driver: Parallel Lines, which was released in fiscal 2006. The studio was sold to UbiSoft in July 2006.

  **Eden Studios** - Lyon, France - Workforce: 109 persons.

Original developer of the successful V-Rally franchise, which has sold nearly four million units, currently developing two major games, including for next-generation consoles, with Test Drive Unlimited for Xbox 360 and PC, and Alone in the Dark for Xbox 360, PlayStation 3, and PC.

**Atari Melbourne House Pty Ltd** – Melbourne, Australia - Workforce: 46 persons.

Atari Melbourne House is the studio behind Transformers and Grand Prix Challenge, and is currently developing the PS2 and PSP versions of Test Drive Unlimited.

**Paradigm Entertainment, Inc.** - Dallas, USA - Workforce: 75 persons.

Paradigm Entertainment was sold to THQ Inc. in May 2006 and is currently working on the development of Stuntman 2 and Battlezone.

In order to take full advantage of the potential offered by next-generation consoles and to create innovative gameplay strategies with improved content, the Group spends considerable sums on research and development and designs development instruments that add to its productive assets.

- Internationally renowned independent studios, including:

  **Frontier Development** - Chris Sawyer (*RollerCoaster Tycoon* series)
  **Obsidian** (*Neverwinter Nights*)
  **Quantic Dream** (*Fahrenheit*)
  **The Collective** (*Marc Ecko's Getting Up: Contents Under Pressure*)
  **Webfoot Technologies** (*Dragon Ball Z: The Legacy of Goku)*
  **Eugen Systems** (*Act of War*)
  **ZSlide** (*Hot PXL*)
  **Spike** (*Dragon Ball Z: Budokai Tenkaichi 2*)
  **Crafts & Master** (*Super Dragon Ball Z*)
  **Mistic Software** (*Totally Spies, Arthur and the Minimoys*)
  **Etranges Libellules** (*Arthur and the Minimoys*)
  **Spellbound** (*Desperados*)
  **Kuju Entertainment** (*Dungeons & Dragons Tactics*)

## ▪ PUBLISHING

requires analyzing and segmenting markets, identifying consumer expectations and assembling a product line consistent with demand, and then marketing products accordingly.

The Group publishes products designed and created by either in-house or independent developers. Decisions regarding whether to develop products in-house or through third parties are based on various factors, including the availability of experts, responsiveness and profitability. Outsourcing development also makes it possible to find and employ new talent.

Our publishing activities include the management of business development, strategic alliances, product development, marketing, packaging and sales of video game software for all platforms.

## ▪ DISTRIBUTION

involves selling and delivering products published by the Group or by third parties, and providing technical support for them, using expertise in logistics and a dedicated sales force. The Group sells its products in close to 60 countries around the world, through major European and US retail organizations (Wal-Mart, Toys R Us, Target, Carrefour, Auchan, Metro, El Corte Ingles, Electronic Boutiques, Dixons, Mediamark, Karstadt, FNAC, Game Stores etc.) as well as national and regional distribution networks, discount stores and specialized retailers. Due to the special conditions prevailing in Japan and other Asian countries, distribution is generally through licensees or wholesalers, who then sell products to local retailers.

The Group's distribution network in the US and Europe is among the most effective in the industry, and is capable of servicing over 50,000 points of sale.

The international range of the Group's business enables it to secure shelf-space for Atari titles and to be fully acquainted with local market conditions.

Virtually all of the Group's distribution subsidiaries in Europe are wholly-owned entities, a fact that contributes to the Group's independence. In the United States, the Group's size enables it to supply most national wholesalers directly and to rank among the leading suppliers of entertainment software to large retail chains. As a general matter, sales are governed by the Group's general terms and conditions. In some countries where the Group does not have a distribution subsidiary, its products are marketed under licensing agreements.

## FRANCHISES/LICENSES

The Group's strategy consists of publishing and distributing products for all mass-market interactive systems (game consoles, PCs), based on its own original franchises or prestigious licenses.

Games are developed based on themes or characters owned by or licensed to the Group. In most instances, the Group is the owner of the product software. Intellectual properties that become highly popular are considered "franchises" with a built-in value that can be used for various purposes.

As of March 31, 2006, the Group's development and publishing operations had enabled it to acquire a strong base made up of popular franchises such as Driver, V-Rally, Backyard, Roller Coaster Tycoon, Alone in the Dark and Test Drive.

The Group also develops and publishes software under key theme licenses, such as Matrix, Dragon Ball Z and Dungeons and Dragons.

The Group also owns licenses on family-type entertainment, including Titeuf, Asterix, Dora and Totally Spies, etc.

In June 2005, the Group agreed to sell back to Hasbro Inc. the digital rights to all Hasbro properties for US$ 65 million (under terms described in the section on “Major agreements” below).

Depending on the agreement reached, license fees paid to copyright owners may be stated as a fixed amount or a percentage of sales.

Most licensors require that royalties be paid in advance, in installments spread over the entire life of an agreement and subject to guaranteed minimums. Advances are generally deducted from the total consideration payable, so that the licensee can be in a position to earn the equivalent of advances paid before having to pay additional consideration. This is standard practice in the industry.

The acquisition of such licenses provides the Group with a clear edge in terms of product development and distribution:

- during the product development stage, licenses give access to valuable, preexisting content without the need for prior research;
- from a marketing standpoint, the popularity of existing themes or characters helps sell games. Consumer recognition thus reduces the risk that a game will fail. Furthermore, products benefit from all advertising and promotion conducted on behalf of those characters or themes outside the videogame sector.

In order to be in a position to develop games that are compatible with Nintendo, Microsoft or Sony consoles, the Group enters into agreements with those manufacturers, covering such issues as

- the right to use the manufacturer's technology;
- prior approval of the game's editorial content;
- approval of the game's final version before production gets under way;
- financial and technical terms and conditions governing the duplication of games by the manufacturer.

These contracts are master agreements covering a specific type of console. They are entered into for terms of three to five years and are automatically renewable.

Licenses on content and technology entail compliance with certain ethical, graphic and technical standards. A product's release is contingent on prior approval by the copyright holder or the hardware manufacturer.

## MAJOR AGREEMENTS TO WHICH THE GROUP IS A PARTY

The principal agreements entered into by the Group concern the use of intellectual property and hardware (consoles). In brief, they consist of the following:

Intra-group distribution agreement: This agreement sets forth the terms and conditions for the distribution by Group subsidiaries of products published by the Group or third parties. Among other provisions, Atari, Inc. and Atari Europe have granted each other reciprocal exclusive distribution rights to the games they publish.

Renegotiation of Hasbro license: As previously noted, Hasbro, Inc. had sold its entire video game division to Infogrames Entertainment in January 2001, including:

- all of the common stock of Hasbro Interactive Inc. (now Atari Interactive, Inc.), a game publisher with an extensive catalog. At the time, Hasbro Interactive Inc. was already a leader in the market for family and children's games, with products developed under its own licenses based on Hasbro corporate properties (Monopoly, Risk, Scrabble, etc.) and under third-party licenses (Wheel of Fortune, Frogger, Jeopardy, NASCAR, etc.). The company also held copyrights to such franchises as Roller Coaster Tycoon and Tycoon City;
- the "Atari" trademark and logo;
- development studios and distribution subsidiaries in Europe, most of which were subsequently either absorbed or closed down.

At the time of the acquisition, an exclusive license agreement was also entered into with Hasbro Inc. (known as the "master license") for an initial term of 15 years, by which Hasbro Inc. granted Infogrames Entertainment and its subsidiaries exclusive rights to its past, present and future intellectual properties (other than those sold with the video game division) for use on all interactive media other than toys, including Dungeons and Dragons, Monopoly, Scrabble, etc.

In June 2005, Infogrames Entertainment and Hasbro, Inc. renegotiated the 2001 master license and agreed that Hasbro, Inc. would buy back the digital rights to all Hasbro properties covered by the master license for a sum of 65 millions dollars.

The June 9, 2005 agreement with Hasbro, Inc. pertains exclusively to the 2001 master license, not to other properties purchased at that time from Hasbro.

Under the agreement, the parties undertook to:

- amend the original "master license" in consideration for the payment by Hasbro of US$ 65 million; that sum was accordingly received during the first half of the year; Infogrames continues to have the right to sell games based on the intellectual properties covered by the license until March 2007;

- grant Infogrames a new exclusive ten-year license to the Dungeons & Dragons universe on all current conventional media (so-called "digital" systems, e.g. PC, game cartridges for consoles) and all interactive systems (including online, mobile phone, wireless, interactive television, etc.);
- grant Infogrames a new exclusive seven-year license to nine Hasbro "family/children" properties: Monopoly, Scrabble, Risk, Game of Life, Clue, Yahtzee, Battleship, Boggle and Simon, etc. for online, mobile phone, wireless, interactive television and other applications.

Royalties as customary in the industry are charged for the use of the above licenses.

Infogrames may continue to sell other games on the following conditions:

- Previously released games: distribution will end no later than March 31, 2007 or, subsequent to December 31, 2005, three months after Hasbro notifies Infogrames that another licensee has acquired a property;
- Games under development: distribution for up to 18 months and up to no later than March 31, 2007.

Bandai/Namco distribution agreements: Bandai/Namco is a key business partner of the Group, which is the exclusive distributor of the Japanese publisher's products in the United States and Europe. In North America, Atari, Inc. has entered into a new exclusive agreement for the Dragon Ball license with FUNimation Productions, which also covers Australia, New Zealand and South Africa. Under the four-year pact, which can be extended by an additional year, Atari, Inc. has the exclusive right to develop, publish and distribute interactive video games based on the Dragon Ball, Dragon Ball Z® and Dragon Ball GT® animation series and characters, for all current game consoles and handheld game systems.

Separate contracts with specific terms and conditions are drawn up for each game under this license. The following games have been released to date: Dragon Ball Advanced Adventure, Dragonball Z-Shin Budokai, Dragonball Z Ultimate Battle 22, Dragonball Z-Super Sonic Warriors 2, Dragonball Z-Budokai Tenkaichi, Dragonball Z Budokai 2 and Dragonball Z Budokai 3.

### AGREEMENTS WITH MAJOR RETAILERS AND DISTRIBUTORS

In fiscal 2006, the Group's largest customer accounted for 11.1% of total sales. Its five largest customers were responsible for 25.4% of sales, while the ten largest accounted for 32.2%.

## CAPITAL PROJECTS

### CAPITAL PROJECTS - RESEARCH AND DEVELOPMENT

Since April 1, 2005, Infogrames has been capitalizing its own game development costs incurred after the end of the pre-production stage. The costs are then amortized on a declining balance basis over the six months that follow the release of the games.

Capital investments over the past two fiscal years were as follows:

| (€ millions) | March 31, 2006 | March 31, 2005 | Change |
|---|---|---|---|
| Studio costs | 7.6 | 63.4 | (55.8) |
| Capitalized in-house R &D | 27.8 | _ | 27.8 |
| Outsourced R & D | 29.7 | 38.0 | (8.3) |
| Other R & D | 15.6 | 14.6 | 1.0 |
| Total | 80.7 | 116.0 | (35.3) |

Group research and development policy: The Group's strategy in terms of capital spending is to develop a catalog of products for all platforms that will make it more independent compared to it's investment competitors. Production is handled in part by the Group's own outstanding studios and by third parties selected on the basis of their technological, content and graphics expertise. Risk exposure is reduced by allocating projects among several platforms. For the current new hardware cycle (Xbox 360, PS3, etc.) the Group is keeping its strategy unchanged and continues to divide its publishing among the various formats in existence.

Principal capital projects completed during the fiscal year: During the fiscal year ended, the Group continued to invest in the development of major titles for release this year, including Test Drive Unlimited, Arthur and the Minimoys, Alone in the Dark, Neverwinter Nights and new franchises such as Hot PXL, etc. The notes to the consolidated financial statements contain detailed information regarding research and development expenses for the year. The Group also continued to turn to development financing for two new games, for a total of € 7.3 million.

The restructuring of production in the United States and Europe, including through the disposal of studios and/or intellectual property, continued during the year: in May 2006, the Group announced the sale of various assets, including the games.com domain name and Timeshift (owned by Atari Inc.). After the end of the fiscal year, it also disposed of Stuntman and the Paradigm and Reflections development studios.

Projects in progress:
The Group intends to continue investing in major games in several formats, using its own or outside funds (such as production funds) through its publishing subsidiaries in the United States.

## RISK EXPOSURE

During the course of its business, the Group faces risks which could have a material adverse effect for the Company, its business, financial position or income. The main risks identified are reviewed in section 4 of the report on the consolidated financial statements. That review should not be considered exhaustive, as other risks, not anticipated when this report was filed, are also liable to have a material adverse effect.

### ▪ OTHER RISKS

To the best of the Company's knowledge, no specific factors other than those referred to in section 4 of the report on the consolidated financial statements are likely to have a material impact on its business.

## MEASURES TAKEN TO PROTECT THE BUSINESS

### ▪ PROTECTION OF INTELLECTUAL PROPERTY

In order to minimize its exposure to the above risks and to maintain a relationship of trust with others, the Group has implemented procedures for formalizing and validating all production and operating steps for individual products, from both a legal and a technical standpoint. An international team of a dozen specialized lawyers in Europe and the United States looks after the management, oversight and acquisition of intellectual property by the Group, which also works with leading copyright law firms. Where appropriate, the Group registers its product names and copyrights in as many countries as possible, besides Europe and the United States. In addition, all console manufacturers incorporate protective features in their systems to prevent unlicensed persons from using them.

- **SUPPLY SHORTAGES**

Atari seeks to reduce the risk of supply shortages by diversifying its manufacturing sources. In the case of products for PCs (31% of the Group's sales worldwide), the risk is limited due to the large number of companies in Europe and the United States that can produce disks, and to their adaptability. On the other hand, the Group does not have control over the manufacture of products for other platforms, as this is an area in which console manufacturers have exclusive rights. Its exposure is limited, however, by the fact that manufacturing facilities generally have a dual structure.

The Group does not file patents for its games and its business does not depend on a specific patent.

- **INSURANCE**

The Group is insured worldwide against property damage, business interruption and general business liability. It also purchases liability insurance for its officers and directors. In general, the Group's business does not expose it to any special or unusual risks, with the exception of the possible failure of a supplier or the general recall of a game. Insurance purchased by the Group is complemented by local policies (in particular in North America) that take into consideration the specific nature of the relevant market. The table below shows current coverage provided under the main policies.

| | Worldwide except North America (€) | North America (US$) |
|---|---|---|
| Property damage / Business interruption | Replacement value up to 19 million | Replacement value up to 80 million |
| Business liability | Ceiling of 12 million | Ceiling of 2 million |
| Intellectual property liability | Ceiling of 5 million | Ceiling of 2 million |
| Liability of officers and directors | Ceiling of 20 million | Ceiling of 40 million |
| Claims by employees | Ceiling of 3 million (period from July 1, 2005 to June 30, 2006) | Ceiling of 5 million |

*Atari, Inc. is also covered by a US$ 15-million umbrella business liability policy.*

# EXTRAORDINARY EVENTS AND LITIGATION

- **LITIGATION**

The Company and certain Group entities (excluding Atari, Inc.) are involved in litigation and claims in the ordinary course of their business. None of the litigation is considered likely to have a material impact on the Company’s financial statements.

However, during the fiscal year ended March 31, 2006, a significant case arose in which the Company is being sued by a former employee who claims that he co-authored one of the Group’s best-selling franchises. The plaintiff is seeking damages for moral prejudice and financial loss suffered as a result of the allegedly unlawful distribution by the Group of games based on that universe. Damages claimed are in excess of € 17 million.

At this preliminary stage of the proceeding, the Company is categorically rejecting the plaintiff’s claim of authorship and considers the grounds and amount of his claim to be unfounded.

Details regarding litigation to which Atari, Inc. is a party can be found in the Atari, Inc.’s 10-K annual report and 10-Q quarterly reports, which can be downloaded from its website at www.atari.com.

# HUMAN RESOURCES AND PERSONNEL

Over the past three fiscal years, the Group has had the following average number of employees:

### Fiscal 2003-2004

Average workforce: 1,511 persons

As of March 31, 2004, the Group had an aggregate workforce of 1,349 persons.

The decline in the size of the average workforce in fiscal 2004 was primarily due to:

- measures concerning certain US studios (closing of Legend and Hunt Valley; restructuring of studios in Minneapolis and Los Angeles);
- the effective departure of employees covered by the layoff plan started in France the previous year.

### Fiscal 2004-2005

Average workforce of 1,252 persons (for a reduced Company fiscal year of 9 months; the average workforce over the period from April 1, 2004 to March 31, 2005 was 1,268)

As of March 31, 2005, the Group had an aggregate workforce of 1,221 persons.

The decline in the workforce during fiscal 2004-2005 was due in part to layoffs prior to the closing of US development facilities (Beverly and Santa Monica).

It also reflected, to a lesser extent, the completion of the Group's restructuring started in 2002.

### Fiscal 2005-2006

Average workforce: 1,125 persons

As of March 31, 2006, the Group had an aggregate workforce of 982 persons.

The decline in the average workforce in fiscal 2005-2006 was attributable to a sizeable cut in staff in the United States, due in part to continued closings of development studios (in particular Humongous), a significant paring down of corporate structures at Sunnyvale and of publishing at Beverly, as well as the closing of the Los Angeles publishing entity.

It also reflected, to a lesser extent, continued efforts by the Group to review and optimize its staffing needs.

## ▪ AGREEMENT ON WORKING HOURS

An agreement on the 35-hour workweek was signed in July 2000 for the French employees, who ratified it in September of that year, before it went into effect in October. The agreement provides employees with 12 days of additional "working hour reduction" paid leave, flextime for non-supervisory employees and certain supervisors, as well as an agreement on annual time allowances for other executives.

In addition, the agreement provides for the offsetting of overtime by time off.

Other information on personnel relations pertaining to the Group’s French entities can be found in the Company report (see note 9 to the report on the company financial statements, on page  154)

# GROUP PREMISES

The Group has been operating in France out of its Vaise rented premises in Lyon (except for Eden Games) since 2001 and is committed to staying there for nine years. Group subsidiaries also lease premises. The lessors of all rented premises are third parties that have no other relationship with the Group or its founding stockholders.

# RECENT DEVELOPMENTS

- **PRESS RELEASE OF AUGUST 9, 2006**

**FISCAL 2006-2007 FIRST QUARTER RESULTS**
**(*unaudited*)**

**REVENUE FROM ORDINARY BUSINESS AT € 44.4 MILLION**

- **Improved results by Atari Inc.**
- **Portable consoles account for 44% of sales**
- **More than 15 new games to be released in 2006-2007 for next-generation consoles**

### Consolidated business during the first quarter (April-June 2006)

Infogrames Entertainment has announced that sales (reported as "revenue from ordinary business") for the first quarter of fiscal 2006-2007 amounted to € 44.4 million, compared with € 55.5 million the same period a year ago.

The company notes that, as reported by Atari in connection with the sale of the Reflections studio and the Driver franchise, and as prescribed by International Financial Reporting Standards, the € 44.4-million sales figure does not include revenue from games distributed under the sold franchise. Those sales amounted to € 0.6 million for the quarter and are treated as “discontinued operations”.

European and Asian operations accounted for 63% of consolidated revenue in the first quarter of the current fiscal year. Subsidiaries in the United States (including Atari Inc. and Atari Interactive) were responsible for the other 37% of business volume.

Because of the cyclical nature of the games market, sales are traditionally lower during the period covered by the first quarter and the Company's performance reflects its continued efforts to pare down its catalog, as well as the absence of major releases during the quarter.

### Predominance of games for portable consoles

A breakdown of sales by format shows a significant growth in games for portable consoles, which represented 44% of the group's total sales for the quarter.
During the period, games for Sony's PSP accounted for 23% of Infogrames Entertainment's sales, with another 10% in the Nintendo DS format and 11% for GameBoy Advance.
These ratios are indicative of the Group's strategic orientation.

### Atari Inc.'s first quarter results (April-June 2006)

The financial statements of Atari Inc., Infogrames Entertainment's principal US subsidiary, show noticeably improved results for the first quarter of the current fiscal year, reflecting the positive impact of an action plan started in February. The plan's objective is to adapt the company's structural budget to its size and to enable Atari to become profitable again.
The net loss of US$ 7.1 million for the period represents a sharp improvement from the US$ 32.8-million loss of the previous year.
Atari Inc. reported sales of US$ 19.5 million, down from US$ 23.9 million the same period a year ago.

## The 2006/2007 Game Catalog

Several major titles are to be released in fiscal 2006-2007, principally for next generation consoles (Xbox 360, PS3, PSP and NDS). The new games, which earned critical accolades at the recent E3 trade show, include:

- The eagerly awaited Test Drive Unlimited (Xbox 360, PC, PS2, PSP), the first-ever "massively open" online racing game and a likely future reference for the genre on next-generation consoles;
- Arthur and the Minimoys (PS2, PSP, PC, GBA, Nintendo DS, Mobile), based on the forthcoming eponymous Luc Besson animated feature film, to be released in various countries at the same time as the movie;
- Neverwinter Nights 2 (PC), which marks the return of the celebrated RPG, which sold more than 2 million units worldwide and has one of the largest and most active followings in the role-playing genre;
- Dragon Ball Z: Budokai Tenkaichi 2 (PS2 and Wii), the sequel to Dragon Ball Z: Budokai Tenkaichi, the best-selling DBZ game in 2005; more than ten million DBZ-franchise games have been sold worldwide since 2002;
- Alone in the Dark (Xbox 360, PS3, PC), to be released in 2007-2008. This is the latest release under the seminal "survival horror" genre franchise for PC and next-generation consoles; the original version sold more than six million copies worldwide;
- Hot Pxl (PSP), a concept based on more than 200 mini games, which will take full advantage of the PSP's unique features, such as its ability to download unreleased bonus games from the Internet;
- Dungeons & Dragons: Tactics (PSP);
- Earthworm Jim (PSP and Nintendo DS).

Other games scheduled to be released include:

- Asterix and Obelix Mission Wifix (Nintendo DS and PSP), Totally Spies 2: undercover ! (Nintendo DS and PSP), Battlezone (PSP), Saint Seiya Knights of the Zodiac: Hades (2), Point Blank (NDS), Naruto: Ultimate Ninja (PS2), One Piece: Grand Adventure (PS2), Thrillville (PS2, PSP, Xbox), Dora the Explorer Fairy Tale Adventure (PC), Dora the Explorer Back Pack Adventure (PC), Dora the Explorer Dance to the Rescue (PC), Age of Pirates: Caribbean Tales (PC), Dig Dug Digging Strike (NDS), Rebelstar Tactical Command (GBA), Rainbow Island Islands Evolution (PSP).

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Forthcoming investor events and financial announcements:

- Late September 2006: Shareholders' Meeting - first notice
- November 8, 2006 (to be confirmed): Fiscal 2006-2007 second quarter revenue

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## Breakdown of sales by format

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| PC | 38% | 45% |
| PSP | 23% | - |
| PS2 | 12% | 32% |
| NDS | 10% | - |
| GBA | 11% | 12% |
| Xbox 360 | 4% | - |
| Xbox | - | 5% |
| GameCube | - | 3% |
| Other formats | 2% | 3% |

- **PRESS RELEASE OF SEPTEMBER 12, 2006**

## FINAL STEP IN THE RESTRUCTURING OF THE DEBT AND RESTORATION OF CAPITAL EXPENDITURE CAPACITY

Lyon, France, September 12, 2006 - Infogrames Entertainment announced today is plan to restructure its overall debt.

On September 8, 2006 the Company signed an agreement with the principal holders of its bond and bank debt, providing for the implementation of a financial restructuring plan aimed at significantly reducing corporate debt, restoring its net worth and ensuring that it has sufficient cash to meet its operating expenses.

The agreement is part of a general plan announced by the Company on February 9, 2006, which has already led to a series of disposals of assets and a renegotiation of its bank debt, under an agreement made public on April 21.

The Company believes that the implementation of the plan, which is contingent on the conditions below, will put an end to the warning procedure initiated by the auditors in accordance with article 234-1(3) of the Commercial Code (shareholders can obtain the auditors' special report on the warning from the Company's principal office) and will enable the Company to continue operating and have access to the financial resources required for its recovery.

The Company has asked an independent expert, Associés en Finances (223 Rue Saint Honoré, 75001 Paris), to ascertain that the plan was fair to all parties concerned. The expert's report will be issued prior to the shareholders' meeting.

The plan is in four steps:

### Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity

Under an amendment to existing agreements with banks, Banc of America Securities Limited has agreed to:

- increase the short-term facility by € 25 million from € 20 million to € 45 million, and
- reschedule its maturity from March 31, 2007 to December 31, 2008.

A € 10-million portion of the loan will be repayable following the equity issue referred to in Step 4 below, and the balance on December 31, 2008.

### Step 2: Amending of certain terms and conditions of the 2006-2008 Notes

The Company has convened a meeting of the holders of its 6% Notes for September 29, 2006. The Notes have a face value of € 14 each and mature on March 15, 2008. There is a total of € 33.7 million in 2006-2008 Notes outstanding. The purpose of the meeting is to approve the rescheduling of the repayment of the first portion of the Notes' principal to February 15, 2007 and to amend some of the prepayment clauses.

The principal holder of 2006-2008 Notes, a fund managed by Boussard et Gavaudan Asset Management LP, owns 75.8% of the 2,403,772 Notes outstanding and has agreed to vote in favor of the changes.

### Step 3: Amending of certain terms of the OCEANE 2003/2009

A meeting of holders of the Company's bonds convertible or exchangeable for new or existing shares (OCEANE) maturing on April 1, 2009, with a value outstanding of € 124.3 million, has also been called for September 29, for the purpose of approving:

- an extension of the bond's maturity from April 1, 2009 to April 1, 2020,
- a reduction of the bonds' interest rate from 4% to 0.01%,
- the elimination of an event-of-default clause.

Funds managed by GLG Partners and Bluebay Asset High Yield (Master Fund) (referred to as the ”Investors”), which own 67.8% of the 16,487,489 OCEANE 2003-2009 in circulation, have agreed to vote in favor of the changes.

## Step 4: Shareholders’ Meeting / Capital increase / Prepayment of 2006-2008 Notes / Restricted distribution of free warrants

The Company plans to increase its capital by € 74 million (including premiums over par), by means of a rights issue priced at € 0.15 per share, of which € 33.7 million will be used to redeem all of the 2003-2008 Notes, € 10 million will serve to repay part of the short-term loan and € 30 million will finance the Company’s operations.

The principal holder of 2006-2008 Notes and the Investors are already irrevocably committed to purchasing shares not subscribed for during the offering period, for € 33.7 million and € 40 million, respectively. The foregoing commitments are subject to the customary conditions for these types of transactions and to the securing of an exemption to the tender offer requirement.

In consideration for their contribution to the structuring and implementation of the plan, the Investors and the principal holder of 2003-2008 Notes will receive share warrants subsequent to the share issue, exercisable over a period of three years for new Company shares at a price of € 0.15 each for up to, respectively 15% and 3% of shares outstanding after the capital increase and the exchange tender offer called for by Step 5 below[2].

In this connection, the board of directors will ask the shareholders’ meeting called to approve the financial statements, which is to convene on first notice on September 29, 2006, to vote on the following resolutions:

- a reduction of the shares’ par value to one cent (€ 0.01);
- a reverse split of the Company’s shares through the exchange of one new share with a par value of one euro (€ 1) for one hundred (100) shares with a par value of one cent (€ 0.01);
- the renewal of authority for financing transactions, including to issue shares as set forth above and for the purpose of the exchange tender offer for OCEANE 2003-2009 bonds under Step 5 below;
- restricted grants of free warrants to Boussard Gavaudan Asset Management LP and The BlueBay High Yield (Master Fund);
- the appointment of two additional directors nominated by Bluebay Asset Management Limited.

## Step 5: Exchange tender offer for the OCEANE 2003-2009 bonds

Subsequent to the equity issue of Step 4, the Company will make a simplified exchange tender offer for its OCEANE 2003-2009 bonds, each of which would be exchangeable for 32 new Company shares. On the basis of a price per share of € 0.15 (the offering price at the time of issue), the value of each OCEANE would come to € 4.80, a discount of approximately 37.5%, including accrued interest, from their redemption value of € 7.53.

The Investors have agreed to tender the 11,185,658 OCEANE 2003-2009 bonds held by them, which represent 67.8% of those outstanding.

## Conditions precedent

In order to be carried out beyond its first step, the plan must be approved by the holders of 2006-2008 Notes and of OCEANE 2003-2009 bonds, as well as by a special shareholders’ meeting. It must also be granted the necessary authorizations and exemptions by the financial market authorities.

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[2] Assuming all OCEANE 2003-2009 are tendered under the exchange tender offer.

The equity issue must take place no later than December 30, 2006 or, if no quorum is present and the shareholders' meeting must be reconvened, no later than February 15, 2007. The amendments to the OCEANE 2003-2009 indenture are also contingent on the completion of the exchange tender offer by no later than April 30, 2007.

## Impact of the plan on Infogrames Entertainment's current shareholders

As an indication, if all OCEANE 2003-2009 bonds are tendered under the exchange offer and are converted into Company shares, the impact of this conversion on the equity held by a shareholder with one percent of the Company's shares who does not exercise his rights to purchase new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 0.28% |
| After increase in capital and conversion of OCEANE bonds | 0.16% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.13% |

The dilutive impact for a shareholder with 1 percent of the Company's shares on June 30, 2006, who exercises his right to subscribe for new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 1% |
| After increase in capital and conversion of OCEANE bonds | 0.56% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.48% |

## Plan's impact on Infogrames Entertainment's debt

The Company's total debt on its books, as measured in accordance with IFRS, was € 173.2 million (audited financial statements) on March 31, 2006 and € 191.4 million on June 30, 2006 (unaudited estimate). Based on these figures, the net debt would be reduced to € 126 million following the capital increase and to € 24 million subsequent to the exchange tender offer, assuming that all OCEANE 2003-2009 are tendered and converted into stock.

The plan would generate cash of € 55 million, before expenses and interest on the short-time loan.

If all warrants are exercised, the net debt would be replaced by a net surplus of € 8 million.

| (€ millions) | Net debt on March 31, 2006 (1) | Net debt on June 30, 2006 (2) | Impact of bridge loan | Share issues | Impact of exchange tender offer | All warrants exercised<br>Impact of the warrants |
|---|---|---|---|---|---|---|
| OCEANE 2011 | 5 | 5 | 5 | 5 | 5 | 5 |
| 2006/2008 Notes | 33 | 34 | 34 | - | - | - |
| OCEANE 2003/2009 | 100 | 102 | 102 | 102 | - | - |
| Production funds | 27 | 20 | 20 | 20 | 20 | 20 |
| Capital Leases | 6 | 5 | 5 | 5 | 5 | 5 |
| Other debt (bank loans) | 45 | 44 | 44 | 44 | 44 | 44 |
| Bridge loan | - | - | 25 | 15 | 15 | 15 |
| **Gross debt** | **216** | **210** | **235** | **191** | **90** | **90** |
| **Cash** | **43** | **19** | **41** | **65** | **65** | **98** |
| **Net debt** | **173** | **191** | **194** | **126** | **24** | **( 8)** |

*(1) Audited financial statements for March 31, 2006 (IFRS)*

*(2) Unaudited estimates for June 30, 2006 (IFRS)*

The Board of Directors has unanimously endorsed this plan which, if successful, will enable the Company to make the investments it needs in order to operate in the interactive entertainment industry.

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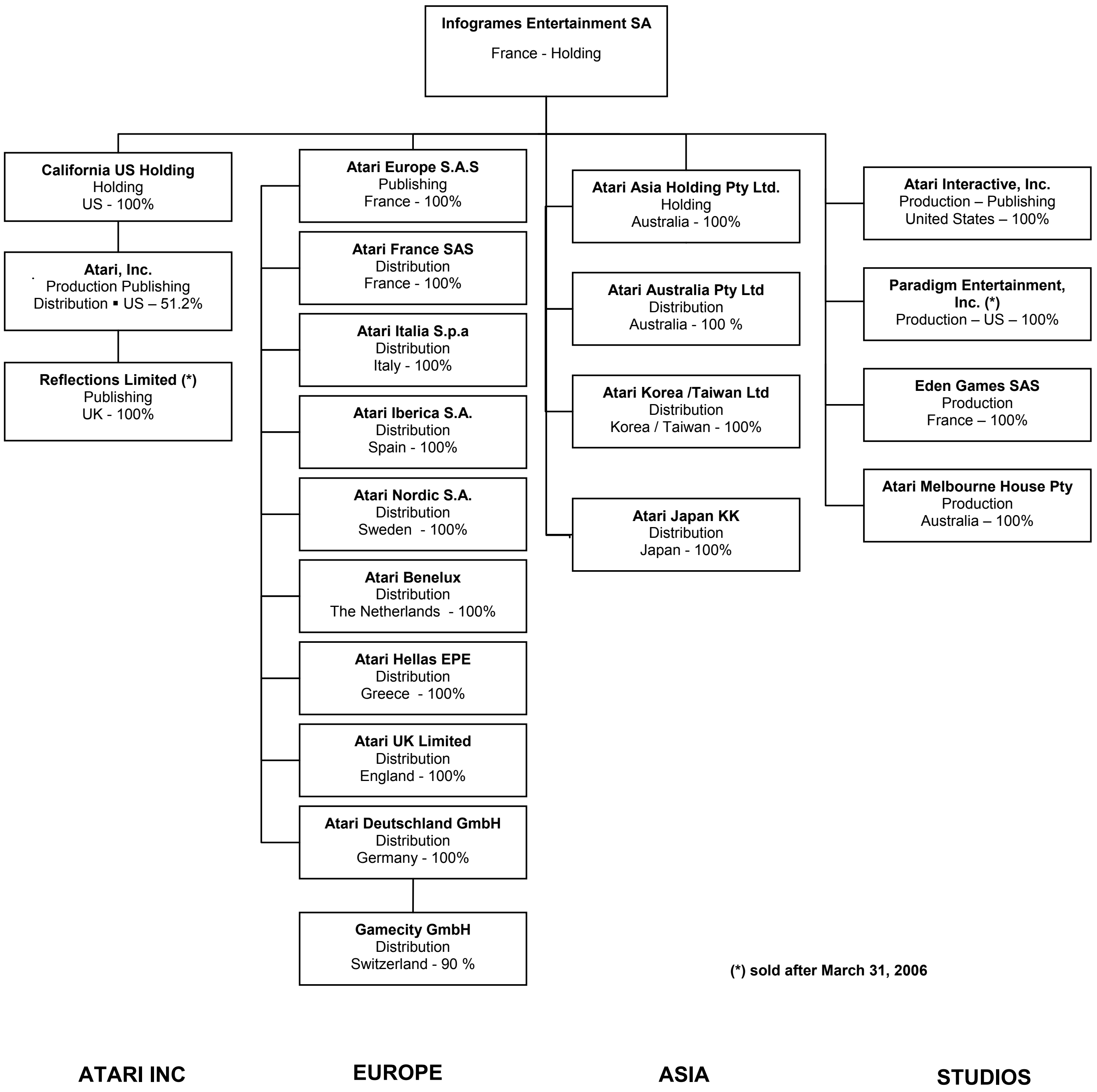
# SIMPLIFIED ORGANIZATION CHART

## SIMPLIFIED OPERATIONAL ORGANIZATION CHART OF THE GROUP ON MARCH 31, 2006



# INFORMATION CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS

**(Year ended March 31, 2006)**

## BOARD OF DIRECTORS' REPORT ON THE BUSINESS OF THE GROUP

Prepared in accordance with article L.225-100 of the Commercial Code
Period ended March 31, 2006
Lyon, September 8, 2006

## 1. ECONOMIC ENVIRONMENT AND HIGHLIGHTS

### 1.1. ECONOMIC ENVIRONMENT

Infogrames Entertainment / Atari (the "Group") is one of the world's foremost developers and publishers of interactive game software. Most of its revenue is generated by sales in North America and Europe, where the trends observed in 2005 are described below:

#### Europe (source: GfK, Media Control, Chart Track)

Three new consoles were successively brought out in 2005, with the Nintendo DS in March, Sony's PSP in September and Microsoft's Xbox360 in December. Sales of video games in Europe increased in volume (177 million games sold, or 2 percent more than in 2004) and in value (up 0.4 percent to € 5,627 million). Growth was primarily attributable to the new platforms, however, as sales of games for older systems fell in value and only those for PS2 consoles rose in volume.

#### United States (source: NPD)

The factors at play in Europe were also in evidence In the United States, although game sales fell more sharply in 2005, as measured by both volume (down 6 percent, with 226 million games sold) and value (3-percent decline to US$ 6.9 billion).

| (units in thousands) | US Software 2005 sales | Europe Software 2005 sales |
|---|---|---|
| Sony PlayStation 2 | 76,000 | 68,800 |
| Sony PlayStation Portable (PSP) | 10,000 | 6,000 |
| Game Boy Advance | 33,000 | 14,100 |
| Nintendo GameCube | 22,000 | 6,700 |
| Nintendo DS | 8,200 | 5,500 |

| | | |
|---|---|---|
| Microsoft Xbox | 37,000 | 13,500 |
| Microsoft Xbox 360 | 2,500 | 1,000 |
| PC | 38,000 | 57,500 |

Anticipated trends in sales of interactive entertainment software are shown in the table below (Source: Nintendo, Sony, Microsoft and International Development Group).

| In millions of units (as of December 31, 2005) | 2004 | 2005 | 2006 (e) | 2007 (e) | 2008 (e) | 2009 (e) | 2010 (e) |
|---|---|---|---|---|---|---|---|
| Sony PlayStation | NS | NS | NS | NS | NS | NS | NS |
| Nintendo 64 | NS | NS | NS | NS | NS | NS | NS |
| Game Boy / Game Color | NS | NS | NS | NS | NS | NS | NS |
| **Old generation** | **NS** | **NS** | **NS** | **NS** | **NS** | **NS** | **NS** |
| Sony PlayStation 2 | 61.9 | 62.7 | 69.8 | 73.9 | 76.3 | 77.4 | 77.8 |
| Nintendo GameCube | 13.8 | 16.0 | 17.2 | 17.8 | - | - | - |
| Microsoft Xbox | 17.5 | 21.0 | 21.8 | 22.1 | - | - | - |
| Game Boy Advance | 46.0 | 49.9 | 53.8 | 54.7 | 55.0 | - | - |
| **Current generation** | **139.25** | **149.6** | **162.6** | **168.5** | **131.3** | **77.4** | **77.8** |
| Sony PlayStation 3 (release expected in November 2006) | - | - | 1.5 | 12.3 | 25.9 | 38.7 | 49.6 |
| Nintendo Revolution (no known release date) | - | - | 1.9 | 5.9 | 10.8 | 14.5 | 16.7 |
| Microsoft Xbox 360 | - | 1.1 | 8.6 | 17.4 | 25.7 | 32.2 | 37.0 |
| Nintendo DS | - | 7.2 | 17.2 | 28.1 | 37.3 | 42.5 | 44.8 |
| Sony PlayStation Portable (PSP) | - | 6.1 | 16.2 | 26.5 | 33.7 | 37.8 | 39.7 |
| **Other formats** | - | - | - | - | - | 14.0 | 34.1 |

NS: not significant or relevant

| | **US Hardware Units sold 2005** | **Europe Hardware Units sold 2005** |
|---|---|---|
| Game Boy Advance | 27,346,320 | 14,937,693 |
| PlayStation 2 | 26,908,110 | 24,236,376 |
| Xbox | 11,850,900 | 5,545,108 |
| GameCube | 9,176,373 | 4,716,486 |
| Nintendo DS | 1,225,594 | |

The Group plans to continue developing its extensive line of games, while maintaining a balance between the various platforms available to consumers and holding on to its technological autonomy.

It should also be noted that the market is subject to seasonal fluctuations, with sales peaking at Christmas time and slowing down from July to September. Consequently, revenue is generally higher in the third quarter of the fiscal year (October-December) than in other periods.

The Group has two main categories of competitors in its core business: independent publishers of interactive entertainment software such as Electronic Arts, THQ, Activision, Take-Two Interactive, Vivendi Universal Games, Konami, Sega, Eidos and Ubisoft; and console manufacturers working with the Group that are also leading publishers of games for their own platforms, such as Sony, Nintendo and Microsoft.

## 1.2. HIGHLIGHTS OF THE YEAR

### 1.2.1. Accounting standards and principles

#### ▪ ADOPTION OF IFRS

The Group now prepares its consolidated financial statements in accordance with IFRS. The principal changes that this entails are explained in the notes to the consolidated financial statements and in the note on the transition to IFRS.

#### ▪ CHANGES IN ACCOUNTING VALUATION

Since April 1, 2005, the Group capitalizes all internal development expenses incurred after the end of the pre-production stage (when the technical feasibility is certain). The impact of this change has resulted in € 27.8 million in internal costs being capitalized over the period. This expenditure is recognized and amortized starting on the release date of games. A corresponding amortization expense of € 8.8 million was recognized under research and development expenses. The reporting change had a net impact of € 19 million.

### 1.2.2. Acquisitions in the period

#### ▪ GAME ONE

On June 24, 2005, the Group purchased 35.81% of the shares of Game One to add to the 14.19% it held on March 31, 2005, for € 0.5 million. The Group's interest in Game One was reduced to 45.46% subsequent to the increase in capital stock in favor of MTV, Game One's other shareholder.

#### ▪ HUMONGOUS

In August 2005, Infogrames Entertainment purchased the shares of Humongous, Inc. previously held by Atari, Inc. (93.7%) and Atari Interactive, Inc. (6.3%). Humongous, Inc. owns rights to characters and themes, principally of best-selling children and family games in the United States, including the Backyard Sports series, Freddi Fish, Pajama Sam, Spy Fox, etc.

The acquisition is in line with the Group's general strategy of streamlining its own holdings and those of its US subsidiary and shifting control of certain Group operations. Under the purchase agreement, Infogrames Entertainment has acquired all of the shares of Humongous, Inc. The value of the acquisition was independently appraised (by a *Commissaire aux Apports*), as required by article L-225-147 of the French Commercial Code.

### 1.2.3. Sale of Hasbro interactive rights

Infogrames Entertainment and Hasbro Inc. agreed in June 2005 on the sell-back to Hasbro of digital rights to all of its intellectual properties for a sum of US$ 65 million.

The parties agreed to:

- amend the existing license in consideration for the payment by Hasbro of US$ 65 million; that sum was accordingly received during the first half of the year; Infogrames continues to have the right to sell games based on the intellectual properties covered by the license until March 2007;
- grant Infogrames a new exclusive ten-year license to the Dungeons & Dragons universe on all current conventional media (so-called "digital" systems, e.g. PC, game cartridges for consoles) and all interactive systems (including online, mobile phone, wireless, interactive television, etc.);
- grant Infogrames a new exclusive seven-year license to nine Hasbro "family/children" properties: Monopoly, Scrabble, Risk, Game of Life, Clue, Yahtzee, Battleship, Boggle and Simon,. for online, mobile phone, wireless, interactive television and other applications.

Royalties are payable on the above licenses in accordance with customary practice in the industry.

Infogrames may continue to sell other games on the following conditions:

- Previously released games: distribution will end no later than March 31, 2007 or, subsequent to December 31, 2005, three months after Hasbro notifies Infogrames that another licensee has acquired a property;
- Games under development: distribution for up to 18 months and until no later than March 31, 2007.

### 1.2.4. Sales of the games.com domain name

Games.com, a wholly-owned subsidiary of the Group, sold its games.com domain name on March 8, 2006.

### 1.2.5. Issue of Atari, Inc. shares for the benefit of Martin Lee Edmonson

As part of the final settlement of a dispute between Mr. Martin Lee Edmonson and the Reflections Interactive, Ltd. studio, a fully-owned Atari Inc. subsidiary in England, Atari Inc. issued 1,557,668 new shares, which were remitted to Mr. Edmonson under a negotiated agreement on August 31, 2005. A value of US$ 2.1 million was put on the shares and the settlement also called for the payment of US$ 2.2 million in cash, in twelve equal installments starting September 1, 2005, and a lump-sum payment of US$ 0.4 million on September 1, 2005.

The settlement is reflected in the financial statements for March 31, 2006 by a reduction in the interest held by Infogrames Entertainment (directly and indirectly) in Atari, Inc. to 51.36%, from 52.04% before the transaction, a reduction of € 1.4 million in the value of Atari, Inc. goodwill and a dilutive impact on income of € 0.9 million.

### 1.2.6. Agreements entered into on September 15, 2005 by Atari, Inc., Sark Fund and CCM Fund, and by Atari, Inc, Atari UK and IESA and its subsidiaries

On September 15, 2005, Atari, Inc. issued new shares for offering to SARK Fund and CCM Fund. The issue consisted of 5,702,590 common shares priced at US$ 1.30 each, for a total of US$ 7.4 million.

On the same day, Atari, Inc. created 6,145,051 new shares, as follows:

- 4,881,533 shares were issued and remitted to Infogrames Entertainment S.A., the parent company of Atari, Inc., as repayment for various services performed and expenses incurred by Infogrames and its subsidiaries on behalf Atari, Inc. The shares had a par value of US$ 1.30 each and enabled Atari, Inc. to make repayments of US$ 6.4 million in aggregate;
- 1,263,518 shares were issued for Infogrames Entertainment S.A pursuant to the debt-repayment agreement between Atari, Inc, Infogrames Entertainment S.A. and Atari UK concerning GT Interactive UK (a wholly-owned Atari, Inc. subsidiary in debt to the Group). The shares had a par value of US$ 1.30 each and enabled Atari, Inc. to repay a loan of US$ 1.6 million obtained by its GT Interactive UK subsidiary from Atari UK, a wholly-owned subsidiary of Infogrames Entertainment S.A.

Following the foregoing transactions, the Group held 51.4% of the shares of Atari, Inc.

### 1.2.7 Impairment of Goodwill (€ 125.4 million)

The decline in the market over the past several months and the poor performance by certain key products in the last quarter of the year and losses in the United States caused the Company to write down goodwill by an aggregate of € 125.4 million, reflecting primarily the impairment of its US subsidiaries. Under IFRS, such impairments must be recognized in operating income.

# 2. REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

## 2.1. BUSINESS AND CONSOLIDATED FINANCIAL STATEMENTS

### ▪ KEY FIGURES

The table below shows operating results for the periods ended March 31, 2006 and March 31, 2005.

| € millions | 3/31/06 | | 3/31/05 | | Change | |
|---|---|---|---|---|---|---|
| **Revenue** | **391.2** | | **577.2** | | **(186.0)** | **(32.2%)** |
| Cost of goods sold | (230.0) | (58.8%) | (285.7) | (49.5%) | 55.7 | (19.5%) |
| **Gross margin** | **161.2** | **41.2%** | **291.5** | **50.5%** | **130.3** | **(44.7%)** |
| Research and development expenses | (65.5) | (16.7%) | (110.2) | (19.1%) | 44.7 | (40.6%) |
| Marketing and distribution expenses | (87.6) | (22.4%) | (102.4) | (17.7%) | 14.8 | (14.5%) |
| General and administrative expenses | (64.4) | (16.5%) | (71.9) | (12.5%) | 7.5 | (10.4%) |
| *Subtotal* | *(56.3)* | *(14.4%)* | *7.0* | *1.2%* | *(63.3)* | *(904.3%)* |
| Sale of Hasbro license | (36.6) | 9.4% | 0.0 | 0.0% | 36.6 | |
| Gains (losses) from disposals of assets | (4.2) | 1.1% | (7.5) | (1.3%) | 11.7 | (156.0%) |
| Restructuring charge | (13.2) | (3.4%) | (14.1) | (2.4%) | 0.9 | (6.4%) |
| Write-down of goodwill | (125.4) | (32.1%) | (19.3) | (3.3%) | (106.1) | 549.7 |
| **Operating income** | **(154.1)** | **(39.4%)** | **(33.9)** | **(5.9%)** | **(120.2)** | **354.6** |

### ▪ CONSOLIDATED REVENUE

Revenue from ordinary business for the year ended March 31, 2006 was € 391.2 million (at current exchange rates), compared with € 577.2 million last year.

The drop in sales reflected a decline in the number of new releases during the period, stagnant sales in the United States and a sub-par performance by the company's games in the last quarter of the year (Getting Up, Driver Parallel Lines).

Sales in Europe and Asia accounted for 58% of the total, with the United States accounting for the other 42%.

Consolidated sales divided up geographically as follows:

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| Europe | 50% | 39% |
| United States | 42% | 53% |
| Asia | 8% | 8% |
| Total | 100% | 100% |

For the year ended March 31, 2006, sale figures by format were indicative of the good performance by Atari titles on current console formats, primarily Playstation 2, the most popular of those formats, which accounted for 44% of total sales. The current fiscal year also saw Atari successfully penetrate the next-generation console segment, including PSP and Nintendo DS, which generated 6% of total sales. The portion of sales accounted for by PC games remained stable at 31%.

| | March 31, 2006 | March 31, 2005 |
|---|---|---|
| PlayStation 2 | 44% | 43% |
| Xbox | 8% | 10% |
| PC | 31% | 29% |
| GameBoy Advance | 7% | 10% |
| PSP | 3% | - |
| Nintendo DS | 3% | |
| Retro (Flashback) | 2% | - |

| | | |
|---|---|---|
| GameCube | 1% | 4% |
| Other formats | 1% | 4% |

## ▪ CONSOLIDATED GROSS MARGIN

Sales of products published in-house declined in relation to those produced by third parties, which accounted for 47.2% of sales, up from 35.1% last year.

This had a significant impact on gross profit, which amounted to € 161.2 million for the period, or 41.2% of revenue, compared with € 291.5 million, or 50.5% of sales the previous year.

## ▪ CONSOLIDATED RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development expenses amounted to € 65.5 million, compared with € 110.2 million for the previous period. The € 44.7-million drop was due to the capitalization of internal R&D net expenses of € 19.0 million and the impact of focusing research and development on a restricted number of products.

A total of € 74.9 million was invested in research and development during the year, down from € 116.0 million last year. During the fiscal year ended, the Group continued to invest in the development of major titles for release this year, including Test Drive Unlimited, Arthur and the Minimoys, Alone in the Dark, Neverwinter Nights and new franchises such as Hot PXL, etc.

## ▪ CONSOLIDATED MARKETING AND DISTRIBUTION EXPENSES

Marketing and distribution expenses amounted to € 87.6 million, compared with € 102.4 million for the previous period. They declined less than sales and reflected the marketing budgets for new properties such as “Getting Up” and continued spending on best-selling games.

## ▪ CONSOLIDATED GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses fell by 10.4% for the period, to € 64.4 million, compared with € 71.9 million the previous period.

## ▪ RESTRUCTURING EXPENSES

The Group decided in February of this year to carry out major restructuring measures, which had an impact of € 13.2 million on the year’s results. They included € 9.9 million in charges incurred by US subsidiaries in March 2006. Their aim is to bring costs down to a level more in keeping with the company's size. Operating expenses have already declined and were 23.6% less than last year.

## ▪ IMPAIRMENT OF GOODWILL (€ 125.4 MILLION)

The decline in the market over the past several months and the poor performance of certain key products in the last quarter of the year and losses in the United States caused the Company to write down goodwill by an aggregate of € 125.4 million, reflecting primarily the impairment of its US subsidiaries.

## ▪ OPERATING RESULTS

There was an **operating loss at the consolidated level** of € 154.1 million, compared with € 33.9 million the previous year. This includes the impact of € 125.4 million in goodwill impairments and a gain of € 36.6 million on the sale of the Hasbro License.

## ▪ OTHER STATEMENT OF OPERATIONS ITEMS

| € millions | 3/31/06 | | 3/31/05 | | Change | |
|---|---|---|---|---|---|---|
| **Operating income (loss)** | **(154.1)** | **(39.4%)** | **(33.9)** | **(5.9%)** | **(120.2)** | **354.6%** |
| Cost of debt | (20.1) | | (18.6) | | (1.5) | |
| Other financial income (loss) | (3.3) | (0.8%) | 13.0 | 2.3% | (16.3) | |
| Share of income (loss) of equity-method entities | (0.1) | 0.0% | 0.0 | 0.0% | (0.1) | |
| Income tax | (1.7) | (0.4%) | 5.2 | 0.9% | (6.9) | |
| **Consolidated net income (loss)** | **(179.3)** | (45.8%) | **(34.3)** | (5.9%) | **(145.0)** | 422.7% |
| Minority interests | 29.5 | 7.5% | 0.7 | 0.1% | 28.8 | 4114.3% |
| **Net income (loss) after minority interests** | **(149.8)** | (38.3%) | **(33.6)** | (5.8%) | **(116.2)** | 345..8% |
| **Operating expenses** | **(217.5)** | (55.6%) | **(284.5)** | (49.3%) | **67.0** | (23.6%) |

- **FINANCIAL LOSS**

The net loss from financing transactions for the period was € 23.4 million. It included interest expense of € 14.2 million on the bond debt, of which € 7.2 million resulting from the application of IAS 32-39, and € 4.2 million on the bank debt. On March 31, 2005, the Group had reported financial income of € 15.6 million from the March 2005 exchange tender offer.

- **CORPORATE INCOME TAX**

The **corporate income tax expense** for the year was € 1.7 million, compared with tax income of € 5.2 million last year.

- **CONSOLIDATED NET RESULT**

The Group had a **consolidated net loss** of € 149.8 million, compared with a loss of € 33.6 million the previous period.

## 2.2. CONTRIBUTIONS BY REGION

The table below shows the contribution by each region to consolidated revenue and operating income:

| 2005-2006 (€ millions) | Net revenue | | Operating results (*) | Net income (***) |
|---|---|---|---|---|
| United States (*) | 163.2 | 41.7% | (200.8) | (174.6) |
| Europe | 194.4 | 49.7% | 5 | (2.4) |
| Asia | 33.6 | 8.6% | 1.4 | 1.1 |
| Corporate (**) | | 0.0% | 40.3 | 26.1 |
| **Total** | **391.2** | **100.0%** | **(154.1)** | **(149.8)** |

(*) including the impact of the impairment of goodwill

(**) including the proceeds from the sale of digital rights to Hasbro

(***) Net loss after minority interests

| 2004-2005 (€ millions) | Net revenue | | Operating results | Net income (*) |
|---|---|---|---|---|
| United States | 307.6 | 53.3% | (36.0) | (22.4) |
| Europe | 224.8 | 38.9% | 4.1 | 7.7 |
| Asia | 44.8 | 7.8% | 3.9 | 8.8 |
| Corporate | | 0.0% | (5.9) | (27.7) |
| **Total** | **577.2** | **100.0%** | **(33.9)** | **(33.6)** |

(*) Net loss after minority interests

Sales in the United States region during fiscal 2005-2006 generated revenue of € 163.2 million and accounted for 41.7% of total Group sales, compared with € 307,6 million the previous year (53.3% of total sales). During that same period, the Group incurred an operating loss and a net loss after minority interests of € 200.8 million and € 174.6 million, respectively, compared with an operating loss of € 36 million and a net loss of € 22.4 million for the year ended March 31, 2005.

In the European region, revenue declined to € 194.4 million during the year ended March 31, 2006, but accounted for a greater share of the consolidated total, in relation to the United States, with 49.7% of total sales, compared with revenue of € 224.8 million (38.9% of total sales) the previous year. During that same period, the European region generated operating income of € 5.0 million and a net loss after minority interests of € 2.4 million, compared with operating income of € 4.1 million and net income of € 7.7 million for the year ended March 31, 2005.

In Asia, sales also declined in fiscal 2005-2006, to € 33.6 million, or 8.6% of the Group's total, from € 44.8 million (7.8% of total sales). Operating and net income generated by Asia in the same period amounted to € 1.4 million and € 1.1 million respectively, down from € 3.9 million and € 8.8 million the previous years.

Company financial results for the period to March 31, 2006 include capital gains of € 36.6 million on the sale of digital rights to Hasbro, Inc.

## 2.3. CONSOLIDATED BALANCE SHEET

### ▪ CONSOLIDATED BALANCE SHEET ITEMS ON MARCH 31, 2006 AND MARCH 31, 2005

| (€ millions) | March 31, 2006 | March 31, 2005 |
|---|---|---|
| Stockholders' equity | (22.1) | 78.5 |
| Minority interests | 31.9 | 46.1 |
| Debt | 215.8 | 243.3 |
| Other non-current liabilities (including non-current provisions) | 15.3 | 1.3 |
| Cash and cash equivalents | 42.6 | 36.3 |
| Net working capital (excess liabilities) | (42.1) | (19.4) |
| Other non-current assets (including deferred tax assets) | 6.3 | 19.1 |
| Goodwill | 128.9 | 248.5 |
| Intangible assets | 90.7 | 66.8 |
| Other fixed assets | 14.5 | 17.9 |

### ▪ CONSOLIDATED SHAREHOLDERS' EQUITY

Total consolidated shareholders' equity amounted to € 9.8 million on March 31, 2006 versus € 124.6 million on March 31, 2005. Shareholders' equity net of minority interests was negative € 22.1 million on March 31, 2006 versus € 78.5 million on March 31, 2005. The following changes in shareholders' equity were recorded during the period:

| | |
|---|---|
| **Consolidated stockholders' equity as of March 31, 2005** | **78.5** |
| Net income after minority interests | (149.8) |
| Impact of IAS 32/39 | 21.5 |
| Change in unrealized foreign-exchange gains and losses | 16.5 |
| Stock options | 2.9 |
| Equity issues | 9.0 |
| Other changes | (0.7) |
| **Consolidated stockholders' equity as of March 31, 2006** | **(22.1)** |

The increase in unrealized foreign-exchange gains for the period resulted from a favorable trend in the euro/dollar exchange rate (which stood at 1.2104 on March 31, 2006, compared with 1.2964 on March 31, 2005).

### ▪ NET DEBT

**Group debt,** net of cash and cash equivalents, amounted to € 173.2 million on March 31, 2006 (€ 207.0 million on March 31, 2005) and included:

- a bond debt of € 144.3 million (€ 167.9 million on March 31, 2005; € 134.8 million after taking into account the impact of the adoption of IAS 32 and 39)
- € 26.7 million owed to production funds (€ 17.6 million on March 31, 2005)
- € 44.8 million in other debt (€ 57.8 million on March 31, 2005)
- € 42.6 million in cash (€ 36.3 million on March 31, 2005)
- € 5.3 million in OCEANE 2011 bonds (unchanged from March 31, 2005)

The net debt (taking into account the impact of the adoption of IAS 32 and 39) was reduced by € 0.7 million over the period.

The table below shows the Group's debt broken down by maturity:

| (€ millions)<br>Year ended March 31, 2006: | Amount |
|---|---|
| < March 2007 | 57.4 |
| < March 2008 | 44.3 |
| < March 2009 | 5.6 |
| < March 2010 | 100.7 |
| Beyond March 2010 | 7.8 |
| **Total** | **0** |

The € 57.4 million in debt maturing prior to March 31, 2007 consists primarily of the following:

- 2005-2008 6% Notes with a face value of € 21.8 million and € 2.3 million in accrued interest. Interest of € 2.3 million for the period was paid on June 30, 2006; a fraction of € 11.2 million of the Notes' principal (before interest) matures on September 15, 2006 (repayment was deferred by the note holders on June 15, 2006) and another € 11.2 million (before interest) on March 15, 2007;
- a current liability of € 12.5 million to a European production fund, which is scheduled to be repaid in installments over the entire fiscal year;
- short-term operating credit facilities secured by trade receivables, under which € 7.2 million had been drawn as of March 31, 2006, as well as bank overdrafts of € 4.9 million;
- debt of € 2.6 million from factoring transactions where the Group remains exposed to the risk of default by customers;
- € 4.6 million in accrued interests on OCEANE 2003-2009 bonds as of March 31, 2006, paid in April 2006.

As previously noted, production funds finance specific assets. Infogrames has production and distribution agreements for certain games with outside investors ("executive producers") specializing in the financing of interactive productions. These investors finance the entire production of certain games through funds which, in return for covering the cost of developing a game, receive title to the copyrights necessary to produce that game. Infogrames no longer participates in the financing of the games concerned. Under the agreement, the executive producer assigns the development of the game to an associate producer, who may be from within Infogrames or from outside. The executive producer finances all of the development and production costs of the games concerned and enters into an exclusive distribution agreement with the Group, which provides for the payment of minimum royalties. After a given period (generally three years), the transferred rights can revert to the Group for a fee based on their residual value.

The ratio of net debt to equity is as follows:

| (€ millions, except for ratios) | **3/31/06** | **3/31/05** |
|---|---|---|
| Net debt | 173.2 | 207.0 |
| Shareholders' equity net of minority interests | (22.1) | 78.5 |
| Shareholders' equity | 9.8 | 124.6 |
| Debt to equity ratio (net of minority interests) | <0 | 2.64 |
| Debt-to-equity ratio (total) | 17.7 | 1.66 |

As shareholders' equity was negative on March 31, 2006, the debt ratio was also negative on that date.

## ▪ OTHER BALANCE SHEET ITEMS

**Other non-current liabilities (including non-current provisions)** amounted to € 15.3 million on March 31, 2006 (€ 1.3 million on March 31, 2005). The significant increase was attributable to the recognition of guaranteed minimum fees on the Hasbro user license.

**Other current assets (including net deferred tax assets)** totaled € 6.3 million on March 31, 2006 (€ 9.1 million on March 31, 2005). The reduction came primarily from the restatement of the premium on the OCEANE bonds (€ 11.5 million on March 31, 2005) subsequent to the adoption of IAS 32 and 39 on April 1, 2005.

**Net negative working capital** increased by € 22.7 million from the previous period. This reflected a sharp increase in provisions for doubtful receivables recognized during the year, in anticipation of the possible impact of price reductions contemplated for the US market.

**Goodwill** amounted to € 128.9 million on March 31, 2006, down from € 248.5 million on March 31, 2005. The decline was primarily attributable to significant impairments during the period, subsequent to the adjustment of internal and external standards for estimating the realization value of the assets concerned. Note 3 to the consolidated financial statements reports in detail on the considerations that led the Group to recognize these impairments.

**Intangible assets** were valued at € 90.7 million on March 31, 2006, up from € 66.8 million on March 31, 2005. The increase reflected capital expenditures (€ 40.3 million excluding in-house research and development), the impact of the capitalization of in-house research and development expenditures of € 27.8 million, the recognition of guaranteed minimum fees to Hasbro (€ 16.4 million), combined with amortization allowances (€ 54.9 million), the impact of foreign exchange fluctuations and reclassifications (positive impact of € 2.4 million) and disposals of assets valued at € 8.1 million.

## 2.4. CONSOLIDATED CASH FLOW

The Group had net cash balances of € 42.6 million on March 31, 2006, compared with € 36.3 million at the start of the year.

The Groups' sources of funds during the fiscal year consisted primarily of the following:

- cash flow from operations of € 8.2 million, after adjustments to eliminate investment and non-recurring items not considered part of operations (see consolidated cash flow statement);
- proceeds of € 73.6 million from disposals of assets, including the Hasbro licenses (€ 52.7 million), games.com and Timeshift (US$ 14 million);
- issues of new shares for € 8.8 million subsequent to the exercise of stock options and the acquisition of Humongous (€ 9.0 million).

Funds were used principally for the following:

- research and development expenditures (in-house and outsourced) of € 68.1 million;
- net repayments of bank loans of € 5.8 million;
- interest expense (€ 8.5 million)

# 3 RISK EXPOSURE FROM THE DEBT AND CASH POSITION

## 3.1. GOING CONCERN

The Group sustained large losses in previous years and during the period ended. It also has had to repay maturing bank and bond debts even though it had insufficient cash flow from operations to do so. A series of transactions have therefore had to be carried out in recent years aimed at restructuring the Group’s finances and, in particular, reducing its debt. The principal measures taken in this respect are described below:

- the sale back to Hasbro of digital rights to certain properties initially licensed by Hasbro under a December 2000 agreement, for $ 65 million;
- the sale of the “games.com” domain name and Timeshift license for a combined US$ 14.5 million;
- the rescheduling of the maturity of the first € 11.2-million portion of the 2005-2008 Notes from March 15 to June 15, 2006;
- the rescheduling of the repayment of € 23.4 million in medium-term bank debt from July 31, 2005 to March 31, 2008.

With the help of these measures, the Group reduced its net debt to € 173.2 million by March 31, 2006 (aggregate debt of € 215.8 million less cash balances of € 42.6 million). Detailed information on the debt and its maturity is included in note 13 to the consolidated financial statements.

Since March 31, 2006, the Group has continued to make efforts in this area, by:

- securing a new € 20-million bank credit facility;
- disposing of the Paradigm studio and the Stuntman license for US$ 10.8 million;

- deferring the due date of the € 11.2-million first portion of the 2005-2008 Notes from June 15 to September 15, 2006;
- signing a preliminary agreement for the sale of the “Driver” game license and most of the assets of the Reflections studio for US$ 24 million.

The Group’s debt has restricted its ability to invest in game development. This impediment, which adversely affected the Group’s revenue and income during the year, was recently aggravated by the general stagnation in the video-game market, due in part to the delayed or deferred releases of new consoles.

In the period to July 31, 2007 and before implementing the plan set out below, the Group must obtain additional financing of an estimated € 35 million and € 50 million to cover operating expenses, as well as repay debt of € 63.3 million based on current maturity schedules. The principal debt repayments due over the coming period (exclusive of bank loans of € 14.7 million, which are covered by cash balances on  March 31, 2006) are as follows:

- September 15, 2006: first portion of the 2005-2008 Notes (€ 11.2 million);
- March 15, 2007, second portion of the 2005-2008 Notes (€ 13.4 million, including interest);
- Throughout the period, sums owed to production funds (€ 18.3 million in aggregate, of which € 12.4 million up to March 31, 2007);
- April 2007, interest on 2003-2009 convertible bonds (€ 4.6 million).

In order to be able to meet the above obligations, the Group entered into an agreement on September 8, 2006 with the principal holders of its bank and bond debt, to enable it to carry out a financial restructuring plan aimed at significantly reducing its debt, restoring its net worth and providing it with sufficient cash to meet its operating needs. the plan, which is described in note 26.4 to the consolidated financial statements, is divided into five separate steps:

Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity from March 31, 2007 to December 31, 2008, except for a sum of € 10 million, which is to be repaid upon completion of the Step 4 measures.

Step 2: Modification of some of the terms and conditions of the 2005-2008 Notes (deferral of the scheduled maturity date of the first fraction of the principal from September 15, 2006 to February 15, 2007 and amendment of the event-of-default clauses). The principal holder of the Notes, which accounts for 75.8% of that debt, has agreed to vote in favor of these modification at the next Note holders’ meeting on September 29, 2006.

Step 3: Modification of some of the terms and conditions of the OCEANE 2003-2009 bonds (reduction of the interest rate from 4% to 0.01%, rescheduling of the maturity from April 1, 2009 to April 1, 2020, termination of the bonds’ convertibility effective April 1, 2009, elimination of event-of-default clauses). Investors holding 67.8% of the OCEANE bonds outstanding have agreed to vote in favor of those changes at the next bondholders’ meeting, scheduled for September 29, 2006.

Step 4: Rights issue of € 74 million (including premiums over par) at € 0.15 per share, from the proceeds of which € 34 million is to be used to redeem all 2005-2008 Notes, € 10 million to repay part of the bridging loan and € 30 million to finance the Group’s operations. The principal holder of 2005-2008 Notes and other investors have irrevocably agreed to purchase, respectively, for € 33.7 million and € 40 million of shares if rights are not exercised during the subscription period. The foregoing commitments are subject to the customary conditions for this type of transaction and to the securing of an exemption to the tender offer requirement.

Step 5: Provided that steps 1 through 4 are completed, an exchange tender offer would be made for the OCEANE 2003-2009 bonds (each bond being exchangeable for 32 new Infogrames Entertainment shares). The lending banks have pledged to tender the OCEANE 2003-2009 bonds they hold, or about 67.8% of those outstanding.

The foregoing plan, except for the first step, must be approved by the bodies of holders of the 2005-2008 Notes and of the OCEANE 2003-2009 bonds, as well as by a special shareholders’ meeting. Its implementation also requires that authorizations and exemptions be granted by the Financial Markets Authority (AMF). The plan calls for the capital increase to be completed prior to December 15, 2006 or, if a shareholders’ meeting must be reconvened, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

In order to have enough operating cash (including for products to be in stores for the Christmas season), the Group is seeking to obtain short-term financing in Europe and the United States by means of factoring or through credit facilities secured by trade receivables. This would supplement the € 25-million loan secured under the restructuring plan and provide financing in anticipation of the equity issue included in step four of the plan. For Atari Inc., negotiations are under way in the United States aimed at obtaining financing of about US$ 20 million.

On the basis of the foregoing, the Group has prepared its consolidated financial statements under the going concern assumption, based on the expected success of both the measures taken to finance operations until the capital increase and the overall financial restructuring plan. Management considers such success probable given the progress in negotiations on the financing of operations and the pledges received from the principal bondholders and lender banks. Nevertheless, there is a degree of uncertainty regarding the effective securing of financing and the completion of the restructuring plan that is inherent to this type of situation. In particular, the financial restructuring is contingent on approval by meetings of bond and note holders and by the shareholders' meeting, as well as by the AMF.

An adverse outcome regarding the foregoing measures would result in adjustments to the value of the Group's assets and liabilities, including goodwill and intangible assets, recognized in the balance sheet for March 31, 2006 at respectively € 128.9 million and € 90.7 million.

## 3.2. AUDITORS' REPORT ON THE WARNING PROCEDURE

As part of their review of the financial statements, the Auditors notified the Company in December 2005 that certain facts could undermine the going-concern nature of the business and, as required by article L 234-1(3) of the Commercial Code, initiated a warning procedure ("*procédure d'alerte*").

Accordingly, the Auditors, as required by article L 234-1 of the Commercial Code, issued a warning report ("*rapport d'alerte*"), which will be submitted to the next shareholders' meeting.

In response to the Auditor's observations above, and as announced in February 2006, Infogrames implemented an action plan aimed at refinancing its overall debt, disposing of certain assets and securing new sources of operating funds. This plan, if carried out, should ensure the long-term continuation of the Group's operations.

As provided by article L.234-1 of the Commercial Code, a report by the Auditors will be submitted to the next shareholders' meeting.

# 4. RISK TO WHICH THE GROUP IS EXPOSED IN THE COURSE OF ITS BUSINESS

## ▪ FINANCIAL RISKS

### Risks with an impact on the going-concern assumption

The Group sustained large losses in previous years and during the period ended. It also has had to repay maturing bank and bond debts even though it had insufficient cash flow from operations to do so. A series of transactions have therefore had to be carried out in recent years aimed at restructuring the Group's finances and, in particular, reducing its debt. The principal measures taken in this respect are described below:

- the sale back to Hasbro of digital rights to certain properties initially licensed by Hasbro under a December 2000 agreement, for $ 65 million;
- the sale of the "games.com" domain name and Timeshift license for a combined US$ 14.5 million;
- the rescheduling of the maturity of the first € 11.2-million portion of the 2005-2008 Notes from March 15 to June 15, 2006;
- the rescheduling of the repayment of € 23.4 million in medium-term bank debt from July 31, 2005 to March 31, 2008.

With the help of these measures, the Group reduced its net debt to € 173.2 million by March 31, 2006 (aggregate debt of € 215.8 million less cash balances of € 42.6 million).

Since March 31, 2006, the Group has continued to make efforts in this area, by:

- securing a new € 20-million bank credit facility;
- disposing of the Paradigm studio and the Stuntman license for US$ 10.8 million;
- deferring the due date of the € 11.2-million first portion of the 2005-2008 Notes from June 15 to September 15, 2006;
- signing a preliminary agreement for the sale of the "Driver" game license and most of the assets of the Reflections studio for US$ 24 million.

The Group's debt has restricted its ability to invest in game development. This impediment, which adversely affected the Group's revenue and income during the year, was recently aggravated by the general stagnation in the video-game market, due in part to the delayed or deferred releases of new consoles.

In the period to July 31, 2007 and before implementing the plan set out below, the Group must obtain additional financing of an estimated € 35 million and € 50 million to cover operating expenses, as well as repay debt of € 63.3 million based on current maturity schedules. The principal debt repayments due over the coming period (exclusive of bank loans of € 14.7 million, which are covered by cash balances on March 31, 2006) are as follows:

- September 15, 2006: first portion of the 2005-2008 Notes (€ 11.2 million);
- March 15, 2007, section portion of the 2005-2008 Notes (€ 13.4 million, including interest);
- Throughout the period, sums owed to production funds (€ 18.3 million in aggregate, of which € 12.4 million up to March 31, 2007);
- April 2007, interest on 2003-2009 convertible bonds (€ 4.6 million).

In order to be able to meet the above obligations, the Group entered into an agreement on September 8, 2006 with the principal holders of its bank and bond debt, to enable it to carry out a financial restructuring plan aimed at significantly reducing its debt, restoring its net worth and providing it with sufficient cash to meet its operating needs. The plan is divided into five separate steps:

Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity from March 31, 2007 to December 31, 2008, except for a sum of € 10 million, which is to be repaid upon completion of the Step 4 measures.

Step 2: Modification of some of the terms and conditions of the 2005-2008 Notes (deferral of the scheduled maturity date of the first fraction of the principal from September 15, 2006 to February 15, 2007 and amendment of the event-of-default clauses). The principal holder of the Notes, which accounts for 75.8% of that debt, has agreed to vote in favor of these modification at the next Note holders' meeting on September 29, 2006.

Step 3: Modification of some of the terms and conditions of the OCEANE 2003-2009 bonds (reduction of the interest rate from 4% to 0.01%, rescheduling of the maturity from April 1, 2009 to April 1, 2020, termination of the bonds' convertibility effective April 1, 2009, elimination of event-of-default clauses). Investors holding 67.8% of the OCEANE bonds outstanding have agreed to vote in favor of those changes at the next bondholders' meeting, scheduled for September 29, 2006.

Step 4: Rights issue of € 74 million (including premiums over par) at € 0.15 per share, from the proceeds of which € 34 million is to be used to redeem all 2005-2008 Notes, € 10 million to repay part of the bridge loan and € 30 million to finance the Group's operations. The principal holder of 2005-2008 Notes and other investors have irrevocably agreed to purchase, respectively, for € 33.7 million and € 40 million of shares if rights are not exercised during the subscription period. The foregoing commitments are subject to the customary conditions for this type of transaction and to the securing of an exemption to the tender offer requirement.

Step 5: Provided that steps 1 through 4 are completed, an exchange tender offer would be made for the OCEANE 2003-2009 bonds (each bond being exchangeable for 32 new Infogrames Entertainment shares). The lending banks have pledged to tender the OCEANE 2003-2009 bonds they hold, or about 67.8% of those outstanding.

The foregoing plan, except for the first step, must be approved by the bodies of holders of the 2005-2008 Notes and of the OCEANE 2003-2009 bonds, as well as by a special shareholders' meeting. Its implementation also requires that authorizations and exemptions be granted by the Financial Markets Authority (AMF). The plan calls for the capital increase to be completed prior to December 15, 2006 or, if a shareholders' meeting must be reconvened, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

In order to have enough operating cash (including for products to be in stores for the Christmas season), the Group is seeking to obtain short-term financing in Europe and the United States by means of factoring or through credit facilities secured by trade receivables. This would supplement the € 25-million loan secured under the restructuring plan and provide financing in anticipation of the equity issue included in step four of the plan. For Atari Inc., negotiations are under way in the United States aimed at obtaining financing of about US$ 20 million.

On the basis of the foregoing, the Group has prepared its consolidated financial statements under the going concern assumption, based on the expected success of both the measures taken to finance operations until the capital increase and the overall financial restructuring plan. Management considers such success probable given the progress in negotiations on the financing of operations and the pledges received from the principal bondholders and lender banks. Nevertheless, there is a degree of uncertainty regarding the effective securing of financing and the completion of the restructuring plan that is inherent to this type of situation. In particular, the financial restructuring is contingent on approval by meetings of bond and note holders and by the shareholders' meeting, as well as by the AMF.

## Risks related to the Group's debt

As part of the renegotiation of its bank debt, Infogrames Entertainment signed a new agreement with a major foreign bank in April 2006, providing for the refinancing of the entire short and medium-term bank debt of the Company and its subsidiaries (see note 26.1 to the consolidated financial statements). The agreement mainly makes available € 25.5 million in medium-term credit facilities and a one-year operating credit facility of € 20 million.

The current situation requires that a substantial portion of the cash flow generated by operations be allocated to debt service, limiting the Group's operating opportunities. As of March 31, 2006, the Group consolidated net debt amounted to € 173.2 million and it had consolidated shareholders' equity of € 9.8 million.

Even though the Group's plan contains several measures aimed at increasing equity and protecting the Group over the long term against free cash-flow fluctuations, the high debt can have significant consequences for its business, including reducing the Group's ability to:

- use cash generated by operations, much of which has to be set aside for servicing the debt, and as the Group's agreements with banks place restrictions on capital expenditures;

- invest in research and development to produce games for next-generation consoles, an essential aspect of the Group's business;
- obtain new loans to finance working capital, investments, debt servicing and other needs;
- withstand a drop in sales and adverse economic conditions because much of the Group's cash must be earmarked for debt servicing.

The Group could be faced with significant liquidity problems if it is unable to pay sums due on the debt or fees and compensation owed by it, and if it cannot meet its other cash needs with available free cash flow. Should this occur, it could be forced to dispose of more assets, defer certain capital projects, find new sources of funds or restructure its debt.

Depending on the prevailing circumstances at the time, the Group could then find it impossible to do either of the above under favorable terms, or could even be completely unable to sell assets or raise funds. The financing agreement to which the Group is a party limits its capacity to take initiatives that could generate new revenue.

### Risk exposure related to the acceleration of the Group's debt maturities

Loans and financing secured by the Group can become immediately due and payable in their entirety prior to their scheduled maturity if it defaults on certain contractual obligations or if events occur that are liable to have a material adverse effect on the Group's financial position.

The new € 20-million short-term credit facility extended to the Group's European subsidiaries on April 14, 2006 and the medium-term bank loan of € 25.5 million extended by the new lender (see note 13.4 to the consolidated financial statements) have various event-of-default clauses providing for mandatory prepayment. The short-term facility also includes event-of-default clauses based on financial ratios.

The Group's bond debt (OCEANE 2003-2009, OCEANE 2011, 2005-2008 Notes) does not require it to satisfy certain financial ratios, although repayment can be accelerated if the Group defaults on other loans and in the case of other events of default (see note 13.4 to the consolidated financial statements).

Loans and credit facilities extended to Infogrames Entertainment are also subject to acceleration clauses, including in the event of cross default between loans, and provide for mandatory prepayment in the event of default on either payment. For example, failure to make a payment on time under a bank loan causes the entire loan as well as all other bank loans to be in default.

### Risks related to the enforcement of guarantees provided by the Group

In connection with short- and medium-term financing provided to the Company and its European and Asian subsidiaries within the framework of the refinancing of its bank debt, in April 2006 the Group had to renew and provide guarantees (security interests and senior pledges) to the new bank lender, involving essential assets of the Group (see note 26.1 to the consolidated financial statements). The 2005-2008 Notes are also secured by a senior pledge of 40.1 million Atari, Inc. shares.

Should the Group default on the Notes, their holders could enforce guarantees securing them, which would cause a very significant reduction in the Group's assets and imperil its ability to continue operating.

### Risks related to production funds

As part of the Group's strategy aimed at diversifying its sources of financing, a European production fund of € 26.7 million has been set up to finance game development; € 7.7 million of this sum was collected in the period to March 31, 2006. The Group continues to seek financing for games from production funds, which are an important source of financing for it. If the Group no longer had access to these funds in the future, this would likely have a material adverse effect on its ability to release certain games.

### Risks from operating losses by the Group

The Group incurred an operating loss of € 154.1 million (under IFRS) for the year ended March 31, 2006, compared with a loss of € 33.9 million (under IFRS before IAS 32-39) in fiscal 2004-2005. In light of those losses, management has implemented a plan designed to reduce operating costs.

### Risks related to the Group's ability to distribute dividends

The Company did not pay out dividends for fiscal 2005-2006 and does not envisage paying any in the near future. Its ability to distribute dividends depends on its ability to generate distributable earnings (which depend on its operating income, cash balances and financial position). In addition, certain financing agreements to which the Company is a party prohibit or limit the payment of dividends under certain circumstances.

- **CONTRACTUAL RISKS**

### Risks related to licenses

The Group does not hold title to all of the assets it needs to conduct its business. It depends to a large extent on licensing agreements for themes and hardware applications granted by third parties. The success of its publishing business is largely dependent on its ability to acquire intellectual property and to develop it in full compliance with applicable agreements. Accordingly, apart from financial considerations, the term and renewal of licenses for themes and characters obtained by the Group depend on compliance with contractual requirements concerning how they are used. In particular, the Company is bound by confidentiality rules concerning the technology of patent holders and the financial terms of contracts signed with them.

The Group enters into licensing agreements with copyright holders for the purpose of developing its business. Given the fact that no single license used by the Atari Group accounted for more than 20% of consolidated revenue in fiscal 2006, the Group considers that the loss of a license (non-renewal or cancellation) would not by itself have a significant impact on the Group's business or income. Nevertheless, the simultaneous loss of several licenses would be likely to have a significant adverse impact on the Group's financial position, business and income if such loss failed to be offset by new licenses with the same impact on its business.

### Risks related to third-party publishers

During the year ended March 31, 2006, 47% of the Group's revenue came from sales of games produced by third-parties, who contract with it for the distribution or joint publishing of their products, either worldwide or in a specific region. The Group is highly selective when it comes to this particular business. Should collaboration between Infogrames Entertainment and those publishers come to an end, the loss of revenue from this distribution business would have a material adverse effect on the Group's financial position.

### Risks related to relations with copyright holders

The success of the Group's publishing business is largely dependent on its ability to acquire intellectual properties and to develop them in full compliance with applicable agreements. Accordingly, apart from financial considerations, the term and renewal of licenses for themes and characters obtained by the Group depend on compliance with contractual requirements concerning how they are used. In particular, the company is bound by confidentiality rules concerning the technology of patent holders and the financial terms of contracts signed with them.

### Risks related to console manufacturers

The Group's business depends to a large extent on licenses granted by console manufacturers. Such licenses usually have a life of three years and make it possible to develop products for proprietary hardware (Game Cube, Game Boy Advance, PS2, PSP, Microsoft X-BOX etc.). Licensing agreements require that the Group provide a guarantee against claims that may be lodged against the manufacturers in connection with these products. The guarantees cover the content, marketing and distribution of its products, including infringements of copyright and other intellectual property rights held by third parties.

On the other hand, no license is required for products in PC-compatible format.

## Risks related to dependency on game console manufacturers

The Group is dependent on console manufacturers, from which it purchases cartridges and other game media, as do all other makers of console games. The availability of supplies therefore depends on media being manufactured. There is no particular dependency in the case of PC games.

- **RISK EXPOSURE RELATED TO THE VIDEO-GAME MARKET**

## Risks related to next-generation consoles

Interactive entertainment software consists primarily of games for personal computers and tabletop or handheld consoles. While technological advances in personal computers have progressed in a relatively straight line, games consoles have been developing in cycles, as new equipment with ever-increasing capabilities contributes to broadening the market. The year 2006 represented a transitional period for the world video-game market. The Playstation 3 console is expected to be released worldwide in the fall of 2006.

During transitional periods and at the beginning of each new cycle, business conditions for video game publishers temporarily deteriorate, as the shift to new consoles generally causes a slowdown in sales of software for those devices until they are well established on the market. The current transitional period may last longer in the case of the Playstation 3, as its price will be higher than that of other consoles.

At the same time, publishers must spend considerable sums in research and development in order to produce titles for the new generation of consoles. They must anticipate developments in order to prepare games for advances in console technology. Studios must therefore have sufficient financial resources to respond to technological developments and to survive during temporary stagnation periods. The large number of people needed to produce a game rises along with the new technology and increases the cost of games. Publishers seek to anticipate correctly and to make the right choice of formats in which to develop games. This is a very important decision and strategic choice in view of the sums at stake. A wrong choice or a delayed release of the console for which the game is made could have adverse repercussions on projected sales. Likewise, the cost of promoting and marketing games is constantly increasing.

In order to minimize the risk of consumers opting for given systems, Atari intends to continue pursuing a strategy of not depending on specific technological formats, but instead offering software for all of the leading game platforms on the market.

## Risks related to the life span and success of games

The main intrinsic risks to which video game publishers are exposed have to do with the inherently short life span of individual games and the speed at which technology evolves. Another is that the release of a product may be deferred. In the highly competitive interactive entertainment market, where having a hit product is increasingly the only thing that matters, continued success for publishers depends on the ability to offer, on a regular basis, new games that reflect what players want, without being dependent on the success of a single title. The commercial success of games depends on their popularity, a factor that is not easily predictable.

Besides using creative and technical resources to ensure that each new game released is of the highest quality, Atari seeks to minimize its exposure to market risks by offering an extensive and diversified product line containing a mix of original titles, its own franchises and games based on licensed popular themes.

## Risks related to delays in the release of games

Lastly, postponing the release of a major game can have a highly adverse impact on Group income and the trading price of shares. There can be significant repercussions whenever the game whose release has been deferred had to be released at the same time as the movie on which it is based. A late release can be due to the production studio (staff changes, changes in production stages, etc.) or to outside factors. The Group pays considerable attention to the selection of third-party developers and the diligence of production processes, although this does not eliminate all risks of lateness. The next sequel of “Alone in the Dark”, one of the Group’s major games, is scheduled to be released in March 2007. Any postponement of its release to a later period would have a material adverse effect on the Group’s financial position.

## Risks related to piracy

The impact of piracy is difficult to gauge, but the Group believes that it results in substantial loss of revenue. This is especially serious at the time new games come out, since piracy is most prevalent in the period immediately following product release. Because of differences in legislation among countries, it is difficult to coordinate worldwide measures to fight piracy.

A pragmatic approach to fighting piracy is used, based on the degree of risk exposure and the countries concerned. In France and elsewhere in Europe, Atari works closely with the anti-piracy unit set up by institutions such as SELL (the French association of entertainment software manufacturers), the Entertainment Leisure Software Publishing Association (ELSPA) and customs authorities. In the United States, it has access to the services of a specialized anti-piracy firm through its membership in the Interactive Digital Software Association (IDSA). The Company also works with specialized companies to fight against unlawful downloading of its products.

- **LEGAL RISKS**

## Risks related to litigation

The Group is or may become involved in a certain number of legal proceedings during the ordinary course of business. Damages are or may be claimed under some of the proceedings, such as those concerning important intellectual property. During the year ended March 31, 2006, a significant case arose in which the Company is being sued by a former employee who claims that he co-authored one of the Group’s best-selling franchises. The plaintiff is seeking damages for moral prejudice and financial loss suffered as a result of the allegedly unlawful distribution by the Group of games based on that universe. Damages claimed are in excess of € 17 million. At this preliminary stage of the proceeding, the Company is categorically rejecting the plaintiff’s claim of authorship and considers the grounds and amount of his claim to be unfounded.

## Risks related to changes in regulations applicable to video games

The Group's operations are not governed by specific rules or regulations and are not subject to government licensing. Nevertheless, if the public image of video games, and in particular action games, were to become negative, this could result in more regulations concerning the classification and distribution of such products.

- **RISKS RELATED TO INFOGRAMES ENTERTAINMENT SUBSIDIARIES**

Infogrames Entertainment has several subsidiaries around the world. They are majority-owned and most of their directors are appointed by the Group. Atari Inc, however, is incorporated in the United States and is governed by the law applicable there, including concerning the appointment of outside directors and the protection of minority shareholders. As a result, even though Infogrames Entertainment owns 51.4% of Atari’s shares (the balance being held by the public), it does not exercise the same control over its US subsidiary’s business as it does in the case of other subsidiaries.

## Risk of Atari Inc. being delisted from the NASDAQ Global Market

Atari, Inc. was notified on September 1, 2006 that NASDAQ had initiated a procedure aimed at moving its shares to another listing, due to the fact that their trading price had been below one dollar for several months. Solutions are currently being examined by Atari Inc., its lawyers and the NASDAQ, aimed at avoiding the delisting, including by means of a reverse stock split.

However, if the measures proposed by Atari, Inc. fail to satisfy the conditions for continued listing on the Global Market – which is the most active exchange on which NASDAQ-quoted securities are traded – the shares of Atari Inc. could be delisted by the NASDAQ from the NASDAQ Global Market and moved to an exchange with less trading volume and liquidity; this could have a material adverse effect on the price and trading of Atari Inc. shares.

## ▪ RISKS RELATED TO HUMAN RESOURCES

### Risks related to personnel requirements

The Group's success is to a large extent due to the accomplishments of its technical staff and management. Advances in technology and the need to make more complex and innovative games requires increasingly specific expertise. Each production stage can now call upon contributions by hundreds of persons over periods that can extend to several years.

The Group can therefore be faced with serious problems when seeking to hire technically skilled and experienced employees for its studios. A shortage of skilled personnel would adversely affect the Company's ability to pursue its growth and reorganization strategy, or could cause payroll costs to increase, which in turn could materially affect its business, income, financial position and growth prospects.

The Group's reputation and hands-on approach to human resource management has enabled it to attract the best talent to work with its development staff.

### Risks related to the departure of key executives

The Group recently had to deal with the resignations of two senior executives at its Atari Inc. subsidiary, when president and CEO Jim Caparro and CFO Diane Baker resigned from their positions. Should other key executives leave in coming months, the Group could find it difficult to replace them and this could cause its business to slow down and have an adverse impact on its financial position, income and ability to achieve objectives.

## ▪ RISKS RELATED TO THE COMPANY'S FINANCIAL REPORTING

### Risks related to the valuation of goodwill

Reviews of assumptions used to measure the book value of goodwill can materially affect its valuation. There are two main categories of assumptions. Technical assumptions include the weighted average cost of capital, the present value of future cash flows and the growing perpetuity of free cash flows. Economic assumptions include changes in anticipated economic and financial factors affecting the Group, the life span and success of games and delayed releases of games.

### Risks related to the changeover to IFRS

The Group changed over to IFRS and indicated the impact of the restatements this entailed in a transitional statement included with the 2005-2006 interim financial statements. Group's consolidated financial statements for the years ended March 31, 2006 were prepared in accordance with IFRS. Future changes in IFRS and their interpretation, and their adoption by the European Commission subsequent to March 31, 2006 could require adjustments in previously reported financial information.

### Risks related to changes in accounting practices

Since April 1, 2005, the Group capitalizes all internal development expenses incurred after the end of the pre-production stage (when the technical feasibility is certain). These costs are now recognized on the date games are released and are written off over the subsequent 18-month period (see note 4 – Intangible assets).

## ▪ FINANCIAL RISKS

### Currency risks

Even though more than half of the Group's revenue is generated outside the euro zone, its sales do not expose it to significant currency risks. This is so because overall revenue and expenses are balanced in the principal currencies (euros and US dollars). Accordingly, the Group generally does not make use of currency hedges for its commercial transactions.

Exposure to foreign-exchange risk associated with the financing of subsidiaries is handled by the parent corporation, which arranges for hedges as required depending on the specific type of financing concerned. As of March 31, 2006, the Group had not hedged its exchange-rate exposure on these sums, which represent long-term financing for its United States operations.

Nevertheless, the Group's financial statements are presented in euros, and its assets, liabilities, revenue and expenses in other currencies must be translated into euros at the applicable exchange rate in order to be reported in the Group's consolidated financial statements. Whenever the value of the euro increases in relation to another currency, the value in euros of the Group's assets, liabilities, revenue and expenses that were in that other currency declines. The opposite occurs whenever the exchange value of the euro declines. Consequently, fluctuations in euro exchange rates can have an impact on the value in euros of the Group's assets, liabilities, revenue and expenses outside the euro-zone, even if their value in domestic currencies has remained unchanged. Exposure to foreign-exchange risk is most critical in the case of sales, the income of subsidiaries operating in US dollars, as well as the value of intangible assets and the Group's goodwill in these subsidiaries.

For example, a one-percent decline in the value of the dollar in relation to the euro would cause consolidated revenue to drop by € 1.7 million, based on the 2006 financial statements. Operating income would decline by € 1.2 million and consolidated shareholders' equity by some € 1.2 million.

### Interest-rate risks

The Group's exposure to interest-rate risks is not significant because almost 79 percent of its net debt is in the form of fixed-rate bonds. The balance of its financing is represented by EURIBOR-linked floating-rate debt. A one-point increase in the base rate would cause annual interest expense to go up by about € 0.3 million.

### ▪ EXPOSURE TO INDUSTRIAL AND ENVIRONMENTAL RISKS

The Group's business consists of developing, publishing and distributing entertainment software. It has no significant direct environmental impact. In general, the Group subcontracts all of the manufacturing of the digital media (CDs, cartridges, etc.) to third parties.

# 5. DEVELOPMENTS SUBSEQUENT TO MARCH 31, 2006

## 5.1. NEW AGREEMENT WITH BANKS

Infogrames Entertainment and its principal European subsidiaries signed a new agreement with a major foreign bank on April 13, 2006, providing for the refinancing of the entire short and medium-term bank debt of the Company and its subsidiaries (not including Atari, Inc.).

The agreement, which was approved by the Lyon Commercial Court on April 14, 2006, as required by articles 611-8 to 611-11 of the Commercial Code, allows the Company to defer the repayment of € 25.5 million in short and medium-term bank credit facilities that expired between December 15, 2005 and March 15, 2006. Infogrames Entertainment and Atari Europe will examine with the lender how the bank debt can be allocated among the Group’s operating subsidiaries.

The agreement also provides a one-year, € 20-million short-term credit facility in the form of cash, letters of credit or standby loans to finance the operations of the European subsidiaries. The Group reserves the option to obtain additional local financing in Europe or Asia, secured by trade receivables of up to € 30 million during peak periods. That ceiling may be further raised with the consent of the lender.

The short-term credit facility was extended to Atari Europe, Atari France, Atari Deutschland and Atari UK and is guaranteed by Infogrames Entertainment and Atari Europe. The agreement does not affect the borrowing capacity of Atari, Inc. and Atari Interactive, Inc.

There are several mandatory prepayment clauses attached to the facility, including in the following instances:

- Failure to meet financial ratios (Revenue/EBITDA/operating cash flow);
- Early redemption of the OCEANE 2003-2009 or OCEANE 2011 bonds other than in exchange for new securities;
- Prepayment of the 2005-2008 Notes other than the first one-third fraction initially maturing March 15, 2006 (provided that repayment is on or after December 15 or is in the form of other securities), except in exchange for newly-issued securities;
- Sales of assets by the Group or new financing, in which case 50% of the proceeds from the sale of any assets (other than those held by California U.S. Holdings or Atari, Inc. and its subsidiaries) or from new financing obtained (other than financing

obtained by California US Holding or Atari, Inc.) must be used to repay sums outstanding in excess of € 30 million, which ceiling may possibly be raised with the lender's consent.

In addition to security interests granted for existing loans, Infogrames Entertainment and its European and Australian subsidiaries have agreed to provide additional guarantees, primarily in the form of:

- a pledge of the shares of certain European subsidiaries and of Atari Interactive, Inc. as well as of title to certain games published by Atari Europe (see the Annual Report section on "General information concerning the company's capital – Pledges, suretyships and guarantees");
- a pledge of receivables from other Group entities.

The new agreement replaces and supersedes previous ones, as all creditor banks have transferred their receivables to the new lender under the agreement.

Security interests granted to the new bank are detailed in the Annual Report section on "General information concerning the company's capital – Pledges, suretyships and guarantees".

### 5.2. SALES OF ASSETS

As part of the Group's project to dispose of assets, and pursuant to undertakings made last February, Infogrames Entertainment and Atari Inc. have sold off the investment in the development of Stuntman and the related license. The purchaser also exercised an option to buy the Dallas-based Paradigm Entertainment studio, where Stuntman 2 is being developed.

In addition, Atari Inc. has announced that it has sold the rights to the Driver franchise and most of the assets of the Reflections development studio for US$ 24 million. This transaction is subject to the usual conditions and is expected to be finalized during the quarter ending September 30, 2006. As part of the transaction, the Group has entered into a limited-duration covenant not to compete pertaining to the franchise, under which it may continue to distribute the game Driver: Parallel Lines until the end of 2006 and other Driver products for a period of three months. The development studio is an assets of Atari Inc.

### 5.3. RESCHEDULING OF NOTES' MATURITY

On June 15, 2006, a meeting of the holders of 6% 2005-2008 Notes resolved to amend their indenture and to postpone to September 15, 2006 the repayment date of the first € 11.2-million fraction of the notes' principal (before interest).

## 6. PROSPECTS FOR THE FUTURE

Several major titles are to be released in fiscal 2006-2007, principally for next generation consoles (Xbox 360, PS3, PSP and NDS). The new games, which earned critical accolades at the recent E3 trade show, include:

- The eagerly awaited Test Drive Unlimited (Xbox 360, PC, PS2, PSP), which is the first-ever "massively open" online racing game and a likely future reference for the genre on next-generation consoles;
- Arthur and the Minimoys (PS2, PSP, PC, GBA, Nintendo DS, Mobile), based on the forthcoming eponymous Luc Besson animated feature film, which will be released in various countries at the same time as the movie;
- Neverwinter Nights 2 (PC), which marks the return of the celebrated RPG, which has sold more than 2 million worldwide and has one of the largest and most active followings in the role-playing genre;
- Dragon Ball Z: Budokai Tenkaichi 2 (PS2 and Wii), which is the sequel to Dragon Ball Z: Budokai Tenkaichi, the best-selling DBZ game in 2005; more than ten million DBZ-franchise games have been sold worldwide since 2002;
- Alone in the Dark (Xbox 360, PS3, PC), scheduled for release in fiscal 2007-2008, which is the latest release under the seminal "survival horror" genre franchise for PC and next-generation consoles; the original version sold more than six million copies worldwide.
- Hot Pxl (PSP), a concept based on more than 200 mini-games, which will take full advantage of the PSP's unique features, such as the console's capacity to download unreleased bonuses through its online connection;
- Dungeons & Dragons: Tactics (PSP);
- Earthworm Jim (PSP and Nintendo DS).

Other games scheduled to be released include:

Asterix and Obelix Mission Wifix (Nintendo DS and PSP), Totally Spies 2: undercover ! (Nintendo DS and PSP), Battlezone (PSP), Saint Seiya Knights of the Zodiac: Hades (2), Point Blank (NDS), Naruto: Ultimate Ninja (PS2), One Piece: Grand Adventure (PS2), Thrillville (PS2, PSP, Xbox), Dora the Explorer Fairy Tale Adventure (PC), Dora the Explorer Back Pack Adventure (PC), Dora the Explorer Dance to the Rescue (PC), Age of Pirates: Caribbean Tales (PC), Dig Dug Digging Strike (NDS), Rebelstar Tactical Command (GBA), Rainbow Island Islands Evolution (PSP).

# CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2006

**CONTENTS**

## ▪ CONSOLIDATED FINANCIAL STATEMENTS

| (€ millions) | 3/31/2006 (12 months) | 3/31/2005 (12 months) | Notes |
|---|---|---|---|
| Revenue from ordinary business | 391.2 | 577.2 | 16 |
| Cost of goods sold | (230.0) | (285.7) | 17 |
| **Gross margin** | **161.2** | **291.5** | |
| Research and development expenses | (65.5) | (110.2) | 17 |
| Marketing and distribution expenses | (87.6) | (102.4) | 17 |
| General and administrative expenses | (64.4) | (71.9) | 17 |
| Current operating income | (56.3) | 7.0 | 16 |
| Restructuring charges | (13.2) | (14.1) | 17 |
| Gains (losses) from disposals of assets | 4.2 | (7.5) | 17 |
| Disposal of Hasbro License | 36.6 | - | 17 |
| Impairment of goodwill | (125.4) | (19.3) | 17 |
| **OPERATING RESULT** | **(154.1)** | **(33.9)** | 16 |
| Cost of debt | (20.1) | (18.6) | 20 |
| Other operating revenue and expenses | (3.3) | 13.0 | 20 |
| Income tax | (1.7) | 5.2 | 21 |
| Share of net income (loss) of equity method investments | (0.1) | - | |
| **Net income (loss) before minority interests** | **(179.3)** | **(34.3)** | |
| Minority interests | (29.5) | (0.7) | |
| **Net income (loss)** | **(149.8)** | **(33.6)** | 16 |
| Net income (loss) per share, not diluted (in euros) | (0.80) | (0.26) | |
| Net income (loss) per share, fully diluted (in euros) | (0.80) | (0.26) | |
| Weighted average number of shares outstanding, not diluted | 187,268,432 | 129,895,258 | |
| Weighted average number of shares outstanding, fully diluted | 187,268,432 | 129,895,258 | |

▪ **CONSOLIDATED BALANCE SHEET**

| (€ millions) | 3/31/2006 (12 months) | 3/31/2005 (12 months) | Notes |
|---|---|---|---|
| Goodwill | 128.9 | 248.5 | 3 |
| Net intangible assets | 90.7 | 66.8 | 4 |
| Net property, plant and equipment | 11.3 | 14.1 | 5 |
| Net financial assets | 3.2 | 3.8 | 6 |
| Other non-current assets | 0.6 | 12.5 | 9 |
| Net deferred tax assets | 5.7 | 6.6 | 21 |
| **Non-current assets** | **240.4** | **352.3** | |
| Inventories | 35.8 | 38.0 | 7 |
| Trade receivables | 49.6 | 61.0 | 8 |
| Tax credits | 0.7 | - | |
| Other current assets | 17.3 | 18.8 | 9 |
| Cash and cash equivalents | 42.6 | 36.3 | |
| **Current assets** | **146.0** | **145.1** | |
| **Total assets** | **386.4** | **506.4** | |
| Capital stock | 115.7 | 111.9 | |
| Additional paid-in capital | 650.3 | 645.1 | |
| Consolidated retained earnings (deficit) | (788.1) | (678.5) | |
| **Total stockholders' equity** | **(22.1)** | **78.5** | 11 |
| Minority interests | 31.9 | 46.1 | |
| **Consolidated shareholders' equity** | **9.8** | **124.6** | |
| Provisions for non-current contingencies and losses | 0.3 | 0.1 | 12 |
| Long-term debt | 158.4 | 165.7 | 13 |
| Deferred taxes | - | - | |
| Other current liabilities | 15.0 | 1.2 | 14 |
| **Non-current liabilities** | **173.7** | **167.0** | |
| Provisions for current contingencies and losses | 6.0 | 7.7 | 12 |
| Short-term debt | 52.5 | 77.2 | 13 |
| Bank borrowings | 4.9 | 0.4 | 13 |
| Payables to suppliers | 114.6 | 110.8 | |
| Tax liabilities payable | 0.3 | 0.6 | |
| Other current liabilities | 24.6 | 18.1 | 14 |
| **Current liabilities** | **202.9** | **214.8** | |
| **Total liabilities and stockholders' equity** | **386.4** | **506.4** | |

## ▪ CONSOLIDATED STATEMENT OF CASH FLOW

| (€ millions) | 3/31/2006 (12 months) | 3/31/2005 (12 months) |
|---|---|---|
| Net income (loss) of entities accounted for by the equity method | (179.3) | (34.3) |
| Amortization and provisions allowances (reversals) for non-current assets | 181.8 | 78.5 |
| Cost of (income from) stock options | 4.5 | 3.1 |
| Losses (gains) on disposals of intangible assets and property, plant and equipment | (41.3) | (13.3) |
| Losses (gains) on sales of securities | 0.7 | 19.7 |
| Other | 0.7 | (0.4) |
| Debt servicing | 20.1 | 18.6 |
| Restructuring of OCEANE 2000-2005 bond debt | - | (15.6) |
| Taxes (deferred and payable) | 1.6 | (5.2) |
| **Cash flow before net cost of debt servicing and taxes** | **(11.2)** | **51.1** |
| Taxes paid | (0.3) | (1.5) |
| Changes in working capital | | |
| Inventories | 2.8 | 3.0 |
| Trade receivables | 13.0 | (15.9) |
| Trade payables | (2.2) | (8.1) |
| Other current assets and liabilities | 6.1 | 27.3 |
| **Cash flow generated by business** | **8.2** | **55.9** |
| Purchases | | |
| Intangible assets | (68.1) | (57.1) |
| Property, plant and equipment | (1.6) | (2.7) |
| Financial assets | (0.2) | (0.7) |
| Disposals | | |
| Intangible assets | 65.8 | 18.1 |
| Property, plant and equipment | - | 0.5 |
| Financial assets | - | 0.3 |
| Issue and offering of Atari Inc shares | 7.8 | 28.8 |
| Impact of changes in reporting entities | (0.5) | (0.5) |
| **Net cash flow from capital transactions** | **3.2** | **(13.3)** |
| Net proceeds of | | |
| Equity issues | 8.8 | 41.1 |
| Increase in the debt | 15.4 | 3.3 |
| Net outlays for | | |
| Net interest and fee expenses | (8.5) | (11.0) |
| Debt repayment | (21.2) | (54.6) |
| Simplified exchange offer for convertible bonds | - | (27.8) |
| Other financial flows | - | 3.9 |
| **Net cash flow from financing** | **(5.5)** | **(45.1)** |
| Impact of foreigh-exchange rate fluctuations | 0.4 | (0.5) |
| **Change in net cash** | **6.3** | **(3.0)** |

| **CASH** | **3/31/2006** | **3/31/2005** |
|---|---|---|
| Balance at period's start | 36.3 | 39.3 |
| Balance at period's end (a) | 42.6 | 36.3 |
| Change | 6.3 | (3.0) |

| | | |
|---|---|---|
| (a) of which: | | |
| Cash | 41.9 | 36.2 |
| Investment securities | 0.7 | 0.1 |
| Total | 42.6 | 36.3 |

## ▪ CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (€ millions) | Capital stock | Other paid-in capital | Treasury shares | Consolidated reserves | Unrealized foreign-exchange gains (losses) | Shareholders' equity after minority interests | Minority interests | Consolidated shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **Balance on April 1, 2004** | **74.0** | **600.6** | **-** | **(627.7)** | **-** | **46.9** | **32.7** | **79.6** |
| Net income (loss) for fiscal 2004-2005 | | | | (33.6) | | **(33.6)** | (0.7) | **(34.3)** |
| Equity issues | 37.9 | 44.5 | | (9.1) | | **73.3** | | **73.3** |
| Changes in unrealized foreign exchange gains and losses | | | | | (15.4) | **(15.4)** | (1.9) | **(17.3)** |
| Changes in reporting entities (1) | | | | | | **-** | 15.3 | **15.3** |
| Treasury shares | | | 5.1 | | | **5.1** | | **5.1** |
| Stock options | | | | 2.4 | | **2.4** | 0.7 | **3.1** |
| Other changes | | | | (0.1) | (0.1) | **(0.2)** | - | **(0.2)** |
| **Balance on March 31, 2005 before IAS 39** | **111.9** | **645.1** | **5.1** | **(668.1)** | **(15.5)** | **78.5** | **46.1** | **124.6** |
| Impact of IAS 32/39 (2) | | | | 21.5 | | **21.5** | | **21.5** |
| **Balance on April 1, 2005 incl. IAS 39** | **111.9** | **645.1** | **5.1** | **(646.6)** | **(15.5)** | **100.0** | **46.1** | **146.1** |
| Income (loss) for the period | | | | (149.8) | | **(149.8)** | (29.5) | **(179.3)** |
| Equity issues | 3.8 | 5.2 | | | | **9.0** | | **9.0** |
| Changes in unrealized foreign exchange gains and losses | | | | | 16.5 | **16.5** | 3.2 | **19.7** |
| Changes in reporting entities (3) | | | | | | **-** | 10.4 | **10.4** |
| Treasury shares | | | (5.1) | 5.1 | | **-** | | |
| Stock options | | | | 2.9 | | **2.9** | 1.4 | **4.3** |
| Other changes | | | | (0.1) | (0.6) | **(0.7)** | 0.3 | **(0.4)** |
| **Balance on March 31, 2006** | **115.7** | **650.3** | **-** | **(788.5)** | **0.4** | **(22.1)** | **31.9** | **9.8** |

(1) Changes in consolidated entities for the year ended March 31, 2005 included the following:

- Sale of Atari, Inc. shares during the first half of fiscal 2004-2005 in connection with financing secured by Atari, Inc. stock (positive impact of € 15.7 million)
- Sale of Atari, Inc. shares to various investors during the second half of fiscal 2004-2005 (positive impact of € 217 million)
- Application of IAS 38 to the reclassification of market shares as goodwill (negative impact of € 21.6 million)
- Application of IAS 38 to outsourced research and development expenses (negative impact of € 0.5 million)

(2) In accordance with IAS 32, the OCEANE 2009 convertible bonds have been treated as equity-linked instruments effective April 1, 2005 and divided into:

- a financial liability, for the bond portion, similar to a normal debt;
- a conversion option for a fixed number of common shares, representing an equity instrument. This treatment has an impact of € 21.5 million on equity on April 1, 2005.

As permitted under IFRS 1, the Group has opted to apply IAS 32 and IAS 39 from April 1, 2005. The retrospective application of the standards from April 1, 2004 would have required the Group to make the following restatements concerning fiscal 2004-2005:

- Consolidation of receivables assigned by way of security with assigned trade receivables and recognition of an equivalent debt.
- Recognition of OCEANE bonds issued on December 23, 2003 at their estimated effective interest rate of 11.94%, after recognition of their conversion component as equity;
- Recognition of the 2005-2008 bond debt reported in accordance with the amortized cost method applying a going interest rate of 9.63%;
- Accounting for the Nexgen financing (secured by Atari Inc. shares) and its settlement, and for the restructuring of the OCEANE 2000-2005 bond debt, in accordance with IAS 32 and IAS 39.

(3) For the year ended March 31, 2006, the major changes in consolidated entities were as follows:

- Humongous transaction (positive impact of € 3.0 million; see note 1.2)
- Issue of Atari, Inc. shares for the benefit of Martin Lee Edmonson (positive impact of € 1.3 million; see note 1.3)

- Agreements entered into on September 15, by Atari, Inc., Sark Fund and CCM Fund, and by Atari, Inc, Atari UK and IESA and its subsidiaries (€ 6.2 million; see note 1.3)

- **THE GROUP**

Infogrames Entertainment SA (hereinafter the "Company"), together with its subsidiaries (collectively, the "Group"), is a major international designer, producer, publisher and distributor of entertainment software, interactive or otherwise, for various media systems (game consoles, PCs, etc.) The Group's revenue from ordinary business is generated primarily from the sale and licensing of its own products, the sale and licensing of third parties' products under publishing agreements, the distribution of other publishers' products, and the production of software on behalf of third parties. The Group's customers include mass merchandisers, specialty software stores, computer superstores, and other publishers and developers throughout the world.

For the year ended March 31, 2006, the consolidated financial statements of the Group have been prepared in accordance with the principles and methods contained in the International Financial Reporting Standards (IFRS) adopted by the European Union (European Council Regulation 1606 / 2002 of July 19, 2002). They are presented alongside the consolidated financial statements for the year ended March 31, 2005 (also prepared in accordance with IFRS) for purposes of comparison.

The consolidated financial statements were approved by the Board of Directors at its meetings of July 26 and September 8, 2006.

# NOTE 1 – HIGHLIGHTS

## 1.1. APRIL 2005 – CHANGEOVER TO IFRS

### 1.1.1. STANDARDS

As the Company's shares are publicly traded in a European Union country, under European Council Regulation 1606/2002 of July 19, 2002, the Group's consolidated financial statements for fiscal 2005 have to be prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union. These include those adopted by the International Accounting Standards Board (IASB), meaning the IFRS, International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

The financial statements for the fiscal year ended March 31, 2006, prepared in accordance with IFRS 1 "First adoption of international financial reporting standards" are the first to be presented in full accordance with IFRS. They include a comparative version of the 2004-2005 financial statements prepared in accordance with the same standards, except for IAS 32-39, as explained below. The process and impact of the changeover to IFRS of the 2004-2005 financial statements, previously prepared in accordance with accounting principles accepted in France, as well as the impact of the adoption of IAS 32 and IAS 39 from January 1, 2005, are described in note 28 to this report.

### 1.1.2. IFRS APPLIED AT THE TIME OF THE TRANSITION ON APRIL 1, 2004

The impact on shareholders' equity is shown prior to taxes and minority interests. IFRS 1 ("First-time Adoption of IAS/IFRS") contains specific provisions for implementing the international standards. The Group has selected the following options:

- **BUSINESS COMBINATIONS (IFRS 3)**

The Group has selected the option under IFRS 1 not to restate acquisitions prior to April 1, 2004 in accordance with IFRS 3. Accordingly, as permitted by IFRS 1, goodwill recognized in equity under French standards prior to the application of CRC regulation 99-02 has been left unchanged and the valuation of goodwill in accordance with the purchase method, as prescribed by CRC regulation 99-02, has not been revised.

- **EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (IAS 21)**

Under the option permitted by IFRS 1, the Group has elected to transfer the balance of the currency translation reserve on April 1, 2004, set aside under French standards, to “retained earnings”, meaning that unrealized foreign-exchange gains and losses previously calculated when translating the financial statements of subsidiaries into euros have been zeroed out. This does not have any effect on the Group’s consolidated shareholders’ equity.

- **SHARE-BASED PAYMENT (IFRS 2)**

Under the option allowed by IFRS 1, the Group has applied IFRS 2 only to rights granted after November 7, 2002 under its stock option and employee stock savings plans not yet fully vested as of January 1, 2005.

- **PENSIONS: UNRECOGNIZED ACTUARIAL GAINS AND LOSSES (IAS 19)**

As permitted under the IFRS 1 option, the Group has elected to recognize the direct impact on equity of all actuarial gains and losses on pension commitments not yet recognized, effective April 1, 2004.

- **FINANCIAL INSTRUMENTS (IAS 32 AND IAS 39)**

The Group has elected not to apply IAS 32 and 39 on financial instruments retrospectively from April 1, 2004.

The impact of the foregoing options on the financial statements is explained in the restatement remarks under note 28 to the consolidated financial statements.

- **NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (IFRS 5)**

The Group has elected not to apply IFRS 5 on non-current assets held for sales and discontinued operations from April 1, 2004. IFRS 5 has been applied from April 1, 2005 in accordance with transition guidelines.

The Group has not made use of other exemptions allowed under IFRS 1. This includes the option to measure certain property, plant and equipment and intangible assets at fair value for the purpose of the opening balance sheet.

### 1.1.3. STANDARDS IN EFFECT SINCE 2005

The Group started applying IAS 32 and 39 during the period. The adoption of the standards had a significant impact on the Group’s debt. The book value of the OCEANE 2009 bond debt was reduced by € 31.1 million on April 1, 2005 and the 2005-2008 Notes declined by € 1.9 million (see note 13.1). This increased shareholders’ equity on March 31, 2005 by € 21.5 million.

### 1.1.4. APPROVED STANDARDS NOT YET IN EFFECT

Certain IFRS standards and interpretations issued at the time these financial statements were approved are not yet in effect and the Group has not opted for early application. Those that are most likely to concern the Group are:

- A limited revision of IAS19 – employee benefits, concerning actuarial gains and losses, group plans and information to be reported, applicable to fiscal years starting on or after April 1, 2006.
- A limited revision of IAS 39 concerning the fair value option, applicable to fiscal years starting on or after April 1, 2006.
- IFRS 7 – Financial instruments (information to be reported), applicable to fiscal years starting on or after April 1, 2007.
- IFRIC 4 – Determining whether an agreement contains a lease (applicable from April 1, 2006).
- IFRIC 8 – Scope of IFRS 2, applicable from May 1, 2006.

The Group is currently assessing the potential impact that these standards and interpretations would have on its consolidated income, financial position, cash flow and the notes to the financial statements.

## 1.2. ACQUISITIONS IN THE PERIOD

- **GAME ONE**

On June 24, 2005, the Group purchased 35.81% of the shares of Game One to add to the 14.19% it held on March 31, 2005, for € 0.5 million. On July 25, 2005, the Group's ownership of Game One was reduced back to 45.46% after Game One issued shares in favor of MTV.

- **HUMONGOUS**

In September 2005, Infogrames Entertainment purchased the shares of Humongous, Inc. previously held by Atari, Inc. (93.7%) and Atari Interactive, Inc. (6.3%). Humongous, Inc. owns rights to characters and themes, principally of best-selling children and family games in the United States, including the Backyard Sports series, Freddi Fish, Pajama Sam, Spy Fox, etc.

The acquisition is in line with the Group's general strategy of streamlining its own holdings and those of its US subsidiary and to shift control of certain Group operations.

Under the purchase agreement, Infogrames Entertainment has acquired all of the shares of Humongous, Inc. valued at € 9,032,783 and paid for with 6,229,505 newly-issued Infogrames Entertainment shares (3.3% of those outstanding), which have since been admitted to trading on Euronext. The value of the acquisition was independently appraised (by a *Commissaire aux Apports*), as required by article L-225-147 of the French Commercial Code.

The acquisition generated goodwill of € 3.2 million and increased minority interests by € 3.0 million.

## 1.3. OTHER HIGHLIGHTS OF THE PERIOD

- **CHANGES IN ACCOUNTING VALUATION**

Since April 1, 2005, the Group capitalizes all internal development expenses incurred after the end of the pre-production stage (when the technical feasibility is certain). The reasons for this change are explained in note 2.9.a). The impact of this change in practice has resulted in € 27.8 million in internal costs being capitalized over the year. This expenditure is recognized and amortized starting on the release date of games. Amortization allowances for the year amounted to € 8.8 million. They are recognized under “Research and development expenses.” The change had a net impact of € 19 million for the year ended March 31, 2006. It is not possible to estimate what impact it will have on future periods.

- **HASBRO**

In June 2005, Infogrames Entertainment and Hasbro, Inc. agreed to:

- amend the original license in consideration for the payment by Hasbro of US$ 65 million (€ 52.7 million); that sum was accordingly received during the first half of the year; as explained below, Infogrames continues to have the right to sell games based on the intellectual properties covered by the license in its inventories or under development on the date of the agreement, until March 2007;
- grant Infogrames a new exclusive ten-year license to the Dungeons & Dragons universe on all current conventional media (so-called "digital" systems, e.g. PC, game cartridges for Sony, Microsoft and other consoles) and all interactive systems (including: online, mobile phone, wireless, interactive television, etc.);
- grant Infogrames a new exclusive seven-year license to nine Hasbro "family/children" properties: Monopoly, Scrabble, Risk, etc for online, mobile phone, wireless, interactive television and other applications.

In keeping with the practice in the industry, the new licensing agreements contain certain guaranteed minimums. The transaction yielded a net gain of € 36.6 million before taxes and minority interests.

Infogrames may continue to sell other games on the following conditions:

- Previously released games: distribution will end no later than March 31, 2007 or, subsequent to December 31, 2005, three months after Hasbro notifies Infogrames that another licensee has acquired a property;
- Games under development: distribution for up to 18 months and up to no later than March 31, 2007.

The agreement resulted in the following accounting entries:

- Prepaid distribution fees recorded in the books of Infogrames Entertainment S.A. and not recovered were written off (€ 2.7 million);
- Intangible assets on the books of Atari Interactive Inc. at the time of the original agreement (net value of € 1.5 million) were no longer justified and were also written off;
- Prepaid development costs not recovered were closely examined to determine whether the reduction in the life of the license would make it possible to repay some or all of such advances. The decision was to take a write-off of € 3.1 million;
- A portion of goodwill was attributed to the property sold, calculated on the basis of the reduction in sales resulting from the return of certain rights (€ 8.8 million).

| **Gains from changes in the Hasbro license (in € millions)** | **52.7** |
|---|---|
| Write-off of the advance not collected by Infogrames Entertainment | (2.7) |
| Termination of Hasbro – Atari Interactive license | (1.5) |
| Impairment allotted to the return of rights to Hasbro | (3.1) |
| Goodwill attached to property sold (US$ 10.9 million) | (8.8) |
| **Income from the transaction (in € millions, before impact of minority interests)** | **36.6** |

## ▪ SALE OF GAMES.COM DOMAIN NAME

Games.com, a wholly-owned subsidiary of the Group, sold its games.com domain name on March 8, 2006. The sale produced a capital gain of € 7.4 million, after fees and expenses, based on the domains name's book value. Subsequent to the transaction, the company's name was changed to Gamenation, Inc.

## ▪ ISSUE OF ATARI, INC. SHARES FOR THE BENEFIT OF MARTIN LEE EDMONSON

As part of the final settlement of a dispute between Mr. Martin Lee Edmonson and the Reflections Interactive, Ltd. studio, a fully-owned Atari Inc. subsidiary in England, Atari Inc. issued 1,557,668 new shares, which were remitted to Mr. Edmonson under a negotiated agreement. A value of US$ 2.1 million was put on the shares and the settlement also called for the payment of US$ 2.2 million in cash, in twelve equal installments starting September 1, 2005, and a lump-sum payment of US$ 0.4 million on September 1, 2005.

The settlement is reflected in the financial statements on March 31, 2006 by:

- a reduction in the interest held by Infogrames Entertainment (directly and indirectly) in Atari, Inc. from 52.04% before the transaction to 51.36%.
- a reduction of € 1.4 million in the value of goodwill from Atari Inc.;
- a negative impact of 0.9 million on income.

- **AGREEMENTS ENTERED INTO ON SEPTEMBER 15, 2005 BY ATARI, INC., SARK FUND AND CCM FUND, AND BY ATARI, INC, ATARI UK AND IESA AND ITS SUBSIDIARIES**

On September 15, 2005, Atari, Inc. issued new shares for offering to *SARK Fund* and *CCM Fund*. The issue consisted of 5,702,590 common shares priced at US$ 1.30 each, for a total of US$ 7.4 million.

On the same day, Atari, Inc. created 6,145,051 new shares, as follows:

- 4,881,533 shares were issued and remitted to the Company as repayment for various services performed and expenses incurred by Infogrames and its subsidiaries on behalf Atari, Inc. The shares had a par value of US$ 1.30 each and enabled Atari, Inc. to make repayments of US$ 6.4 million in aggregate;
- 1,263,518 shares were issued for the Company pursuant to the debt-repayment agreement between Atari, Inc, Infogrames Entertainment S.A. and Atari UK concerning GT Interactive UK (a wholly-owned Atari, Inc. subsidiary in debt to the Group). The shares had a par value of US$ 1.30 each and enabled Atari, Inc. to repay a loan of US$ 1.6 million obtained by its GT Interactive UK subsidiary from Atari UK, a wholly-owned subsidiary of Infogrames Entertainment S.A.

The combined effect of the foregoing transaction is reflected in the financial statements to March 31, 2006 by:

- An increase in the Group's direct and indirect ownership interest in Atari Inc. from 51.36% to 51.40%;
- An increase of € 0.1 million in the value of the Atari, Inc. goodwill;
- A reverse dilution effect of € 0.1 million.

# NOTE 2 – ACCOUNTING PRINCIPLES AND METHODS

## 2.1. GENERAL PRINCIPLES

The Group's consolidated financial statements have been prepared in accordance with IFRS in effect in the European Union.

- **APPLICATION OF GOING-CONCERN ASSUMPTION**

The Group sustained large losses in previous years and during the period ended. It also has had to repay maturing bank and bond debts even though it had insufficient cash flow from operations to do so. A series of transactions have therefore had to be carried out in recent years, aimed at restructuring the Group's finances and, in particular, reducing its debt. The principal measures taken in this respect are described below:

- the sale back to Hasbro of digital rights to certain properties initially licensed by Hasbro under a December 2000 agreement, for $ 65 million;
- the sale of the "games.com" domain name and Timeshift license for a combined US$ 14.5 million;
- the rescheduling of the maturity of the first € 11.2-million portion of the 2005-2008 Notes from March 15 to June 15, 2006;
- the rescheduling of the repayment of € 23.4 million in medium-term bank debt from July 31, 2005 to March 31, 2008.

With the help of these measures, the Group reduced its net debt to € 173.2 million by March 31, 2006 (aggregate debt of € 215.8 million less cash balances of € 42.6 million). Detailed information on the debt and its maturity is included in note 13 to the consolidated financial statements.

Since March 31, 2006, the Group has continued to make efforts in this area, by:

- securing a new € 20-million bank credit facility;
- disposing of the Paradigm studio and the Stuntman license for US$ 10.8 million;
- deferring the due date of the € 11.2-million first portion of the 2005-2008 Notes from June 15 to September 15, 2006;
- signing a preliminary agreement for the sale of the "Driver" game license and most of the assets of the Reflections studio for US$ 24 million.

The Group's debt has restricted its ability to invest in game development. This impediment, which adversely affected the Group's revenue and income during the year, was recently aggravated by the general stagnation in the video-game market, due in part to the delayed or deferred releases of new consoles.

In the period to July 31, 2007 and before implementing the plan set out below, the Group must obtain additional financing of an estimated € 35 million and € 50 million to cover operating expenses, and must repay debt of € 63.3 million based on current maturity schedules. The principal debt repayments due over the coming period (exclusive of bank loans of € 14.7 million, which are covered by cash balances on March 31, 2006) are as follows:

- September 15, 2006: first portion of the 2005-2008 Notes (€ 11.2 million);
- March 15, 2007, section portion of the 2005-2008 Notes (€ 13.4 million, including interest);
- Throughout the period, sums owed to production funds (€ 18.3 million in aggregate, of which € 12.4 million up to March 31, 2007);
- April 2007, interest on 2003-2009 convertible bonds (€ 4.6 million).

In order to be able to meet the above obligations, the Group entered into an agreement on September 8, 2006 with the principal holders of its bank and bond debt, to enable it to carry out a financial restructuring plan aimed at significantly reducing its debt, restoring its net worth and providing it with sufficient cash to meet its operating needs. The plan, which is described in note 26.4 to the consolidated financial statements, is divided into five separate steps:

Step 1. Increase of the short-term facility by € 25 million and rescheduling of its maturity from March 31, 2007 to December 31, 2008, except for a sum of € 10 million, which is to be repaid upon completion of the Step 4 measures.

Step 2. Modification of some of the terms and conditions of the 2005-2008 Notes (deferral of the scheduled maturity date of the first fraction of the principal from September 15, 2006 to February 15, 2007 and amendment of the event-of-default clauses). The principal holder of the Notes, which accounts for 75.8% of that debt, has agreed to vote in favor of these modification at the next Note holders' meeting on September 29, 2006.

Step 3. Modification of some of the terms and conditions of the OCEANE 2003-2009 bonds (reduction of the interest rate from 4% to 0.01%, rescheduling of the maturity from April 1, 2009 to April 1, 2020, termination of the bonds' convertibility effective April 1, 2009, elimination of event-of-default clauses). Investors holding 67.8% of the OCEANE bonds outstanding have agreed to vote in favor of those changes at the next bondholders' meeting, scheduled for September 29, 2006.

Step 4. Rights issue of € 74 million (including premiums over par) at € 0.15 per share, from the proceeds of which € 34 million is to be used to redeem all 2005-2008 Notes, € 10 million to repay part of the bridging loan and € 30 million to finance the Group's operations. The principal holder of 2005-2008 Notes and other investors have irrevocably agreed to purchase shares, for € 33.7 million and € 40 million, respectively, if rights are not exercised during the subscription period. The foregoing commitments are subject to the customary conditions for this type of transaction and to the securing of an exemption to the tender offer requirement.

Step 5. Provided that steps 1 through 4 are completed, an exchange tender offer would be made for the OCEANE 2003-2009 bonds (each bond being exchangeable for 32 new Infogrames Entertainment shares). The lending banks have pledged to tender the OCEANE 2003-2009 bonds they hold, or about 67.8% of those outstanding.

The foregoing plan, except for the first step, must be approved by the bodies of holders of the 2005-2008 Notes and of the OCEANE 2003-2009 bonds, as well as by a special shareholders' meeting. Its implementation also requires that authorizations and exemptions be granted by the Financial Markets Authority (AMF). The plan calls for the capital increase to be completed prior to December 15, 2006 or, if a shareholders' meeting must be reconvened, before February 15, 2007. Finally, the exchange tender offer must take place by no later than April 30, 2007.

In order to have enough operating cash (including for products to be in stores for the Christmas season), the Group is seeking to obtain short-term financing in Europe and the United States by means of factoring or through credit facilities secured by trade receivables. This would supplement the € 25-million loan secured under the restructuring plan and provide financing in anticipation of the equity issue included in step four of the plan. For Atari Inc., negotiations are under way in the United States aimed at obtaining financing of about US$ 20 million.

On the basis of the foregoing, the Group has prepared its consolidated financial statements under the going concern assumption, based on the expected success of both the measures taken to finance operations until the capital increase and the overall financial restructuring plan. Management considers such success probable given the progress in negotiations on the financing of operations and the pledges received from the principal bondholders and lender banks. Nevertheless, there is a degree of uncertainty regarding the effective securing of financing and the completion of the restructuring plan that is inherent to this type of situation. In particular, the financial restructuring is contingent on approval by meetings of bond and note holders and by the shareholders' meeting, as well as by the AMF.

An adverse outcome regarding the foregoing measures would result in adjustments to the value of the Group's assets and liabilities, including goodwill and intangible assets, recognized in the balance sheet for March 31, 2006 at respectively € 128.9 million and € 90.7 million.

## 2.2. CONSOLIDATION METHODS

### 2.2.1. Consolidation methods

- **FULL CONSOLIDATION**

All companies controlled by Infogrames, meaning those in which it has the power to influence the financial and operating policies so as to benefit from their business, are fully consolidated.

Infogrames consolidates *ad hoc* entities it substantially controls if it is entitled to most of the benefits and exposed to most of the risks of the entity or its assets.

- **EQUITY METHOD**

Companies in which the Group has significant direct or indirect influence are accounted for by the equity method.

Significant influence is presumed to exist whenever Infogrames holds, either directly or indirectly, 20% or more of the voting rights of an entity, unless it is clearly demonstrated that it does not have such influence. Significant influence can be shown to exist in other ways, such as through membership on an entity's board or management, participation in the decision-making process, substantial business with the entity concerned or officers and executives in common.

- **NON-CONSOLIDATED ENTITIES**

Equity interests held by the Group in non-consolidated entities are recognized as "securities available for sale" and measured at their fair value, or at cost if the Group believes that it represents their fair value in the absence of an active market in the securities concerned. They are accounted for in accordance with IAS 32 and IAS 39 on financial instruments. Unrealized gains and losses are recognized in a separate equity account. If their value is permanently impaired, the amount of the impairment is recognized in income for the period. The permanent nature of impairments is determined on the basis of their estimated value, which is calculated on the basis of the entity's net worth, market capitalization or profit outlook, adjusted to take into consideration the impact for the Group of its ownership in terms of strategy and synergies with existing activities. Impairments cannot be reversed in income if the estimated value of the securities increases in the future (an unrealized gain is then recognized in the above-mentioned equity account).

A list of the principal fully consolidated subsidiaries and those accounted for by the equity method as of March 31, 2006 is included under note 27 – *Consolidated entities.*

### 2.2.2. Business Combinations

Business combinations are reported using the purchase method. This entails recognizing the assets and liabilities of entities acquired by the Group at their fair value, in accordance with IFRS 3 – Business Combinations. Any difference between the purchase price of the shares and the aggregate fair value of net assets on the acquisition date is recorded as goodwill.

Accordingly, goodwill represents the excess of the cost of business combinations over the Group's interest in the fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities on the date of acquisition, which generally coincides with the date on which control changes hands.

If the Group's interest in the fair value of its identifiable assets, liabilities and contingent liabilities exceeds the purchase price, the difference is immediately recognized in income.

On the acquisition date, the cost of a business combination is allocated by recognizing identifiable assets, liabilities and contingent liabilities at fair value on that date, with the exception of non-current assets classified as held for sale, which are measured at their fair value less the cost of disposing of them.

## 2.3. INTRA-GROUP TRANSACTIONS

All material transactions among fully consolidated entities and any internal income by the consolidated group are eliminated.

## 2.4. TRANSACTIONS IN FOREIGN CURRENCIES

Income and expenses in foreign currencies are reported at the corresponding value on the date of the transaction concerned.
Transactions in foreign currencies are first recognized in the operating currency at the exchange rate in effect on the transaction date. At the end of the period, monetary assets and liabilities in foreign currency are translated into the operating currency at the exchange rate in effect on the closing date. Differences are recognized in income for the period, except for gains or losses on borrowings in foreign currencies, which are used to hedge the net investment in a foreign entity. Those gains and losses are recognized in equity until the investment is disposed of.

## 2.5. TRANSLATION OF FOREIGN SUBSIDIARIES' FINANCIAL STATEMENTS

The operating currency of foreign subsidiaries is their domestic currency.
The assets and liabilities of foreign subsidiaries are translated using the exchange rates in effect on the closing date. Their income statements are translated using the average exchange rate for the period. Any resulting exchange-rate gains or losses attributable to the Group are recognized in the equity account "Unrealized foreign-exchange gains or losses", while those attributable to third parties are recognized in "Minority interests". Unrealized gains and losses have no impact on income unless the entity concerned is sold. The table below shows the exchange rates used by the Group to translate the principal currencies into euros:

| IN EUROS | 3/31/2006 | | 3/31/2005 | |
|---|---|---|---|---|
| | CLOSING | AVERAGE | CLOSING | AVERAGE |
| US DOLLARS | 1.21040 | 1.21751 | 1.29640 | 1.25845 |
| POUND STERLING | 0.69640 | 0.68204 | 0.68850 | 0.68195 |
| AUSTRALIAN DOLLARS | 1.69970 | 1.61731 | 1.67630 | 1.70281 |

Goodwill and fair value adjustments resulting from the acquisition of a foreign entity are treated as components of that entity and are accordingly recognized in the entity's operating currency. They are translated into euros at the exchange rate in effect at the end of the period.

## 2.6. NON-CURRENT ASSETS HELD FOR SALE

Assets and liabilities immediately available for sale, the book value of which will be recovered primarily from the proceeds of a sale rather than through an ongoing use, and which are highly likely to be sold, are classified as assets and liabilities held for sale. Whenever several assets are held for sale as part of a single transaction, the group of assets is considered as a whole, together with any related liabilities.

Assets or groups of assets held for sale are measured at the lower of their net book value or estimated sale price, net of sales costs.

Non-current assets held for sale are not depreciated. As prescribed by IAS 12, a deferred tax is recognized on the difference between the consolidated value of securities sold and their tax value. Assets and liabilities held for sale are classified respectively on two balance sheet lines and revenue and expenses are consolidated on a line-by-line basis in the Group's income statement. At the close of each period, the value of assets and liabilities is reviewed to determine whether a loss or a gain must be recognized in the event that their fair value, net of sales costs, has changed.

As of March 31, 2006, the Group did not have any asset held for sale.

## 2.7. USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires the Group to make certain estimates and assumptions it considers reasonable and realistic. These have an impact on the reported value of assets and liabilities, through such factors as depreciation and provision allowances, as well as on the information on contingent assets and liabilities on the closing date of the consolidated financial statements and the sums recognized in the income statement during the fiscal year.

Estimates may be adjusted if there are changes in factors on which they are based of if new information becomes known. Actual results may differ from estimates and assumptions.

These estimates underlie the going-concern assumption (see note 2.1.) and are arrived at on the basis of information available at the time the consolidated financial statements are prepared.

Other key estimates made by the Group when preparing its financial statements generally concern assumptions made for valuing goodwill, intangible assets, various provisions (returns and discounts, bad debts, contingency and losses) as well as the estimate of deferred taxes.

## 2.8. GOODWILL

*Specific rules applicable to the first adoption of IFRS:*
The Group has used the option allowed under IFRS 1 of not applying IFRS 3 to acquisitions made before April 1, 2004. Accordingly, the treatment of goodwill from securities recognized in equity, in the case of acquisitions paid for with newly-issued shares prior to January 1, 2000, has been left unchanged in the balance sheet for April 1, 2004.

*Business combinations subsequent to April 1, 2004*:
*These business combinations are reported using the purchase method.* This entails recognizing the assets and liabilities of entities acquired by the Group at their fair value, in accordance with IFRS rules. Any difference between the purchase price of the shares and the aggregate fair value of net assets on the acquisition date is recorded as goodwill.

Whenever the Group acquires a controlling interest in a company in a single transaction, the portion of assets and liabilities attributable to minority shareholders is also accounted for at its fair value. If the Group subsequently buys out the shares of minority interests in a controlled entity, no additional adjustment is made to reflect their current fair value. Any difference between the purchase price and the book value of the assets and liabilities is recognized as goodwill.

Goodwill from consolidated entities is recognized as an asset in the balance sheet on the “Goodwill” line. As prescribed by IFRS 3, goodwill is not amortized but is subject to impairment tests at least once a year. For the purpose of such tests, goodwill is broken down by cash generating units (CGUs), corresponding to homogenous entities that combine to generate identifiable cash flows.

The manner in which the impairment of CGUs is measured is explained in note 3.

Whenever the recoverable value of a CGU is less than its net book value, a corresponding impairment is charged to goodwill and recognized as a non-recurring item on the line “Goodwill impairments.”

## 2.9. OTHER INTANGIBLE ASSETS

Intangible assets include primarily items such as purchased management software, rights under purchased licenses, trademarks and video game development costs.

In accordance with the option permitted under IAS 23, interest on loans used to purchase intangible assets is recognized as a financial expense and not included in the cost of the assets.

### ▪ LICENSES

User licenses to intellectual property are accounted for as intangible assets from the execution date of the license agreement whenever the licensor is not bound by material obligations; the capitalized value corresponds to the present value of minimum annual royalties called for in the agreement. Sums paid in excess of minimum fees are recognized as expenses. If the third party has significant obligations to perform, an intangible asset is recognized in the amount of the sums paid.

Licenses are amortized from their execution date at the contractual rate applied to units sold or the straight-line rate based on the term of the license, whichever is higher. Amortization allowances are recognized as “cost of goods sold.”

The Group verifies the recoverable value of capitalized sums on a regular basis and performs impairment tests, as explained under 2.12 above, whenever their value appears to have fallen. If applicable, an impairment is recognized under “research and development expenses” in income.

### ▪ VIDEO GAME DEVELOPMENT COSTS

The Group recognizes the cost of developing video games (either by its own studios or outsourced) as an intangible asset as soon as the technical feasibility of the game is certain, which, since April 1, 2005, corresponds to the end of the pre-production stage. Technical feasibility is determined on a case-by-case basis. Capitalized costs correspond to the “milestone” payments to independent developers and actual costs directly attributable to in-house development projects. Development costs of projects that have not reached the technical feasibility stage are recognized as “research and development expenses”.

Capitalized expenditures are amortized from the date games are released, under “research and development expenses” in income, over an 18-month period, on a quarterly declining-balance basis that reflects the products’ sales prospects. The method used means that 90% of a game’s value is written off in the year following its release.

The Group verifies the recoverable value of capitalized sums on a regular basis and performs impairment tests, as explained under 2.12 above, whenever their value appears to have fallen. In the case of games in development, an impairment test is performed at least once a year. If applicable, an impairment is recognized under “research and development expenses” in income.

The Group changed the manner in which estimates were made on April 1, 2005. Earlier, the technological feasibility requirement was considered satisfied when a prototype was made, which in practice marks the end of the development period. Since expenses incurred after completion of the prototype are not significant, the Group has not capitalized any significant in-house software production costs to date. Because of improved knowledge of development techniques and the introduction of cost tracking tools, technical feasibility is now deemed to be achieved at the end of the pre-production process.

Since April 1, 2005, the Group has accordingly capitalized € 27.8 million in internal video game development costs.

### ▪ OTHER INTANGIBLE ASSETS

Other amortizable intangible assets include identifiable intangible assets resulting from acquisitions of businesses (e.g., trademarks, game catalogs) and software purchased for internal use (e.g., accounting software). With the exception of trademarks, these assets are amortized to "General and administrative expenses" or "Research and development expenses" on a straight-line basis over a period not in excess of their estimated useful life (ranging from 1 to 4 years).

### ▪ DEVELOPMENT FINANCED BY PRODUCTION FUNDS

Certain video games, developed either in house or by third parties, are financed by production funds through outside entities. As most of the risk from the financed game is assumed by the Group, development costs are accounted for in the same manner as above. Sums received from production funds are recorded in cash when payments are received and a corresponding debt is recognized. A financial expense is also calculated using the annualized percentage rate method.

## 2.10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, less depreciation and impairments. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. Improvements to rented premises are depreciated over their estimated useful life or the term of the lease, whichever is shorter. The term of the lease takes into account possible extensions. Land is not depreciated. Assigned economic lives of property and equipment are as follows:

| | |
|---|---|
| ▪ Buildings | 25 years |
| ▪ Computer equipment | 1 to 3 years |
| ▪ Furniture and fixtures (including leasehold improvements) and other equipment | 3 to 10 years |

In accordance with the option permitted under IAS 23, interest on loans used to purchase property, plant and equipment is recognized as a financial expense and not included in the cost of the assets.

## 2.11. CAPITAL LEASES

Assets leased under contracts that transfer nearly all of the benefits and risks of ownership to the Group are accounted for in the balance sheet as property, plant and equipment (“other equipment, furniture and improvements”).

When leases are entered into, the assets concerned are recorded in the balance sheet at either their fair value or at the current value of minimum future lease payments, whichever is lower.

Leased assets are depreciated on a straight-line basis over their estimated useful life, as calculated in accordance with the same method as for assets owned by the Group, or over the term of their lease if it is shorter.

A corresponding liability is recognized in the balance sheet. Operating lease payments are recognized as expenses for the year in which they are made.

## 2.12. IMPAIRMENT TESTS

The Group regularly performs impairment tests on its assets, including on goodwill, intangible assets and property, plant and equipment. In the case of property, plant and equipment and of intangible assets with a finite useful life, the tests are carried out as soon as there are indications of a loss of value.

The tests consist in reconciling the net book value of the assets with their recoverable value, expressed as the higher of their net market value and their value in use, estimated on the basis of the net present value of future cash flows generated by them.

Whenever the fair value of an intangible asset (other than goodwill) or property plant and equipment increases in a period and their recoverable value exceeds their book value, impairments recognized in previous periods, if any, are reversed in income.

In the case of goodwill and other intangible assets with an indefinite life, impairment tests are always performed yearly, on the basis of the higher of the following values, whenever there are indications of loss of value:

- present value of projected cash flows from operations over a five-year period, plus a residual value;
- market value if an active market exists.

The book value of assets is compared with the present value of future cash flows, before financial expenses but after taxes.

The residual value is obtained by calculating the present value of a perpetuity cash flow on the basis of the cash flow for the last year of the business plan, applying a long-term growth rate. The discount rate used to calculate the present value of future cash flows is the average cost of capital for the Group *(see calculation basis in 3.3. Goodwill impairment tests).*

The Group’s corporate organization is structured in such a way as to preferably have a single legal entity per country. Goodwill is accordingly combined regionally and allocated to the corresponding cash generating units (CGUs). Those units are determined on the basis of geographic criteria and the nature of their business (development, publishing, distribution).

If the annual impairment tests disclose that an asset’s recoverable value is less than its book value, an impairment is recognized to bring the book value of fixed assets and goodwill to their fair value.

Goodwill impairments are never reversed in income.

## 2.13. OTHER NON-CURRENT FINANCIAL ASSETS

Other financial assets consist of the shares of non-consolidated entities, investment holdings in associated entities, deposits and down-payments made and loans.

### ▪ INVESTMENT HOLDINGS

The Group's interests in non-consolidated entities are recognized in accordance with the accounting principles described in note 2.2.1.

### ▪ OWN SHARES

Treasury shares held by the parent company or a fully consolidated subsidiary are deducted from consolidated shareholders' equity on the basis of their purchase price or initial balance sheet value. Gains or losses on sales of treasury shares are eliminated in the consolidated income statement and recorded to shareholders' equity.

## 2.14. INVENTORIES

The value of inventories is calculated using the first-in, first-out method. The gross value of inventories reflects purchase prices and incidental expenses. Interest expense is not included in the value of inventories. A loss provision is set aside in order to reduce the value of inventories to net market value whenever their probable market value is less than their cost. The write-down is charged to "Cost of sales" in the consolidated income statement.

## 2.15. Trade receivables

Trade receivables are measured at their face value, which corresponds to their fair value.

Provisions are recognized for receivables considered doubtful, calculated on the basis of default risks.

As provided for by IAS 32 and 39, trade receivables assigned under debt securitization plans are not removed from consolidation and are accordingly kept in the books as receivables whenever, based on the contents of the agreement, the risks and benefits attached to trade receivables are not fully transferred to the financial institutions.

## 2.16. Cash, cash equivalents and investment securities

As prescribed by IAS 7 “Cash-flow statement,” cash and cash equivalents included in the consolidated cash-flow statement include cash (cash on hand and demand deposits) and cash equivalents (high-liquidity short-term investments, readily convertible into a known sum of cash, and not exposed to a material risk of change in value).

Investments in instruments with maturities of more than three months and no possibility of early exit are excluded from cash and cash equivalents in the cash-flow statement.

## 2.17. Financial instruments

The Group has elected to apply IAS 32 and 39 to financial instruments from April 1, 2005.

As prescribed by IAS 32 and 39, all instruments are recognized in the balance sheet at fair value, irrespective of whether they qualify and are recognized as hedging instruments under IAS 39 or not.

## 2.18. Payments in shares

The Group has elected to apply IFRS 2 from April 1, 2005 to all of its stock options granted after November 7, 2002 and not yet exercisable on January 1, 2005.

As prescribed by IFRS 2 - Payments in shares, the Group recognizes an offsetting expense on all instruments granted to employees which give them rights to the Company’s shares.

As prescribed by IFRS 2 - Payments in shares, options granted to employees to purchase new or existing shares are accounted for in the following manner: the fair value of the options granted, assumed to correspond to the fair value of the services performed by the employees for which options are granted as consideration, is determined on the date of grant and amortized in income over the options’ vesting period. Fluctuations in the value of options subsequent to the date on which they are granted have no impact on their fair value in the books.

The fair value of stock options is calculated in accordance with the Black-Scholes model, which takes into account the features of the options (exercise price and period), market conditions on the date of grant (risk-free rate, trading price of shares, volatility, expected dividends) and assumptions concerning the behavior of option holders.

## 2.19. EMPLOYEE STOCK SAVINGS PLANS

Whenever the Group issues shares for offering to its employees, an expense is recognized if the offering price is lower than the current trading price.

The expense is calculated when rights are granted, meaning on the date the Group and its employees reach an understanding regarding the terms and conditions of the offering.

The calculation of the expense takes into account the portion of the share price contributed by the employer, any discount to the trading price, less the cost to employees of not having access to their shares (when these are locked up).

The resulting expense is recognized in the period in which the offering takes place, provided that no conditions are placed on vesting, with the shares being considered compensation for past service.

## 2.20. MINORITY INTERESTS

If a consolidated entity’s net worth is negative at the end of a period, the equity interests of minority holders are assumed by the Group, unless those third-party shareholders have an express obligation to make up their attributable portion of the losses.

If the company becomes profitable again, the Group’s share of their income is taken into account by the majority shareholder for up to losses previously recognized.

## 2.21. PROVISIONS

A provision is recognized whenever the Group has a legal or constructive obligation to a third party, resulting from past events, which cannot be reliably estimated and which is likely require the transfer of economic benefits to that third party without equivalent consideration being expected. If the obligation is for an uncertain time or amount, it is considered a contingent liability and, as such, it is treated as an off-balance sheet commitment.

In the case of liabilities due in more than one year, the amount of the provision is discounted and the effect of such discounting is recorded as financial income.

## 2.22. PROVISIONS FOR PENSIONS AND RELATED BENEFITS

- **DEFINED CONTRIBUTION PLANS**

The laws and practices of the country in which Group subsidiaries operate place certain obligations on them with respect to employee pensions, life and disability insurance plans and health insurance and other fringe benefits for active employees. The Group accounts for these obligations as and when contributions are made only in the case of obligations with respect to defined contribution plans.

The Group recognizes accrued premiums as an expense whenever they are considered operating costs, based on the employees covered by the plan.

- **DEFINED BENEFIT PLANS**

The Group's estimated liabilities under defined benefit plans are generally calculated annually using the projected unit credit method, as prescribed by IAS19. This method measures, on the basis of actuarial assumptions, the probable future years of service of employees, their future compensation level and life expectancy, the discount rate and the personnel turnover ratio.

Actuarial gains and losses are amortized in income during the years following their occurrence, if in excess of a corridor of 10% of the higher of the accrued benefit obligations and the fair value of the plan’s assets, over the covered employees’ remaining service life (so-called “corridor” method).

## 2.23. FINANCIAL LIABILITIES AND INSTRUMENTS

### ▪ VALUATION AND ACCOUNTING OF FINANCIAL LIABILITIES

Borrowings and financial liabilities are reported in accordance with the amortized cost method applying the going interest rate. Accrued interest on loans is shown on the "Short-term financial liabilities" line in the balance sheet.

### ▪ CONVERTIBLE BONDS

Convertible bonds are treated as financial instruments made up of two parts: a bond part recorded as debt and an equity component. The bond part is equal to the present value of all payments owed on the bonds, discounted at the rate applicable to a similar straight bond (with the same maturity, of the same amount) that would have been issued at the same time as the convertible bonds, less, if applicable, any discount at the time of issue; it is estimated on the date of issue and recognized as a financial liability.

The value of the part recorded as equity is calculated as the difference between the bonds' face value on the date of issue and their debt component as defined above. Costs are charged to each part on the basis of their value in relation to the bonds' face value.

## 2.24. RECOGNITION OF REVENUE – REVENUE FROM ORDINARY BUSINESS

In accordance with IAS 18 "Revenue from Ordinary Business", net revenue is recognized after deducting:

- certain sales incentives such as participation in advertising and promotion;
- certain rebates granted for early payment.

### ▪ SALES OF ENTERTAINMENT SOFTWARE

Revenue from the sale of entertainment software is reported when products are shipped to customers and a reserve is set aside and deducted from sales to provide for estimated returns, so as to calculate net sales. The Group is not contractually obligated to accept returns but it can authorize certain customers to exchange products sold to them. In addition, the Group may provide warranties, rebates for unsold products and other concessions to specific customers. Whenever this is the case, management estimates the amount of future credits and sets aside reserves that are deducted from sales and from "Trade receivables" in the consolidated balance sheet. The Group also performs ongoing credit assessments of its customers and sets aside provisions for potential losses, which are reported as "Marketing and distribution expenses" and "Trade receivables".

### ▪ LICENSING

Under various licensing agreements extended by the Group, licensees are entitled to make multiple copies of entertainment software in return for payment of a guaranteed minimum fee. Fees are recognized as revenue when the master software or first copy is delivered. Any additional revenue from sales of units in excess of the number covered by the minimum license fee is reported when such sales occur.

### ▪ SERVICES

Revenue from development and publishing services performed for third parties includes fees and other payments received. They are considered earned and recognized in income as and when services are performed.

## 2.25. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses include both costs incurred by the Group's own studios for projects which have not yet reached the feasibility stage and the amortization and impairment, as the case may be, of video game development costs. They also include the cost of adapting (localizing) and testing products sold.

## 2.26. MARKETING AND DISTRIBUTION EXPENSES

Advertising costs are recognized as expenses as and when incurred and are reported as “Marketing and sales expenses” in the consolidated income statements.

## 2.27. EARNINGS BEFORE INTEREST AND TAXES

EBIT corresponds to gross profit less operating expenses other than amortization and depreciation allowances. Operating expenses include research and development, marketing and sales, overhead and administrative expenses.

EBIT corresponds to operating income before:

- capital gains or losses from the disposal of assets;
- restructuring charges;
- impairments of assets (including goodwill);
- litigation or other extraordinary items.

## 2.28. FINANCIAL INCOME AND EXPENSES

### a) Cost of debt

Net debt is the aggregate of current and non-current borrowings and debts, less cash and cash equivalents. The cost of debt is the excess of expenses over income generated by items making up the net debt over the period, including income and losses from related interest-rate and foreign-exchange hedging transactions. The net cost of debt includes:

- Interest expense on the consolidated debt, consisting of the bond debt, the debt portion of hybrid financial instruments and other financial liabilities (including leases), and interest income from cash and cash equivalents;
- Fees paid to banks on financial transactions.

In accordance with IAS 23, interest on loans used to purchase intangible assets is recognized as a financial expense and not included in the cost of the assets.

### b) Other financial income and expenses

The following is included under “Other financial income and expenses”:

- Dividends received from non-consolidated entities;
- Adjustments in provisions;
- Foreign-exchange gains and losses.

## 2.29. TAXES

Deferred taxes are recognized in the income statement and the balance sheet to take into account timing differences between the accounting and tax value of certain assets and liabilities.

Deferred taxes are accounted for in accordance with the liability method and are calculated taking into account any known changes in tax rates (and regulations) adopted or about to be adopted as of the closing date. Any impact of changes in tax rates on deferred taxes recognized previously in income or in equity is recognized in income or equity during the year in which changes in tax rates go into effect.

Deferred taxes are recognized in income or in equity during the period, depending on whether they pertain to items that are recognized in income or in equity.

Deferred tax assets are recognized when it becomes probable that the company will have taxable income enabling it to take advantage of the deferred tax asset. The book value of deferred tax assets is revised at the end of each period and it is reduced if it is no longer probable that there will be sufficient taxable income to take advantage of some or all of the deferred tax assets. Conversely, write-downs are reversed if it becomes probable that taxable income will be sufficient.

Deferred tax assets and liabilities can offset each other only if the subsidiaries concerned have an enforceable right to use deferred tax assets to offset deferred tax liabilities and when these pertain to corporate income tax levied simultaneously by the same tax authority.

Deferred tax assets and liabilities are not discounted to their present value.

### 2.30. EARNINGS PER SHARE

The Group reports basic earnings per share and fully diluted earnings per share.

Basic earnings per share correspond to the Group's net income divided by the weighted average number of shares outstanding during the year, net of treasury shares, if any.

Diluted earnings are calculated by dividing the Group's adjusted income by the weighted average number of shares outstanding, plus all potentially dilutive common shares. Potentially dilutive common shares include those to be issued in consideration for the exercise of stock options and the conversion of convertible bonds issued by the Group.

## NOTE 3 – GOODWILL

### 3.1. CHANGES DURING THE PERIOD

Goodwill is recognized in the currency of the acquired entity, as prescribed by IAS 21. It results from a business combination and, upon the acquisition, it is attributed to the corresponding cash generating unit (CGU).

Cash generated by ordinary business is mostly independent from cash generated by other assets or groups of assets. The table below show changes in goodwill for the period:

| *(€ millions)* | **Total** |
|---|---|
| **3/31/2004** | **313.4** |
| Changes in reporting entities (1) | (31.0) |
| Additions | |
| Impairments for the year | (19.2) |
| Disposals for the year | |
| Foreign-exchange gains (losses) | (14.7) |
| Other changes | |
| **3/31/2005** | **248.5** |
| Changes in reporting entities (2) | (1.3) |
| Additions (3) | 3.2 |
| Impairments for the year (4) | (125.4) |
| Disposals for the year (5) | (8.8) |
| Foreign-exchange gains (losses) | 13.4 |
| Other changes | (0.7) |
| **3/31/2006** | **128.9** |

(1) Reduction of the goodwill from Atari, Inc. resulting from the disposals of Atari Inc. shares during the period ended March 31, 2005

(2) Reduction of the goodwill from Atari, Inc. resulting from dilutions during the period to March 31, 2006 (see note 1.3)

(3) Goodwill generated by the acquisition of Humongous (see note 1.2)

(4) See note 3.3 below

(5) Write-off of a portion of goodwill following the buy-back by Hasbro Inc. of certain rights (see note 1.3)

## 3.2. GOODWILL BY CASH GENERATING UNIT

In accordance with the accounting principles referred to under 2.12, the Group has allocated goodwill on its books to cash generating units. The CGUs represent business divisions and are separate from legal entities. Net goodwill per CGU is as follows:

| (€ millions) | Development | Publishing | Distribution US region | Distribution Europe region | Distribution Asia region | Total |
|---|---|---|---|---|---|---|
| 3/31/2006 ........................ | 14.4 | 46.2 | 20.4 | 37.8 | 10.1 | 128.9 |
| 3/31/2005 ........................ | 27.1 | 98.4 | 72.0 | 40.0 | 11.0 | 248.5 |
| 3/31/2004 ........................ | 31.8 | 128.8 | 99.5 | 41.8 | 11.5 | 313.4 |

## 3.3. IMPAIRMENT TESTS

Under IFRS 3 on business combinations, goodwill is not amortized and must undergo impairment tests at least once a year, or more frequently if events or circumstances point to a potential loss of value. Tests are performed in March of every year, in connection with the preparation of the Group's financial statements for each fiscal year. If the recoverable value of a CGU is less than its book value, an impairment is recognized in operating income under "Impairments of goodwill".

The method used consists essentially in comparing the recoverable value of each of the Group's cash generating units to the book value of the corresponding assets. On March 31, 2006, recoverable values corresponded to the assets' value in use and were generally calculated on the basis of future operating cash flows over the next three years, the present value of projected cash flows over the subsequent two years and a residual value.

The main assumptions used by management to project future cash flows are based on the discount rate, growth rate, expected trends in prices and operating costs.

The principal factors used for the calculations were as follows:

| | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Weighted average cost of capital | 14.77% | 12.92% |
| Perpetuity growth rate | 3.00% | 2% to 4% (*) |

(*) Different rates for each CGU

Management has set the discount rate on the basis of the weighted average cost of capital, reflecting the market's current assessment of the time value of money and the specific risks to which the various cash generating units are exposed.

The Group has prepared cash-flow projections on the basis of the 2006-2007 budget and the business plan. The growth rate assumed in the business plan reflects management's best estimates. The perpetuity growth rate used to compute the residual value is lower than the estimated long-term growth rate of the video game sector.

The arrival in stores of new-generation consoles during the Christmas season had a significant impact on sales in the first calendar quarter of 2006. This was felt particularly strongly in the United States and caused average retail prices to drop during the period. The new market conditions were taken into consideration when making budget assumptions and in the business plan, which was finalized in late March 2006.

In addition, the past performances of each CGU caused the Group to raise the discount rate used to calculate the present value of future cash flows, so as to take into account the probability that the assumptions made for the impairment tests may not prove correct.

The combination of the foregoing factors had led the Group to recognize an impairment of € 125.4 for the fiscal year. It breaks down by CGU as follows:

- Publishing (€ 64.0 million)
- Distribution, US region (€ 48.9 million)
- Development (€ 12.5 million).

# NOTE 4 – INTANGIBLE ASSETS

The table below shows changes in intangible assets during the fiscal year:

| *(€ millions)* | R&D | Trademarks | Catalogs | Licenses | Software | Others | Total |
|---|---|---|---|---|---|---|---|
| ***Gross value*** | | | | | | | |
| **4/1/2005** | **88.2** | **16.5** | **4.2** | **30.7** | **56.2** | **0.4** | **196.2** |
| Changes in reporting entities | - | - | - | - | - | - | - |
| Acquisitions / additions | 57.5 | - | - | 24.4 | 2.5 | - | 84.4 |
| Sales / disposals | (6.6) | - | - | (2.1) | (0.4) | - | (9.1) |
| Other changes | (26.6) | 1.5 | 0.3 | (4.1) | (10.7) | (0.3) | (39.9) |
| **3/31/2006** | **112.5** | **18.0** | **4.5** | **48.9** | **47.6** | **0.1** | **231.6** |
| ***Amortization*** | | | | | | | |
| **01/04/2005** | **(58.8)** | **-** | **(4.2)** | **(15.2)** | **(51.1)** | **(0.1)** | **(129.4)** |
| Changes in reporting entities | - | - | - | - | - | - | - |
| Acquisitions / additions | (42.3) | - | - | (8.7) | (3.9) | - | (54.9) |
| Sales / disposals | - | - | - | 0.6 | 0.4 | - | 1.0 |
| Other changes | 28.8 | - | (0.3) | 2.4 | 11.4 | 0.1 | 42.4 |
| **3/31/2006** | **(72.3)** | **-** | **(4.5)** | **(20.9)** | **(43.2)** | **-** | **(140.9)** |
| ***Net value*** | | | | | | | **-** |
| **4/1/2005** | **29.4** | **16.5** | **-** | **15.5** | **5.1** | **0.3** | **66.8** |
| Changes in reporting entities | - | - | - | - | - | - | - |
| Acquisitions / additions | 15.2 | - | - | 15.7 | (1.4) | - | 29.5 |
| Sales / disposals | (6.6) | - | - | (1.5) | - | - | (8.1) |
| Other changes | 2.2 | 1.5 | - | (1.7) | 0.7 | (0.2) | 2.5 |
| **3/31/2006** | **40.2** | **18.0** | **-** | **28.0** | **4.4** | **0.1** | **90.7** |

Increases in research and development expenditures in the year ended March 31, 2006 reflected primarily:

- the capitalization of the cost of in-house development from the end of the pre-production stage, starting April 1, 2005 (see note 1.3 on changes in accounting estimates), for € 27.8 million;
- the capitalization of the cost of development outsourced by the Group, for € 29.7 million.

As of March 31, 2006, research and development in progress was valued at € 27.6 million (€ 14.7 million for in-house development and € 12.9 million for outsourced development).

The increase in licenses during the year ended March 31, 2006 reflected mainly the inclusion of guaranteed minimum Hasbro fees (€ 16.4 million).

Changes in the other columns are accounted for primarily by foreign exchange differences, discarded products and reclassifications.

Amortization and valuation allowances on intangible assets reported in the Group's consolidated income statement amounted to € 54.9 million for the twelve-month period ended March 31, 2006, compared with € 46.6 million for the 12 months ended March 31, 2005.

The table below shows changes in intangible assets during the fiscal year to March 31, 2005:

| *(€ millions)* | R&D | Trademarks | Catalogs | Licenses | Software | Others | Total |
|---|---|---|---|---|---|---|---|
| ***Gross value*** | | | | | | | |
| **4/1/2004** | **93.4** | **17.5** | **24.6** | **15.5** | **55.2** | **0.8** | **207.0** |
| Changes in reporting entities | - | - | - | - | - | - | - |
| Acquisitions / additions | 38.2 | - | - | 17.0 | 2.0 | 0.1 | 57.3 |
| Sales / disposals | - | - | - | - | (0.4) | - | (0.4) |
| Other changes | (43.4) | (1.0) | (20.4) | (1.8) | (0.6) | (0.5) | (67.7) |
| **3/31/2005** | **88.2** | **16.5** | **4.2** | **30.7** | **56.2** | **0.4** | **196.2** |
| ***Amortization*** | | | | | | | |
| **01/04/2004** | **(58.0)** | **-** | **(23.7)** | **(6.0)** | **(48.3)** | **(0.8)** | **(136.8)** |
| Changes in reporting entities | - | - | - | - | - | - | - |
| Acquisitions / additions | (32.2) | - | (1.0) | (9.9) | (3.5) | - | (46.6) |
| Sales / disposals | - | - | - | - | 0.4 | - | 0.4 |
| Other changes | 31.4 | - | 20.5 | 0.7 | 0.3 | 0.7 | 53.6 |
| **3/31/2005** | **(58.8)** | **-** | **(4.2)** | **(15.2)** | **(51.1)** | **(0.1)** | **(129.4)** |
| ***Net value*** | | | | | | | **-** |
| **4/1/2004** | **35.4** | **17.5** | **0.9** | **9.5** | **6.9** | **-** | **70.2** |
| Changes in reporting entities | - | - | - | - | - | - | - |
| Acquisitions / additions | 6.0 | - | (1.0) | 7.1 | (1.5) | 0.1 | 10.7 |
| Sales / disposals | - | - | - | - | - | - | - |
| Other changes | (12.0) | (0.1) | 0.1 | (1.1) | (0.3) | 0.2 | (14.1) |
| **3/31/2005** | **29.4** | **16.5** | **-** | **15.5** | **5.1** | **0.3** | **66.8** |

# NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

The table below shows changes in property, plant and equipment for the year:

| | | | | | |
|---|---|---|---|---|---|
| **4/1/2005** | 0.5 | 12.4 | 24.2 | 13.7 | 50.8 |
| Changes in reporting entities | - | - | - | - | - |
| Acquisitions / additions | - | 0.2 | 0.8 | 0.9 | 1.9 |
| Sales / disposals | - | (1.7) | (8.4) | (2.7) | (12.8) |
| Other changes | - | 0.8 | 0.1 | 0.3 | 1.2 |
| **3/31/2006** | 0.5 | 11.7 | 16.7 | 12.2 | 41.1 |
| ***Amortization*** | | | | | |
| **01/04/2005** | - | (5.5) | (21.0) | (10.2) | (36.7) |
| Changes in reporting entities | - | - | - | - | - |
| Acquisitions / additions | - | (1.1) | (1.6) | (1.4) | (4.1) |
| Sales / disposals | - | 0.9 | 8.3 | 2.4 | 11.6 |
| Other changes | - | (0.3) | (0.6) | 0.3 | (0.6) |
| **3/31/2006** | - | (6.0) | (14.9) | (8.9) | (29.8) |
| ***Net value*** | | | | | |
| **4/1/2005** | 0.5 | 6.9 | 3.2 | 3.5 | 14.1 |
| Changes in reporting entities | - | - | - | - | - |
| Acquisitions / additions | - | (0.9) | (0.8) | (0.5) | (2.2) |
| Sales / disposals | - | (0.8) | (0.1) | (0.3) | (1.2) |
| Other changes | - | 0.5 | (0.5) | 0.6 | 0.6 |
| **3/31/2006** | 0.5 | 5.7 | 1.8 | 3.3 | 11.3 |

Depreciation allowances on property and equipment reported in the Group's consolidated income statement amounted to € 4.1 million for the twelve-month period ended March 31, 2005, compared with € 6.4 million for the 12 months ended March 31, 2005.

Other changes for the period reflect primarily changes in foreign-exchange rates and reclassifications.

The table below shows changes in property, plant and equipment for the previous year:

| (€ millions) | Property and equipment<br>Land | Buildings | Computer hardware | Other equipment, furniture and fixtures | Total |
|---|---|---|---|---|---|
| *Gross value* | | | | | |
| **4/1/2004** | 0.6 | 15.1 | 25.4 | 18.9 | 60.0 |
| Changes in reporting entities | - | - | - | - | - |
| Acquisitions / additions | - | - | 1.6 | 1.0 | 2.6 |
| Sales / disposals | (0.1) | (2.0) | (3.1) | (2.1) | (7.3) |
| Other changes | - | (0.7) | 0.3 | (4.1) | (4.5) |
| **3/31/2005** | 0.5 | 12.4 | 24.2 | 13.7 | 50.8 |
| ***Amortization*** | | | | | |
| **01/04/2004** | - | (5.7) | (21.6) | (13.0) | (40.3) |
| Changes in reporting entities | - | - | - | - | - |
| Acquisitions / additions | - | (1.3) | (2.8) | (2.3) | (6.4) |
| Sales / disposals | - | 1.2 | 3.1 | 2.0 | 6.3 |
| Other changes | - | 0.3 | 0.3 | 3.1 | 3.7 |
| **3/31/2005** | - | (5.5) | (21.0) | (10.2) | (36.7) |
| ***Net value*** | | | | | |
| **4/1/2004** | 0.6 | 9.4 | 3.8 | 5.9 | 19.7 |
| Changes in reporting entities | - | - | - | - | - |
| Acquisitions / additions | - | (1.3) | (1.2) | (1.3) | (3.8) |
| Sales / disposals | (0.1) | (0.8) | - | (0.1) | (1.0) |
| Other changes | - | (0.4) | 0.6 | (1.0) | (0.8) |
| **3/31/2005** | 0.5 | 6.9 | 3.2 | 3.5 | 14.1 |

# NOTE 6 – FINANCIAL ASSETS

The table below shows a summary of financial assets:

| (€ millions) | Interests in non-controlled entities (1) | Interests in associated entities (2) | Down payments and deposits | Loans | Total |
|---|---|---|---|---|---|
| **As of March 31, 2005** | | | | | |
| Gross value | 4.5 | 0.9 | 1.9 | 2.9 | 10.2 |
| Impairments | (4.3) | - | - | (2.1) | (6.4) |
| **Net value on March 31, 2005** | **0.2** | **0.9** | **1.9** | **0.8** | **3.8** |
| Additions | - | 0.7 | - | - | 0.7 |
| Disposals | - | - | (0.1) | - | (0.1) |
| Impairments | (1.0) | - | - | - | (1.0) |
| Foreign exchange gains or losses | - | - | - | - | - |
| Reclassification | 0.8 | (0.9) | - | - | (0.1) |
| Share of income of joint ventures | - | (0.1) | - | - | (0.1) |
| **Net value on March 31, 2006** | **0.0** | **0.6** | **1.8** | **0.8** | **3.2** |
| **As of March 31, 2006** | | | | | |
| Gross value | 1.1 | 0.6 | 1.8 | 2.0 | 5.5 |
| Impairments | (1.1) | - | - | (1.2) | (2.3) |
| **Net value on March 31, 2006** | **-** | **0.6** | **1.8** | **0.8** | **3.2** |

Unconsolidated investments are reported at their historical cost, adjusted to reflect any long-term impairment of value, if applicable.

(2) On March 31, 2006, this item included 45.46%-owned Game One SAS (see note 1.2.). Sunflowers, previously accounted for by the equity method, was removed from consolidation during the year and its shares are now recognized as an investment in a non-controlled entity.

# NOTE 7 – INVENTORIES

Inventories consist of the following:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Finished products | 40.5 | 41.9 |
| Raw materials and supplies | - | - |
| Gross value | 40.5 | 41.9 |
| Provisions for obsolescence reserves | (4.7) | (3.9) |
| Net value | 35.8 | 38.0 |

The table below shows changes in provisions for write-downs:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Balance at year's start | 3.9 | 4.5 |
| Additions | 12.5 | 13.9 |
| Cancellations and reversals | (10.0) | (13.2) |
| Other changes | (1.7) | (1.3) |
| Balance at year's end | 4.7 | 3.9 |

# NOTE 8 – TRADE RECEIVABLES

The table below shows trade receivables net of returns and other trade discounts:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Gross value | 66.7 | 75.8 |
| Provisions for bad debts | (17.1) | 14.8) |
| Net value | 49.6 | 61.0 |

As of March 31, 2006, no single customer accounted for more than 14% of trade receivables outstanding. On March 31, 2005, no customer accounted for more than 16% of receivables.

The table below shows changes in provisions for write-downs:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Balance at year's start | 14.8 | 18.1 |
| Additions | 2.7 | 4.7 |
| Reversals and uses | (0.7) | (7.3) |
| Impact of exchange rates | 0.3 | (0.7) |
| Balance at year's end | 17.1 | 14.8 |

As prescribed by IFRS (IAS 39), trade receivables assigned under a factoring agreement where the risk of default is not transferred must be included in trade receivables and a corresponding debt must be recognized. On March 31, 2006, receivables with a nominal value of € 6.4 million had been assigned.

# NOTE 9 – OTHER CURRENT AND NON-CURRENT ASSETS

Other assets consist of the following:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Bond discount and expenses | 0.0 | 11.5 |
| Other | 0.6 | 1.0 |
| **Non-current assets** | **0.6** | **12.5** |
| Receivables from employees and the government | 7.5 | 7.7 |
| Prepaid expenses | 7.6 | 5.8 |
| Other | 2.2 | 5.3 |
| **Other current assets** | **17.3** | **18.8** |

As a result of the application of IAS 32 and 39 from April 1, 2005, the discount on OCEANE bonds is no longer recognized as an asset but is instead included in the calculation of the OCEANE debt using the amortized-cost method.

# NOTE 10 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash-flow statement include cash (cash on hand and demand deposits) and cash equivalents (high-liquidity short-term investments, readily convertible into a known sum of cash, not exposed to a material risk of change in value).

On March 31, 2006, restricted-access cash balances amounted to € 5.6 million.

# NOTE 11 – SHAREHOLDERS' EQUITY

## 11.1. CAPITAL STOCK

### ▪ COMMON STOCK

As of March 31, 2006, the Company had 189,726,158 common shares outstanding, fully paid up, with a par value of € 0.6098 each (183,496,508 shares with a par value of € 0.6098 each on March 31, 2005).

All shares are of the same class and may be held in either identifiable bearer (TPI) or registered form, at the holder's option. Each share entitles its holder to one vote on matters submitted to a vote of the shareholders. All paid-up shares held in registered form by the same shareholder for two years or more are entitled to double voting rights, as are additional shares acquired pursuant to rights attached to registered shares entitled to double voting rights.

### ▪ DIVIDENDS

The Board of Directors may propose to Infogrames Entertainment SA shareholders that dividends be distributed for up to the amount of the Company's distributable earnings. Decisions regarding dividends are made by Infogrames Entertainment SA's shareholders at their Annual Meeting. The Group distributed no dividends for the past three fiscal years.

The table below shows changes in shares outstanding over the past two fiscal years:

| (number of shares) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Shares outstanding at the start of the year | 183,496,508 | 120,014,316 |
| Equity issue | 6,229,650 | 61,595,942 |
| Exercised stock options | - | - |
| Change in treasury shares | - | 1,886,250 |
| Shares outstanding at the end of the year | 189,726,158 | 183,496,508 |

Equity issues in the period to March 31, 2006 correspond primarily to the acquisition of Humongous (see note 1.2).

Shares issued in the period to March 31, 2005 correspond to the following:

- Distribution of warrants as part of the restructuring of the 2000-2005 convertible bond debt (35,238,909 new shares)
- Share issue in connection with the combined cash and stock tender for the OCEANE 2000-2005 bonds (24,037,720 shares)
- Share issue in connection with an employee stock ownership plan (2,319,313 shares)

## 11.2. TREASURY SHARES

As of March 31, 2005 and March 31, 2006, the Company did not hold any of its own stock. The shareholders' meeting of January 19, 2005 granted authority to the Board of Directors, which may further delegate such authority, to implement a program to buy back up to 10% of the Company's shares outstanding. The Board had not made use of this authority as of March 31, 2006. The authority was renewed by the shareholders' meeting of October 20, 2005.

As of March 31, 2005 and March 31, 2006, no Group subsidiary held any shares of the Company.

## 11.3. SHARE SUBSCRIPTION WARRANTS ATTACHED TO OCEANE 2003-2009 BONDS

In connection with the Company's November 2003 exchange tender offer for 2004 and 2005 bonds outstanding, warrants entitling their holder to subscribe for newly issued Infogrames Entertainment shares at € 6 per share were attached to each OCEANE 2003-2009 exchanged for bonds tendered. The original ratio of 5 warrants for one share was increased to 5 warrants for 1.02 shares to reflect the distribution of bonus warrants in December 2004. The warrants, which expired on June 30, 2005, were never exercised and are no longer valid.

## 11.4. INFOGRAMES ENTERTAINMENT SA STOCK OPTION PLAN

Authority has been granted to the Board of Directors, until February 17, 2008, to grant options for new or existing shares of Infogrames Entertainment SA to officers, directors and certain employees of the Group. Options may be offered for a number of shares not in excess of the number allowed under article L 225-182 of the Commercial Code. The exercise price of these options may not be less than 95% of the average trading price of Infogrames Entertainment SA common stock over the twenty trading days immediately preceding the date on which the respective options are granted. Options generally vest ratably over a four- or five-year period from their date of grant under certain conditions and are generally exercisable over periods of up to eight years. No options may be granted to Group officers, directors, or employees who already own more than 10% of Infogrames Entertainment SA common stock.

## 11.5. Basic earnings per share and fully diluted earnings per share

The table below reconciles basic earnings per share with fully diluted earnings per share:

| In euros | Net gain (loss) | Average number of shares outstanding | Earnings per share |
|---|---|---|---|
| **2005 - 2006** | | | |
| Basic earnings per share | (149.8) | 187,268,432 | (0.8) |
| Dilutive impact of stock options | - | - | - |
| Dilutive impact of OCEANE bonds | - | - | - |
| **Fully diluted earnings per share** | **(149.8)** | **187,268,432** | **(0.8)** |
| **2004 - 2005** | | | |
| Basic earnings per share | (33.6) | 129,895,258 | (0.26) |
| Dilutive impact of stock options | - | - | - |
| Dilutive impact of OCEANE bonds | - | - | - |
| **Fully diluted earnings per share** | **(33.6)** | **129,895,258** | **(0.26)** |

# NOTE 12 – PROVISIONS FOR CURRENT AND NON-CURRENT CONTINGENCIES AND LOSSES

## 12.1. Changes in provisions

| (€ millions) | Restructuring charges | Pension liabilities | Other | Total |
|---|---|---|---|---|
| On March 31, 2005 | | | | |
| Current liabilities | 6.4 | - | 1.3 | 7.7 |
| Non-current liabilities | - | 0.1 | - | 0.1 |
| **Provisions on March 31, 2005** | **6.4** | **0.1** | **1.3** | **7.8** |
| ***Changes during the period*** | | | | |
| Additions | 4.0 | - | 0.1 | 4.1 |
| Reversals | - | (0.1) | - | (0.1) |
| Cancellations (uses) | (5.5) | - | (0.2) | (5.7) |
| Changes in consolidation | - | - | - | - |
| Other | 0.1 | 0.3 | (0.3) | 0.1 |
| Foreign-exchange gains (losses) | 0.1 | - | - | 0.1 |
| **Provisions on March 31, 2006** | **5.1** | **0.3** | **0.9** | **6.3** |
| On March 31, 2006 | | | | |
| Current liabilities | 5.1 | - | 0.9 | 6.0 |
| Non-current liabilities | - | 0.3 | - | 0.3 |
| **Provisions on March 31, 2006** | **5.1** | **0.3** | **0.9** | **6.3** |

On March 31, 2006, the provision for restructuring charges consisted of:

- Payroll: € 1.5 million
- Rent: € 2.9 million
- Other restructuring charges: € 0.7 million

## 12.2. POST-EMPLOYMENT BENEFITS

Post-employment benefits are recognized in the financial statements as follows:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Pension liabilities | 0.3 | 0.1 |
| Other employee benefits | - | - |
| **Total** | **0.3** | **0.1** |
| Payable in more than five years | 0.3 | 0.1 |

The low amounts above are accounted for primarily by a very high staff turnover.

For the purpose of actuarial assessments, general assumptions have been made by actuaries in each country, while specific assumptions (staff turnover rate, pay increases) have been made by the Company.

| | 3/31/2006 | 3/31/2005 |
|---|---|---|
| **Assumptions** | | |
| Discount rate | 4.1% | 4.1% |
| Annual pay increases | 4.0% | 4.0% |

The discount rate is calculated by reference to the interest rate on 10-15 year government bonds.

## 12.3. RESTRUCTURING CHARGES

Changes in the provision for restructuring charges as set forth in note 12.1 reflect plans started during the period and those completed.

# NOTE 13 – DEBT

## 13.1. DEBT BY TYPE

The Group's debt can be broken down as shown in the following table:

| (€ millions) | OCEANE 2011 | OCEANE 2009 | 2005/2008 Notes | Production funds | Other debt | Bank overdrafts | Total |
|---|---|---|---|---|---|---|---|
| March 31, 2005 | | | | | | | |
| Current | - | - | 11,2 | 9.5 | 56.5 | 0.4 | 77.6 |
| Non-current | 5.3 | 124.3 | 22,4 | 8.1 | 5.6 | - | 165.7 |
| **Debt on March 31, 2005** | **5.3** | **124.3** | **33.6** | **17.6** | **62.1** | **0.4** | **243.3** |
| Apllication of IAS 32 - 39 | **-** | (31.1) | (1.9) | | | | **(33.0)** |
| **Debt on April 1, 2005** | **5.3** | **93.2** | **31.7** | **17.6** | **62.1** | **0.4** | **210.3** |
| ***Changes in the period*** | | | | | | | |
| New debt | - | - | - | 7.7 | 3.1 | 4.5 | 15.3 |
| Repayments | - | - | - | - | 21.2 | - | (21.2) |
| Apllication of IAS 32 - 39 | - | 6.5 | 0.7 | - | - | - | 7.2 |
| Changes in consolidated entities | - | - | - | - | - | - | - |
| Other changes | - | - | - | 1.4 | 2.8 | - | 4.2 |
| Foreign-exchange gains (losses) | - | - | - | - | - | - | - |
| **Debt on March 31, 2006** | **5.3** | **99.7** | **32.4** | **26.7** | **46.8** | **4.9** | **215.8** |
| March 31, 2006 | | | | | | | |
| Current | - | - | 21.9 | 12.5 | 18.1 | 4.9 | 57.4 |
| Non-current | 5.3 | 99.7 | 10.5 | 14.2 | 28.7 | - | 158.4 |
| **Debt on March 31, 2006** | **5.3** | **99.7** | **32.4** | **26.7** | **46.8** | **4.9** | **215.8** |

The principal changes during the period were:

- the application of IAS 32 and 39 effective April 1, 2005 (OCEANE 2009: reduction of the debt by € 24.6 million; 2005-2008 notes: reduction of the debt by € 1.2 million)
- the use of financing by outside production funds for € 7.7 million
- the repayment of (originally) medium-term bank loans of € 13.4 million

"Other debts" includes changes in accrued interest.

### ▪ HSBC CREDIT FACILITY

Atari, Inc. obtained a revolving credit facility of up to US$ 50 million from HSBC Business Credit, Inc. under an agreement entered into on May 13, 2005 (and subsequently amended on August 9, 2005) to finance its capital needs and the company's working capital requirements. Drawdowns under the facility are determined on the basis of a percentage of Atari's eligible receivables and stocks at given seasonal peak times. Interest is at the overnight LIBOR plus 1.75 %, on loans with a maturity of 30 days or more. The company agreed to certain covenants under the revolving credit facility, including minimum EBITDA, net worth and working capital. Amounts outstanding under the facility are secured by security interests on virtually all of Atari Inc.'s current and future assets, including receivables, inventories, intangible assets, facilities and equipment.

On January 25, 2006, Atari, Inc. announced that it was in default of certain financial covenants required under the agreement and that HSBC had accordingly notified it that the facility would be unavailable until further notice. Atari, Inc. noted that it was not using the revolving credit facility at the time, except for a nominal amount of letters of credit that had been cash-collateralized, and announced that it was exploring ways to obtain new financing, including the potential licensing or sale of selected intellectual property rights and the sale or closure of development studios.

The credit facility was not being used as of March 31, 2006.

- **2005-2008 NOTES**

On April 11, 2005, the Company issued 2,403,772 notes (the "2005-2008 Notes") with a face value of € 14 each, for a total of € 33.7 million in principal. The notes, which bear interest at 6% per annum (for a yield to maturity of 6.52%), are redeemable in three fractions of their face value as follows: € 4.66 on March 15, 2006; € 4,67 on March 15, 2007 and € 4,67 on March 15, 2008. The Notes are secured by California US Holdings, Inc. a wholly-owned Infogrames Entertainment subsidiary, by means of a senior pledge of 40.1 million Atari, Inc. shares.
A prospectus was issued in connection with this Note issue and approved by the AMF on March 4, 2005, under number 05-130.

The company may, at any time, prepay the portion still outstanding of the Notes in principal and accrued interest.

Pursuant to the application of IAS 32 and IAS 39, the effective interest rate on the Notes is 9.6%.

In connection with the refinancing of the Group's debt, a meeting of note holders was held on March 28, 2006 and resolved to amend the terms and conditions of the 2005-2008 Notes so as to reschedule payment of the € 13.5-million first portion of the Notes' principal originally due March 15, 2006 to June 15, 2006, leaving the maturity dates of the second and third repayments unchanged at March 15, 2007 and March 15, 2008. The meeting also resolved to capitalize interest owed on the first portion of principal originally repayable March 15, 2006, at 9% a year, from that date until September 15, 2006. Sums payable on March 15, 2007 and March 15, 2008 remain unchanged.

- **OCEANE 2003-2009 BONDS**

On December 23, 2003, the Company issued 16,487,489 convertible bonds (the "OCEANE 2003-2009") with a face value of € 7.0, exchangeable for new or existing common stock, for an aggregate of € 124.3 million (inclusive of aggregate premiums of approximately € 8.9 million). The bonds mature on April 1, 2009 and carry interest at 4% (for a yield to maturity of 5.31%, including premiums). They were originally convertible immediately by their holders into 1 Infogrames Entertainment share; that conversion ratio was increased to 1.02 common shares in December 2004 to take into account the distribution of bonus stock warrants on that date. The Company has the option of calling the bonds if, prior to their maturity date, the price of Infogrames Entertainment SA common shares rises above a pre-defined level. A prospectus was published in connection with the bond issue and approved by the COB on November 6, 2003 under No. 03-971.

As of March 31, 2006, there were 16,487,489 OCEANE 2003-2009 bonds outstanding, which could be exchanged or used to subscribe for an aggregate of 16,817,239 Infogrames Entertainment shares; the Company did not hold any of these OCEANE bonds as of March 31, 2006.

In accordance with IAS 32, the OCEANE 2009 bonds have been treated since April 1, 2005 as equity-linked financial instruments, consisting of:

- a financial liability, for the bond portion, similar to a normal debt;
- the option to convert for a set number of common shares, which is an equity instrument.

Under those standards, the effective rate on the bonds is 11.94%.

The Company has made a payment of € 4.6 million in interest on the OCEANE 2003-2009 bonds due April 15, 2006.

- **OCEANE 2011 BONDS**

On May 18, 2000, the Company issued 8,941,517 convertible bonds (the "OCEANE 2000-2005") with a face value of € 39.0, exchangeable for new or existing common stock, for an aggregate of € 412.3 million (inclusive of aggregate premiums of approximately € 63.6 million). The bonds, which originally matured on July 1, 2005, carry interest at 1.5% a year (for a yield of 4.75%, including the redemption premium). Each could initially be converted immediately into 1 Infogrames Entertainment share; that conversion ratio was increased to 1.05 common shares in January 2002 to take into account the distribution of bonus shares on that date. The Company has the option of calling the bonds if, prior to their maturity date, the price of Infogrames Entertainment SA common shares rises above a pre-defined level. A prospectus was published in connection with the bond issue and approved by the COB on May 18, 2000 under No. 00-823.

Two successive offers were made to exchange these OCEANE bonds:

- The Company issued a simplified tender offer, which was in effect from November 11 to December 1, 2003, to buy back the OCEANE 2000-2005 in exchange for 1.05 new Company shares and 5 bonds convertible into new shares or exchangeable for existing shares of Infogrames Entertainment (the OCEANE 2003-2009) with an attached warrant for new Company shares. On December 19, 2003, the AMF issued notice no. 203C2191 in which it stated that 2,191,180 OCEANE 2000-2005 bonds had been tendered under the offer.
- On March 4, 2005, the meeting of OCEANE 2000-2005 bondholders approved the following amendments to the bonds' indenture:
  - the bonds' maturity date was moved to July 1, 2011;
  - cancellation of the redemption premium and redemption at par (of € 39.0 per bond);
  - increase of the conversion ratio to 10.5 shares of Infogrames Entertainment common stock for each bond.

The Company issued a simplified tender offer, which was in effect from March 9 to 31, 2005, to buy back the OCEANE 2000-2005 in exchange for € 11.20 in cash, 10 new Company shares and 1 Company note (the 2005-2008 Notes). On April 7, 2005, the AMF issued notice 205C0605 reporting that 2,403,772 OCEANE 2000-2005 had been tendered under the offer, leaving 135,031 OCEANE 2011 bonds outstanding on March 31, 2005.

As of March 31, 2006, there were 135,031 OCEANE 2011 bonds outstanding, which could be exchanged or used to subscribe for an aggregate of 1,417,825 Infogrames Entertainment shares; the Company did not hold any of its own OCEANE 2000-2011 bonds as of March 31, 2006.

## 13.2. DEBT BY MATURITY

The Group's debt is as follows:

| (€ millions) Year ended March 31, 2006 | Amount |
|---|---|
| < March 2007 | 57.4 |
| < March 2008 | 44.3 |
| < March 2009 | 5.6 |
| < March 2010 | 100.7 |
| After March 2010 | 7.8 |
| **Total** | **215.8** |

The € 57.4 million in debt maturing prior to March 31, 2007 consists primarily of the following:

- bonds with a face value of € 21.9 million and interest of € 2.3 million;
- Bond debt maturing prior to March 31, 2007: € 11.2 million, before interest, on June 15, 2006, interest of € 2.3 million for the period ended, due on June 30, 2006 and repayment of principal of € 11.2 million before interest due on March 15, 2007.
- a current liability of € 12.5 million to a European production fund;
- short-term operating credit facilities secured by trade receivables, under which € 7.2 million had been drawn as of March 31, 2006, as well as bank overdrafts of € 4.9 million;
- a debt of € 2.5 million from factoring arrangements where the Company remains liable in the event of default by customers;
- on April 15, 2006, the Group paid € 4.6 million in interest on OCEANE 2003-2009 bonds, for which provisions had been recognized in the financial statements.

## 13.3. DEBT BY CURRENCY

The table below shows the currencies in which the Group's debt is denominated:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| European Monetary Union currencies | 203.4 | 230.4 |
| United States dollars | 5.6 | 5.6 |
| Other currencies | 6.8 | 7.3 |
| Total | 215.8 | 243.3 |

## 13.4. GUARANTEES AND COVENANTS

### ▪ GUARANTEES

In connection with short- and medium-term financing provided to the Company and its European and Asian subsidiaries, the Group has had to give guarantees to various banks (security interests, collateral) in addition to suretyship, involving the following assets:

- intellectual property rights pertaining to certain videogames published by Atari Europe; the book value of these games has since been significantly impaired;
- shares of Atari Europe, Atari France, Atari United Kingdom, Atari Deutschland, Atari Asia Holding Pty Ltd and Atari Australia Ltd;
- In addition, it has agreed to refrain from creating new security interests without granting the banks concerned pari passu rights, unless approved by the banks (this does not apply to either asset financing or to financing obtained by Atari, Inc.).

The Group has also undertaken to pledge, in favor of those same banks, a number of shares of California US Holding, Inc. originally valued at between 100 million US dollars and 150 million US dollars. The number of shares pledged would gradually decline as medium-term loans are repaid by the Group. On March 31, 2006, this pledge had not been given and the undertaking became moot after the end of the fiscal year, because of the April 13 agreement to refinance the bank debt.

### ▪ COVENANTS

The covenants entered into in connection with short-term credit facilities or similar arrangements outside France depend on the manner in which those lines of credit operate. They involve assigning or providing a portfolio of trade receivables as a guarantee for loans and using all proceeds from the settlement of such receivables to repay the loans, with the company being entitled to further draw down on the facility if it assigns additional receivables or provides them as guarantees. Accordingly, the covenants have to do mainly with the manner in which the facility operates (use of specific settlement accounts opened for the purpose of the facility; cross-guarantee by the parent company; cancellation of the facility in the event of default or failure to disclose financial information to the bank; etc.).

The table below summarizes the event of default and financial ratio clauses governing the Group's debt on March 31, 2006:

| Nature of debt | Amount, in € millions, as of March 31, 2006 | Event of default clauses / financial ratio |
|---|---|---|
| Bond debt | | |
| **OCEANE 2003-2009 bonds and OCEANE 2011 bonds** | 105.0 | The OCEANE bonds are not subject to any accelerated maturity clause based on financial ratios. However, the bonds could become immediately redeemable in the following principal instances:<br><br>- if Infogrames Entertainment SA fails to pay interest or principal on the OCEANE 2003-2009, or is in default of any of its contractual obligations pertaining to the bonds;<br>- if Infogrames Entertainment SA or any of its subsidiaries fails to repay or is in default with respect to other borrowings (the term being defined as encompassing only bond debt and loans from financial institutions); mandatory prepayment would be declared in this instance only if the sum or combined sums concerned amounted to € 20 million or more;<br>- if bankruptcy, liquidation or other insolvency proceedings are started against Infogrames Entertainment SA;<br>- if Infogrames Entertainment SA transfers virtually all of its assets or terminates virtually all of its business or if it is dissolved, unless that dissolution, termination or transfer occurs as part of a merger, split-up, exchange or other restructuring involving another company;<br>- if the shares of Infogrames Entertainment SA (or those that may replace them following a financial transaction) are no longer admitted to trading on a regulated market in the European Union or the United States.<br><br>The bonds' indenture also provides that the rank of the bond debt must remain unchanged and bars Infogrames Entertainment SA from using its real estate properties and rights as collateral, or from pledging its business as security, without the holders of OCEANE 2003-2009 bonds being granted pari passu rights. This obligation only pertains to bond issues and does not restrict Infogrames Entertainment SA's right to grant security interests on its assets in other circumstances.<br><br>Detailed information regarding the other provisions of the OCEANE 2003-2009 indenture is contained in the circular approved by the COB on November 6, 2003 (visa no. 03-971), which interested parties may download from the Company's Web site at www.atari.com or request from its principal office. |
| 2005-2008 Notes | 32.4 | The 2005-2008 Notes are not subject to any accelerated maturity clause based on financial ratios. However, the Notes could be declared immediately redeemable by the representative of the note holders if one or more holders accounting for more than 10 percent of the outstanding notes' nominal value so request, should the following events of default occur:<br><br>- if Infogrames Entertainment SA fails to pay interest or principal on the 2005-2008 Notes or defaults on any of its contractual obligations pertaining to the Notes;<br>- if Infogrames Entertainment SA or any of its subsidiaries fails to repay or default on other debt (the term being defined as encompassing only bond debt and loans from financial institutions); mandatory prepayment of the 2005-2008 Notes would be effective in this instance only if the sum or combined sums on which the Company was in default or for which the maturity was accelerated amounted to € 5 million or more; for the purpose of these clauses, “debt” does not encompass trade payables or intra-group loans and advances;<br>- if court-ordered reorganization or liquidation proceedings (or other similar insolvency or bankruptcy proceedings) are started against Infogrames Entertainment SA or one of its significant subsidiaries, or if proceedings are started to suspend or reschedule the payment of interest and principal on the 2005-2008 Notes;<br><br>Any holder may also, at its discretion, request that some or all of the 2005-2008 Notes held by it be immediately called in the following instances:<br><br>- if Infogrames Entertainment SA or one of its main subsidiaries transfers to a third party outside the Group virtually all of its assets or terminates virtually all of its business, unless this occurs as part of a merger, split-up, exchange or other restructuring involving any other company;<br>- if the shares of Infogrames Entertainment SA or of Atari, Inc. (or those that may replace them following a financial transaction) are no longer admitted to trading on the Eurolist of Euronext Paris, the NASDAQ or any other regulated market in the European Union or the United States.<br>- if Infogrames Entertainment SA and its subsidiaries no longer control Atari, Inc. (meaning that they hold less than 40% if its shares or voting rights) or if a third party holds more Atari, Inc. shares or voting rights than Infogrames Entertainment SA and its subsidiaries;<br>- if Infogrames Entertainment SA or Atari, Inc. distribute a dividend amounting to more than 2% of their market capitalization;<br>- if Infogrames Entertainment SA or one of its subsidiaries (other than Atari, Inc. and its subsidiaries) (i) issues and offers notes maturing before or at the same time as the 2005-2008 Notes, or (ii) contracts asset-backed loans (other than secured bank loans) other than as part of its ordinary operations, subject to the specification that equity swaps pertaining to Atari Inc. shares or similar financing methods are not considered to qualify as ordinary business;<br>- if Atari, Inc. (or its subsidiaries) (i) substantially and negatively changes its business or assets, (ii) makes a loan or advance (or grants a security interest) to Infogrames Entertainment SA (or its subsidiaries) or performs a transaction in favor of Infogrames Entertainment SA or its subsidiaries |

| Nature of debt | Amount, in € millions, as of March 31, 2006 | Event of default clauses / financial ratio |
|---|---|---|
| | | harmful to the interests of Atari, Inc., or (iii) retires or buys back some or its shares or reduces or redeems its capital;<br>- if the entire bond and bank debt of California U.S. Holdings, Inc. (resulting from the obligation to redeem bonds traded on a regulated market or to repay bank loans) and the guarantees provided by California U.S. Holdings, Inc. exceed € 20 million at any time before June 20, 2006 [*amended by the note holders' meeting of March 28, 2006*]; trade payables and intra-group loans are included in this debt;<br>- in the event that the secured debt no long has its original rank;<br>- if the modified collateral, including the 7,000,000 additional Atari Inc. shares, is not effectively, irrevocably and validly provided as of April 30, 2006 [*added by the note holders' meeting of March 28, 2006*];<br>- if, before June 15, 2006, Infogrames Entertainment SA issues shares or other equity securities as part of a private or public offering, for € 5 million or more, provided that Infogrames Entertainment SA may defer the payment of debt becoming due until up to the settlement-delivery date of the security issue [*added by the note holders' meeting of March 28, 2006*];<br>- For the portion of the principal and interest payable June 15, 2006 (or the first business day thereafter) only, of € 5.70 per 2005-2008 Note, if, in the period from the note holders' meeting [*March 28, 2006*], and June 15, 2006, Infogrames Entertainment SA discloses information not reported to the meeting [*March 28, 2006*] that, in the opinion of one or more holders of 2005-2008 Notes accounting for 20% or more of the face value of the Notes outstanding at the time, notified to Infogrames Entertainment SA no later than 15 business days from said disclosure of previously unreported information, is liable to have a material adverse effect on the business, assets or financial, economic and legal position of Infogrames Entertainment SA, Atari Inc. or one of its significant direct or indirect subsidiaries [*added by the note holders' meeting of March 28, 2006*];<br>- For the portion of the principal and interest payable June 15, 2006 (or the first business day thereafter) only, of € 5.70 per 2005-2008 Note, if, in the period from the note holders' meeting [*March 28, 2006*] to June 15, 2006, Infogrames Entertainment SA or one of its subsidiaries other than Atari Inc. transfers assets with an aggregate value of more than € 15 million to a third party outside the Group [*added by the note holders' meeting of March 28, 2006*].<br><br>The Notes' terms and conditions also provides that the rank of the Notes must remain unchanged and bars Infogrames Entertainment SA from using its real estate properties and rights as collateral, pledging its business as security, or granting any rights whatsoever involving the shares of Atari, Inc. without extending *pari passu* rights to the 2005-2008 Notes. This obligation only pertains to bond issues and does not restrict Infogrames Entertainment SA's right to grant security interests on its assets in other circumstances.<br><br>Detailed information regarding these and other terms and conditions of the 2005-2008 Notes (*amended by the note holders' meeting of March 28, 2006*) is contained in the circular approved by the AMF on March 4, 2005 (visa no. 05-130), which interested parties may download from the Company's website at www.atari.com or request from its principal office. |
| Other debts and borrowings | | |
| By the parent company | 23.4 | The loans are subject to acceleration clauses, including in the event of cross default between loans, providing for mandatory prepayment in the event of default on either payment. For example, failure to make a payment on time under a bank loan causes the entire loan as well as all other bank loans to be in default.<br>Effective April 1, 2004, bank loans are not subject to event-of-default clauses based on financial ratios. An event of default is considered to exist only if the auditors issue a qualified opinion regarding the parent company's financial statements.<br>Lastly, a loan's maturity may be accelerated in the event that CUSH no longer has an effective controlling interest in Atari, Inc.<br>Infogrames Entertainment has also undertaken not to grant security interest on its US assets without the consent of the banks, unless it grants the banks the same security on a pari passu basis, or another security which the banks deem equivalent. This undertaking does not apply to financing obtained by the Group's subsidiaries in the United States.<br>The Company renegotiated its entire bank debt after the end of the fiscal year (see note 26 "New agreement with banks"). |
| By European and Asian subsidiaries (Australia, Italy and the United Kingdom) | 7.2 | On short-term credit facilities backed by trade receivables and cross-guaranteed by the parent company. |
| Lease commitments | 6.1 | Leases do not contain clauses specifying financial ratios. |
| Receivables assigned with a recourse | 2.5 | No event of default based on financial ratios. |

<table>
<tr><th>Nature of debt</th><th>Amount, in € millions, as of March 31, 2006</th><th>Event of default clauses / financial ratio</th></tr>
<tr><td>By Atari, Inc.:</td><td>No debt outstanding as of March 31, 2006</td><td>The agreement entered into by Atari, Inc. with HSBC on May 13, 2005 contains certain event of default clauses based on financial ratios relating to Atari, Inc. These financial ratios are calculated in accordance with US GAAP. The ratio covenants may be revised on a case-by-case basis with the consent of HSBC. Under an amendment dated June 30, 2005, the ratios were changed to the following:<br>
<table>
<tr><th>(US$ millions)</th><th>Minimum EBITDA</th><th>Assets other than intangibles, less liabilities</th><th>Working capital</th></tr>
<tr><td>June 30, 2005</td><td>(15.5)</td><td>19.7</td><td>(10.5)</td></tr>
<tr><td>September 30, 2005</td><td>(32.0)</td><td>2.0</td><td>(31.0)</td></tr>
<tr><td>December 31, 2005</td><td>(13.5)</td><td>36.0</td><td>(9.5)</td></tr>
<tr><td>March 31, 2006</td><td>13.0</td><td>59.0</td><td>16.5</td></tr>
</table>
On January 25, 2006, Atari, Inc. announced that it was in default of certain financial covenants required under the agreement and that HSBC had accordingly notified it that the facility would be unavailable until further notice. Atari, Inc. noted that it was not using the revolving credit facility at the time, except for a nominal amount of letters of credit that had been cash-collateralized, and announced that it was exploring ways to obtain new financing, including potential licensing or sale of selected intellectual property rights and the sale or closure of development studios.</td></tr>
<tr><td>Production funds</td><td>26.7</td><td>No event of default based on financial ratios. The repayment of sums owed under production funds may be accelerated if bankruptcy or liquidation proceedings are started against Atari Europe SAS.</td></tr>
<tr><td>Other debt, including overdrafts</td><td>12.5</td><td>This consists chiefly of accrued interest on notes, convertible bonds and other debt (other than cash advances).</td></tr>
<tr><td>Total</td><td>215.8</td><td></td></tr>
</table>

## 13.5. INTEREST RATES (FIXED - FLOATING)

The table below shows the nature of the interest on the Group's debt:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Floating rate | 36.2 | 51.7 |
| Fixed rate | 179.6 | 191.6 |
| Total | 215.8 | 243.3 |

The floating-rate debt (exclusive of bank overdrafts) carried an average interest rate of 3.73% on March 31, 2006, compared with 4.05% on March 31, 2005.

As of March 31, 2006, the fixed-rate debt consisted primarily of the following:

- Convertible bonds (OCEANE 2003-2009) of € 99.7 million with interest at an effective rate of 11.94% as calculated in accordance with IAS 32 and 39.
- 2005-2008 Notes of € 32.4 million bearing interest at an effective rate of 9.63% as calculated in accordance with IAS 32 and 39.

### 13.6. FAIR VALUE

The fair value of the Group's debt has been estimated on the basis of listed prices at the end of the period (in the case of OCEANE bonds and the Notes) and of terms extended to the Group for debt with the same residual maturities (in the case of other borrowings). The fair value of the Group's debt obligations is accordingly as follows:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Fair value | 134.8 | 210.3 |
| Carrying amount | 215.8 | 243.3 |

# NOTE 14 – OTHER CURRENT AND NON-CURRENT LIABILITIES

Other liabilities consisted of the following:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Hasbro guaranteed minimum | 13.8 | - |
| Other | 1.2 | 1.2 |
| **Other non-current liabilities** | **15.0** | **1.2** |
| Taxes and employee benefits payable | 17.8 | 15.5 |
| Fixed asset suppliers | 0.5 | 0.3 |
| Hasbro guaranteed minimum | 2.6 | - |
| Other | 3.7 | 2.3 |
| **Other current liabilities** | **24.6** | **18.1** |

The guaranteed minimums represent commitments by the Group to Hasbro Interactive under the renegotiated agreements of May 2005.

# NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

| (€ millions) | Book value on March 31, 2006 | Fair value on March 31, 2006 |
|---|---|---|
| **Assets** | | |
| Non-current financial assets | 3.2 | 3.2 |
| Trade receivables | 49.6 | 49.6 |
| Other receivables | 53.8 | 53.8 |
| Cash and cash equivalents | 42.6 | 42.6 |
| **Total financial assets** | **149.2** | **149.2** |
| **Liabilities** | | |
| Other debt and liabilities | 215.8 | 134.8 |
| Trade payables | 114.6 | 114.6 |
| Other financial liabilities | 30.9 | 30.9 |
| **Other current liabilities** | **361.3** | **280.3** |

The fair value of trade and other current receivables (assets held to maturity) is their book value, as they have short maturities.

Non-current financial assets are primarily non-consolidated investment holdings and some related receivables. They are recognized at cost, which the Group assumes to represent their fair value in the absence of an active market.

The fair value of the debt is measured at its market price in the case of notes and convertible bonds (see note 13.6).

Other financial liabilities are mainly taxes and employee benefits payable, which have short maturities.

# NOTE 16 – SEGMENT REPORTING

Based on an analysis conducted by the Group, risk and profitability factors depend mainly on the countries where the Group operates and distributes products, and are otherwise the same for all Group products (manufacturing process, marketing strategy, distribution system).

Accordingly, segment reporting presents primary sales data by region without distinguishing among segments within the meaning of IAS 14, with the Group as a whole being considered to operate in the single market segment of “interactive games.”

| | 3/31/2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **United States** | **Europe** | **Asia *** | **Corporate** | **Other** | **Elimination** | **Total** |
| Revenue from ordinary Group business | 21.1 | 21.7 | 4.7 | 12.2 | - | (59.7) | - |
| Finished products | 153.2 | 191.7 | 33.5 | - | - | | 378.4 |
| Licenses | 10.0 | 2.7 | 0.1 | - | - | - | 12.8 |
| Revenue from ordinary third-party business | 163.2 | 196.4 | 33.6 | - | - | - | 391.2 |
| **Revenue from ordinary business** | **184.3** | **216.1** | **38.3** | **12.2** | **-** | **(59.7)** | **391.2** |
| | | | | | | | |
| **EBIT** | **(56.3)** | **5.9** | **1.4** | **(7.3)** | **-** | | **(56.3)** |
| Sale of Hasbro license | (13.4) | - | - | 50.0 | - | | **36.6** |
| Proceeds from sales of assets | 4.2 | - | - | - | - | | **4.2** |
| Restructuring charges | (9.9) | -(0.9) | - | (2.4) | - | | **(13.2)** |
| Goodwill impairments | (125.4) | - | - | - | - | | **(125.4)** |
| **Operating income** | **(200.8)** | **5.0** | **1.4** | **40.3** | **-** | | **(154.1)** |
| Financial income | (3.5) | (5.0) | 0.1 | (15.0) | - | | **(23.4)** |
| Corporate income tax | 0.2 | (2.4) | (0.4) | 0.9 | - | | **(1.7)** |
| Share of income of equity entities | - | - | - | - | (0.1) | | **(0.1)** |
| Minority interests | 29.5 | - | - | - | - | | **29.5** |
| **Net income** | **(174.6)** | **(2.4)** | **1.1** | **26.2** | **(0.1)** | | **(149.8)** |
| | | | | | | | |
| **Balance sheet** | | | | | | | |
| Goodwill | 86.3 | 35.6 | 7.0 | - | - | | **128.9** |
| Intangible assets | 69.8 | 4.5 | - | 16.4 | | | **90.7** |
| Other non-current assets | 9. | 2.9 | 5.9 | 2.4 | 0.6 | | **20.8** |
| Current assets | 35.9 | 57.4 | 6.3 | 3.8 | - | | **103.4** |
| Cash and cash equivalents | 14.4 | 21.8 | 6.3 | 0.1 | - | | **42.6** |
| **Total assets** | | | | | **-** | | **386.4** |
| Financial liabilities | 5.5 | 40.9 | 1.1 | 168.3 | - | | **215.8** |
| Other non-current liabilities | 1.2 | 0.3 | - | 13.8 | - | | **15.3** |
| Other current liabilities | 74.3 | 52.7 | 8.0 | 10.5 | - | | **145.5** |
| Non-segment liabilities | | | | | | | **9.8** |
| **Total liabilities** | | | | | | | **386.4** |
| | | | | | | | |
| **Other information** | | | | | | | |
| Capital expenditures for the year | | | | | | | |
| • Intangible assets | **64.2** | **3.4** | **-** | **0.5** | **-** | | **68.1** |
| • Property, plant and equipment | **0.8** | **0.6** | **0.2** | **-** | **-** | | **1.6** |
| • Financial investments | **-** | **(0.2)** | **-** | **0.4** | **-** | | **0.2** |
| Amortization and depreciation allowances | **(52.9)** | **(6.1)** | **(0.5)** | **(0.5)** | **-** | | **(60.0)** |
| Impairments recognized in income | **(125.4)** | **-** | **-** | **-** | **-** | | **(125.4)** |

* Australia is included in the Asian region

| | 3/31/2005 | | | | | | |
|---|---|---|---|---|---|---|---|
| | United States | Europe | Asia* | Corporate | Other | Elimination | Total |
| Revenue from ordinary Group business | 30.3 | 21.1 | 5.8 | 10.8 | - | (68.0) | - |
| Finished products | 292.1 | 220.9 | 43.6 | - | - | - | 556.6 |
| Licenses | 15.5 | 3.9 | 1.2 | - | - | - | 20.6 |
| Revenue from ordinary third-party business | 307.6 | 224.8 | 44.8 | - | - | - | 577.2 |
| **Revenue from ordinary business** | **337.9** | **245.9** | **50.6** | **10.8** | **-** | **(68.0)** | **577.2** |
| **EBIT** | **(6.4)** | **15.4** | **3.9** | **(5.9)** | **-** | | **7.0** |
| Proceeds from sales of assets | (7.5) | - | - | - | - | | **(7.5)** |
| Restructuring charges | (3.3) | (10.8) | - | - | - | | **(14.1)** |
| Goodwill impairments | (18.8) | (0.5) | - | - | - | | **(19.3)** |
| **Operating income** | **(36.0)** | **4.1** | **3.9** | **(5.9)** | **-** | | **(33.9)** |
| Financial income | 13.2 | 3.9 | (0.1) | (22.4) | (0.2) | | **(5.6)** |
| Corporate income tax | (0.3) | (0.3) | 5.2 | 0.6 | - | | **5.2** |
| Minority interests | 0.7 | - | - | - | - | | **0.7** |
| **Net income** | **(22.4)** | **7.7** | **9.0** | **(27.7)** | **(0.2)** | | **(33.6)** |
| **Balance sheet** | | | | | | | |
| Goodwill | 205.9 | 35.6 | 7.0 | - | - | | **248.5** |
| Intangible assets | 59.4 | 5.1 | - | 2.3 | - | | **66.8** |
| Other non-current assets | 11.6 | 4.3 | 6.8 | 14.3 | - | | **37.0** |
| Current assets | 64.8 | 44.2 | 6.0 | 2.8 | - | | **117.8** |
| Cash and cash equivalents | 9.3 | 15.4 | 4.8 | 6.8 | - | | **36.3** |
| **Total assets** | | | | | | | **506.4** |
| Financial liabilities | 5.6 | 31.1 | 1.1 | 205.5 | - | | **243.3** |
| Other non-current liabilities | 1.0 | 0.1 | - | 0.2 | - | | **1.3** |
| Other current liabilities | 66.1 | 51.9 | 6.3 | 12.9 | - | | **137.2** |
| Non-seqment liabilities | | | | | | | **124.6** |
| **Total liabilities** | | | | | | | **506.4** |
| **Other information** | | | | | | | |
| Capital expenditures for the year | | | | | | | |
| • Intangible assets | **49.6** | **7.4** | **-** | **0.1** | **-** | | **57.1** |
| • Property, plant and equipment | **1.1** | **1.2** | **0.4** | **-** | **-** | | **2.7** |
| • Financial investments | **0.9** | **-** | **(0.1)** | **(0.1)** | **-** | | **0.7** |
| Amortization and depreciation allowances | **(44.7)** | **(4.4)** | **(0.8)** | **(3.1)** | **-** | | **(53.0)** |
| Impairments recognized in income | **18.8)** | **(0.5)** | **-** | **-** | **-** | | **(19.3)** |

* Australia is included in the Asian region

Revenue from ordinary business for each region in which the Group operates divides up similarly on the basis of the location of the Group's customers.

# NOTE 17 – OPERATING EXPENSES

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Cost of sales | (230.0) | (285.7) |
| Research and development | (65.5) | (110.2) |
| Marketing and sales | (87.6) | (102.4) |
| Overhead and administration | (64.4) | (71.9) |
| Restructuring charges | (13.2) | (14.1) |
| Gains (losses) from sales of assets | 40.8 | (7.5) |
| Impairment of goodwill | (125.4) | (19.3) |
| **Total net operating expenses** | **(545.3)** | **(611.1)** |

Research and development expenses comprise both the costs incurred by the Group's own studios for developments up to the feasibility stage and the amortization allowances on research and development expenditures capitalized as intangible assets. They also include the cost of localizing and testing products distributed.

Administrative expenses include all of the Group's structural costs (including those resulting from stock option plans).

Restructuring charges represent mainly costs incurred by the Group to significantly reduce its workforce. For the year ended March 31, 2006 most of those charges were incurred in the United States and can be analysed as follows:

| (€ millions) | 3/31/2006 | 3/31/2005 |
| --- | --- | --- |
| Payroll | (6.3) | (8.4) |
| Unused office space | (4.4) | (5.4) |
| Assets | (1.0) | 0.0 |
| Other | (1.5) | (0.3) |
| **Total** | (13.2) | (14.1) |

On March 31, 2006, proceeds of € 40.8 million from disposals of assets included € 36.6 million from the sale of the Hasbro license (see note 1.3).

On March 31, 2005, proceeds from disposals of assets reflected mainly a loss of € 20.7 million from the sale of Atari Inc. shares and gains of € 14 million from sales of other assets.

Goodwill impairments are reviewed in note 3.3.

# NOTE 18 – PAYROLL

Payroll expenses can be analysed as follows:

| Payroll expenses | 3/31/2006 | 3/31/2005 |
| --- | --- | --- |
| Compensation | 62.8 | 76.4 |
| Employee benefits | 9.1 | 9.6 |
| Incentive and profit-sharing bonuses | 0.2 | - |
| **Total payroll expenses** | **72.1** | **86.0** |

The table below shows the size of the Group's workforce at the end of the past two fiscal years:

| Workforce | 3/31/2006 | 3/31/2005 |
| --- | --- | --- |
| Management personnel | 503 | 615 |
| Non-management personnel | 479 | 606 |
| **Total workforce** | **982** | **1221** |

The table below shows the Group's payroll expenses for the periods ended March 31, 2006 and March 31, 2005:

| | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Officers and directors | 3.0 | 1.8 |
| Other employees | 69.1 | 84.2 |
| **Total payroll expenses** | **72.1** | **86.0** |

The members of the executive committee make up the management bodies.

# NOTE 19 – PAYMENTS IN SHARES

## 19.1. VALUATION MODEL

As prescribed by IFRS 2 – "Payments in shares", options granted to employees to purchase new or existing shares are accounted for in the following manner: the fair value of the options granted, assumed to correspond to the fair value of the services performed by the employees for which options are granted as consideration, is determined on the date of grant.

The fair value of stock options is calculated in accordance with the Black & Scholes model, which takes into account the features of the options (exercise price and period), market conditions on the date of grant (risk-free rate, trading price of shares, volatility, expected dividends) and assumptions concerning the behavior of option holders, such as whether they are likely to exercise their options before the end of the exercise period.

Only stock options granted after November 7, 2002 and those whose holders have become vested after January 1, 2005 are accounted for in accordance with IFRS 2. No expense has accordingly been recognized for the year ended March 31, 2005 or subsequent periods in the case of options fully exercisable by January 1, 2005.

For purposes of simplification, cancellations of options due to the departure of employees during the vesting period are not taken into consideration when calculating the payroll expense recognized for options granted. The impact of cancellations of options due to the departure of employees during the vesting period are recognized after the cancellation is effected, which can cause expenses recognized in one period to be adjusted in the following period, whenever options are cancelled before the end of their vesting period.

No adjustments are made to expenses previously recognized when options are cancelled after their vesting period or are not exercised.

## 19.2. EXPENSE RELATED TO PAYMENTS IN SHARES

The Group recognizes an offsetting expense for all payments in shares, as follows:

| (€ millions) | 3/31/06 | 3/31/05 |
|---|---|---|
| Infogrames Entertainment SA Stock Option Plan ............................ | 1.6 | 1.6 |
| Atari, Inc. stock option plans ............................................................ | 2.9 | 1.5 |
| Expense related to payment in shares............................................. | 4.5 | 3.1 |

The expense is recognized in the income statement as follows:

| (€ millions) | 3/31/06 | 3/31/05 |
|---|---|---|

| | | |
|---|---|---|
| Research and development expenditures.......................................... | 0.1 | 0.1 |
| Marketing expenses........................................................................... | 0.5 | 0.3 |
| Administrative expenses .................................................................... | 3.9 | 2.7 |
| Expense related to payments in shares............................................. | 4.5 | 3.1 |

## 19.3 STOCK OPTIONS GRANTED TO EMPLOYEES

Infogrames Entertainment grants stock options to officers and senior executives as well as other employees for their contribution to the business of the Group. On the date of grant, the options' exercise price is set close to the trading price of shares. Options are for eight years and have a four-year vesting period.

Atari Inc, a subsidiary in which Infogrames Entertainment holds an indirect interest of 51.395%, also has its own stock option plan. Atari options have an eight-year life. One-fourth of the options granted vest in one year and the other three-fourths vest quarterly until the fourth year.

The table below summarizes the information concerning current Infogrames Entertainment stock-option plans:

| | 2005-2006 | | 2004-2005 | |
|---|---|---|---|---|
| | Number of options (000) | Average exercise price | Number of options (000) | Average exercise price |
| Number of options outstanding at the start of the year | 6,802 | 6.24 | 6,344 | 6.57 |
| Granted | 2,150 | 1.38 | 561 | 1.94 |
| Cancelled | (1,341) | 4.84 | (226) | 4.89 |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Adjustment (1) | | | 124 | 6.30 |
| Number of options outstanding at the end of the year | 7,611 | 5.12 | 6,802 | 6.24 |
| Of which, exercisable | 4,177 | 7.62 | 4,396 | 7.67 |

(1) The number of options and their exercise price have been adjusted to reflect the distribution to Company stockholders of bonus stock warrants in December 2004.

The table below summarizes the information concerning current Atari Inc. stock-option plans:

| | 2005-2006 | | 2004-2005 | |
|---|---|---|---|---|
| | Number of options (000) | Average exercise price ($) | Number of options (000) | Average exercise price ($) |
| Number of options outstanding at the start of the year | 11,313 | 6.94 | 6,878 | 10.62 |
| Granted | 791 | 2.57 | 4,925 | 2.11 |
| Cancelled | (4,522) | 4.80 | (469) | 10.07 |
| Exercised | (64) | 1.33 | (21) | 0.46 |
| Expired | - | - | - | - |
| Number of options outstanding at the end of the year | 7,518 | 7.80 | 11,313 | 6.94 |
| Of which, exercisable | 5,589 | 9.62 | 6,331 | 10.44 |

## 19.4. FAIR VALUE OF OPTIONS GRANTED DURING THE PERIOD

As explained in note 2.18, the fair value of options is calculated on the date of grant using the Black & Scholes model. Subsequent changes in their fair value are not recognized.

The Group has calculated the fair value of options granted by Infogrames Entertainment in fiscal 2005-2006 and 2004-2005 on the basis of the following assumptions made for the plans of September 7, 2005 and July 27, 2004, respectively:

| Principal assumptions | 2005 - 2006 | 2004 - 2005 |
|---|---|---|
| Valuation model | Black & Scholes | Black & Scholes |
| Price of shares on option grant date | 1.41 | 1.94 |
| Exercise price on option grant date | 1.38 | 1.74 |
| Expected volatility | 77.60% | 78.50% |
| Risk-free interest rate on grant date | 2.60% | 3.55% |
| Expected dividend rate | 0.00% | 0.00% |
| Fair value of options on grant date | 0.91 | 1.23 |

Volatility measures the propensity of an asset's value to fluctuate. The more the asset's value changes over a short period of time, the higher its volatility.

According to IFRS 2, the period over which historical fluctuations in the price of underlying securities is taken into consideration to determine volatility must be equal to the expected life of options (5 years).

Based on the Group's dividend history, no dividend is anticipated.

The risk-free rate is that of government bonds with a maturity equal to the estimated life of the options (5 years) on the various option grant dates.

The Group used the following assumptions to determine the fair value of options granted by Atari Inc. in fiscal 2005-2006 and 2004-2005:

| Principal assumptions | 2005-2006 | 2004-2005 |
|---|---|---|
| Valuation model | Black & Scholes | Black & Scholes |
| Average price of shares | $2.57 | $2.11 |
| Average exercise price | $2.57 | $2.11 |
| Expected volatility | 120.00% | 96.00% |
| Risk-free interest rate on grant date | 3.75% | 2.44% |
| Expected dividend rate | 0.00% | 0.00% |

Based on the above assumptions, the fair value of the main stock options granted by Atari Inc. in the period from April 1, 2005 to March 31, 2006 was in the range of $0.93 to $1.63. For the period from April 1, 2004 to March 31, 2005, it was in the range of $1.35 to $1.65.

# NOTE 20 – FINANCIAL INCOME

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Interest on bond debt | (14.2) | (11.2) |
| Interest on bank debt | (5.9) | (6.8) |
| Other | - | (0.6) |
| **Net cost of debt** | **(20.1)** | **(18.6)** |
| Gains on exchange tender offer | - | 15.6 |
| Foreign-exchange gain (loss) | (2.1) | - |
| Change in provisions on non-current assets | (1.2) | (2.6) |
| Other financial income (expenses) | - | - |
| **Other financial income or expenses** | **(3.3)** | **13.0** |
| **Total** | **(23.4)** | **(5.6)** |

A gain of € 15.6 million for the year ended March 31, 2005 on an exchange tender offer corresponds to the tender offer to exchange cash and securities for the OCEANE 2000-2005 bonds. The Company offered OCEANE bondholders the option of tendering their bonds in exchange for a combination of new shares, new notes and cash. A final prospectus was issued in connection with the Offer and approved by the AMF on March 4, 2005 (visa no. 05-130).

The application of IAS 39 from April 1, 2005 resulted in an additional non-cash interest expense of € 7.2 million for the year to March 31, 2006 due to the use of the effective interest-rate method.

# NOTE 21 – CORPORATE INCOME TAX

## 21.1. TAX EXPENSE

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| **Tax credit (tax payable)** | **(0.8)** | **(0.7)** |
| French entities | (0.2) | - |
| Foreign entities | (0.6) | (0.7) |
| **Changes in deferred taxes** | **(0.9)** | **5.9** |
| French entities | - | - |
| Foreign entities | (0.9) | 5.9 |
| **TOTAL** | **(1.7)** | **5.2** |

## 21.2. DEFERRED TAXES

Deferred tax assets and liabilities are netted in the balance sheet, as explained in note 2.29.

The table below shows changes in deferred tax assets and liabilities for the two periods under review:

| (€ millions) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| **Net deferred taxes on April 1** | **6.6** | **0,7** |
| Tax expense | (0.9) | 5.9 |
| Unrealized foreign-exchange gains (losses) | - | - |
| Recognized in equity | - | - |
| Changes in consolidated entities | - | - |
| **Deferred tax assets on March 31** | **5.7** | **6.6** |

The sources of deferred taxes were as follows:

| (€ millions) | 2006 deferred tax assets | 2005 deferred tax assets |
|---|---|---|
| Tax credit on losses carried over | 397.8 | 381.6 |
| Consolidation restatements | (9.5) | (10.8) |
| Timing differences | 23.1 | 16.5 |
| Deferred tax write-off | (405.7) | (380.7) |
| **Total** | **5.7** | **6.6** |

On March 31, 2006 and March 31, 2005, the Group had carryover losses (of approximately € 939.5 million and 942.8 million respectively) applicable to various periods up to 2020. The losses may not be applied against taxable income in countries other than those in which they were incurred.

As of March 31, 2006 and March 31, 2005, the valuation allowance recognized concerns primarily losses carried over by the Group in the United States (Atari, Inc.), the United Kingdom (Atari UK) and France.

Infogrames Entertainment SA opted for the tax consolidation of its French subsidiaries on July 1, 1995. The five-year option was extended on March 31, 2005. For the period ended March 31, 2006, the tax saving resulting from this treatment was not material.

Tax credits from carryover losses can be used until the following dates:

| | Total | current year | up to five years | more than five years |
|---|---|---|---|---|
| **France** | **166.8** | **-** | **-** | **166.8** |
| **US** | **203.6** | **-** | **31.0** | **172.6** |
| **UK** | **17.1** | **-** | | **17.1** |
| **Australia** | **4.2** | **-** | | **4.2** |
| **Others** | **6.1** | **-** | | **6.1** |
| | **397.8** | **-** | **31.0** | **366.8** |

## 21.3. EFFECTIVE TAX

Corporate income tax for the year was calculated by applying the rate in effect at the end of the year to income before tax on March 31, 2006. In France, deferred taxes were calculated at the tax rate of 33.33% for the year ended March 31, 2006 and 34.33% for the year ended March 31, 2005. The table below shows the reconciliation of the theoretical tax calculated on the basis of the tax rate applicable in France and the actual tax:

| (€ millions) | 2006 | 2005 |
|---|---|---|
| Net income | (149.8) | (33.6) |
| Tax expense | 1.7 | (5.2) |
| Minority interests | (29.5) | (0.7) |
| Income of equity entities | (0.1) | - |
| **Income before taxes** | **(177.7)** | **(39.5)** |
| **Theoretical tax credit (tax payable)** | **59.2** | **13.6** |
| Goodwill impairments | (49.7) | (7.6) |
| Other permanent differences | (4.2) | (3.1) |
| Use of deferred tax assets on losses carried over | 16.4 | 11.7 |
| Deferred tax assets recognized on previous losses | - | - |
| Deferred tax assets not recognized for the period and limit on deferred taxes | (35.2) | (10.1) |
| Effect of variations in tax rates between countries | 13.0 | 0.9 |
| Reversals of unused deferred tax liabilities | - | - |
| Payments in shares | (1.6) | (1.2) |
| Other (tax credits, flat taxes, etc.) | 0.4 | 1.1 |
| **Actual tax credit (tax payable)** | **(1.7)** | **5.2** |

# NOTE 22 – OFF BALANCE-SHEET COMMITMENTS

The table below summarizes the Group's off balance-sheet commitments:

| (€ millions) | 3/31/2006 | 3/31/2005 | Note |
|---|---|---|---|
| Guarantees given to suppliers (letters of credit) | 2.9 | 20.9 | 1 |
| Production funds | 4.3 | 6.3 | 2 |
| Non-cancelable operating leases | 22.7 | 34.2 | 3 |
| Development and licensing agreements | 25.4 | 32.0 | 4 |
| Assignment of receivables and use as security (Dailly, etc.) | - | 20.7 | |
| **Total commitments made** | **55.3** | **114.1** | |
| **Commitments received** | | | |
| Bank guarantees (standby credit, letters of credit, documentary credit, etc.) | - | 0.4 | |
| Revolving credit facilities (March 2006: HSBC; March 2005: GECC) | - | 38.5 | |
| Credit facilities secured by trade receivables | 4.0 | 7.6 | 5 |
| Production funds | 3.2 | 5.0 | 6 |
| **Total commitments received** | **7.2** | **5.0** | |

*(1) As part of its day-to-day operations, the Group provides guarantees in the form of letters of credit to its principal suppliers. This primarily concerns purchases from console manufacturers. The decline from the previous year is related to the renegotiations of the debt and bank credit facilities.*

*(2) Financing for the development of certain games is provided by outside production funds; those games are distributed by the Group under distribution license agreements that provide for the payment of minimum fees.*

*(3) The Group is a party to non-cancelable leases. The schedule of minimum future lease payments to be made on such leases is as follows:*

| | 3/31/2006 | 3/31/2005 |
|---|---|---|
| N+1 | 8.1 | 8.8 |
| N+2 | 5.3 | 8.6 |
| N+3 | 4.0 | 5.7 |
| N+4 | 3.7 | 4.5 |
| N+5 | 1.4 | 4.3 |
| Subsequent years | 0.2 | 2.3 |
| **Total future lease payments** | **22.7** | **34.2** |

*(4) In the normal course of its business, the Group makes royalty payments to third parties under development agreements entered into for certain products or under licensing agreements. As of March 31, 2006, the Group had undertaken to advance a minimum of € 25.4 million over the coming years (including € 15.8 million in the short term, prior to March 31, 2007), subject to the fulfillment of all contractually specified production criteria. On March 31, 2005, its commitments amounted to € 32.0 million.*

*(5) The Group has access to up to € 6.5 million in financing through the assignment of trade receivables. On March 31, 2006, only € 2.5 million of this financing was being used.*

*(6) The amount corresponds to the sums to be received by Infogrames from the production fund.*

NB: Collateral provided as security for debt is reported in note 13.

# NOTE 23 – MANAGEMENT OF FINANCIAL MARKET RISKS

## 23.1. RISK MANAGEMENT

Risk exposure is handled by a holding entity in accordance with conditions in the financial market and based on procedures set by management. Foreign-exchange transactions are carried out in accordance with local regulations and access to financial markets. Subsidiaries may do business directly with local banks under the supervision of the parent company, provided that they comply with Group procedures and policies.

## 23.2. CURRENCY RISKS

Even though more than half of the Group's revenue is generated outside the euro zone, its sales do not expose it to significant currency risks. This is so because overall revenue and expenses are balanced in the principal currencies (euros and US dollars). Accordingly, the Group generally does not make use of currency hedges for its commercial transactions.

Exposure to foreign-exchange risk associated with the financing of subsidiaries is handled by the parent corporation, which arranges for hedges which may be required by the specific type of financing concerned. As of March 31, 2006, the Group had not hedged its exchange-rate exposure on these sums, which represent long-term financing for its United States operations.

Nevertheless, the Group's financial statements are presented in euros, and its assets, liabilities, revenue and expenses in other currencies must be translated into euros at the applicable exchange rate in order to be reported in the Group's consolidated financial statements. Whenever the value of the euro increases in relation to another currency, the value in euros of the Group's assets, liabilities, revenue and expenses that were in that other currency declines. The opposite occurs whenever the exchange value of the euro declines. Consequently, fluctuations in euro exchange rates can have an impact on the value in euros of the Group's assets, liabilities, revenue and expenses outside the euro-zone, even if their value in domestic currencies has remained unchanged. Exposure to foreign-exchange risk is most critical in the case of sales, the income of subsidiaries operating in US dollars, as well as the value of intangible assets and the Group's goodwill in these subsidiaries.

For example, a one-percent decline in the value of the dollar in relation to the euro would cause consolidated revenue to drop by € 1.7 million, based on the 2006 financial statements. Operating income would decline by € 1.2 million and consolidated stockholders' equity by € 1.2 million.

## 23.3. INTEREST-RATE RISKS

The Group's exposure to interest-rate risks is not significant because almost 79 percent of its net debt is in the form of fixed-rate bonds. The balance of its financing is represented by EURIBOR-linked floating-rate debt. A one-point increase in the base rate would cause annual interest expense to go up by about € 0.3 million.

## 23.4. CREDIT RISKS

The Group has a worldwide customer base and is therefore not exposed to excessive concentration of credit risks.

# NOTE 24 – CONTINGENT LIABILITIES

Group entities may, during the ordinary course of business, be involved in various court, arbitration, administrative and tax proceedings. Notwithstanding the final outcome of such disputes and lawsuits, the Group estimates that the obligations that may result from these actions would have no significant impact on its consolidated financial situation or statement of operations.

However, during the fiscal year ended March 31, 2006, a significant case arose in which the Company is being sued by a former employee who claims that he co-authored one of the Group's best-selling franchises. The plaintiff is seeking damages for moral prejudice and financial loss suffered as a result of the allegedly unlawful distribution by the Group of games based on that universe. Damages claimed are in excess of € 17.0 million. At this stage in the proceedings, management does not believe that a provision needs to be recognized in connection with this dispute.

# NOTE 25 – AFFILIATES

## 25.1. ASSOCIATED AND NON-CONSOLIDATED ENTITIES

*Acquisition of 35.8% of Game One:* The Group increased its interest in the Game One thematic television channel by purchasing 35.8% of that company's shares from I-Partners SAS, intending to establish a close equity and business relationship with MTV, which, with 50% of the shares, is Game One's principal owner. Because the two companies share a director and certain executives, the acquisition had to be approved in advance by the board of directors. The purchase price of € 500,000 was negotiated by the parties on the basis of a valuation of Game One by an independent appraiser.

*Licensing agreement between Ifone, Glu Mobile and Atari Inc.* As part of the commercial exploitation of its intellectual properties, Atari Inc has licensed certain rights to IFone and Glu Mobile. During the course of the year, IFone (which was advised by a director of Atari Inc. and former director of Infogrames Entertainment) was acquired by Glu Mobile. For the year ended March 31, 2006, the licenses generated revenue of $1.5 million. Receivables from the two companies amounted to $0.9 million on March 31, 2006.

The consolidated financial statements do not reflect any other material transactions with associates and non-consolidated entities.

## 25.2. COST OF OFFICERS' COMPENSATION AND BENEFITS

The members of the Group's executive committee and board of directors are:

| NAME | TITLE | 3/31/2006 | 3/31/2005 |
|---|---|---|---|
| Bruno Bonnell | Chairman and Chief Executive Officer of Infogrames Entertainment SA and Chairman of the Board of directors and Chief Executive Officer of Atari, Inc. | X | X |
| Thomas Schmider | Deputy Chief Executive Officer | X | X |
| Christophe Sapet | Deputy Chief Executive Officer | 9 months | X |
| Jean-Michel Perbet | Chairman Europe, Deputy Chief Executive Officer | X | X |
| Evence Charles Coppée | Deputy Chief Executive Officer | 9 months | - |

The Group's officers received the following compensation and benefits for the years ended March 31, 2006 and March 31, 2005:

| (€ millions) | | 3/31/2006 | 3/31/2005 |
|---|---|---|---|
| **Cash compensation** | | | |
| Fixed compensation | | 1.6 | 1.3 |
| Variable compensation | | 0.9 | 0.2 |
| Directors' fees | | 0.1 | 0.1 |
| **Other compensation** | | | |
| Employee benefits | | - | 0.1 |
| Compensation in shares | | 1.5 | 1.0 |
| | of which, stock options | 1.5 | 1.0 |
| **Total** | | 4.1 | 2.7 |

Variable compensation for fiscal 2005-2006 includes severance benefits of € 0.4 million.

# NOTE 26 – EVENTS SUBSEQUENT TO THE END OF THE FISCAL YEAR

## 26.1. NEW AGREEMENT WITH BANKS

Infogrames Entertainment and its main European subsidiaries finalized a master agreement with a new major foreign bank on April 13, 2006, aimed at refinancing the short and medium-term debt of the Company and its subsidiaries (not including Atari Inc.).

The agreement, which was approved by the Lyon Commercial Court on April 14, 2006, as required by articles 611-8 to 611-11 of the Commercial Code, allows the Company to defer the repayment of € 25.5 million in short and medium-term bank credit facilities that expired between December 15, 2005 and March 15, 2006. Infogrames Entertainment and Atari Europe will examine with the lender how the bank debt can be allocated among the Group's operating subsidiaries.

The agreement also provides a one-year, € 20-million short-term credit facility in the form of cash, letters of credit or standby loans to finance the operations of the European subsidiaries. The Group reserves the option to obtain additional local financing in Europe or Asia, secured by trade receivables of up to € 30 million during peak periods. That ceiling may be further raised with the consent of the lender.

The short-term credit facility was extended to Atari Europe, Atari France, Atari Deutschland and Atari UK and is guaranteed by Infogrames Entertainment and Atari Europe. The agreement does not affect the borrowing capacity of Atari, Inc. and Atari Interactive, Inc.

The short-term credit facility agreement contains several mandatory prepayment clauses, including in the case of the following events:

- Failure to meet financial ratios (Revenue/EBITDA/operating cash flow);
- Early redemption of the OCEANE 2003-2009 or OCEANE 2011 bonds other than in exchange for new securities;
- Prepayment of the 2005-2008 Notes other than the first one-third fraction initially maturing March 15, 2006 (provided that repayment is on or after December 15 or is in the form of other securities), except in exchange for newly-issued securities;
- Sales of assets by the Group or new financing, in which case 50% of the proceeds from the sale of any assets (other than those held by California U.S. Holdings or Atari, Inc. and its subsidiaries) or from new financing obtained (other than financing obtained by California US Holding or Atari, Inc.) must be used to repay sums outstanding in excess of € 30 million, which ceiling may be raised with the lender's consent.

Details of the prepayment clauses can be found under the heading “Mandatory prepayment / Financial ratios on April 1, 2006”.

In addition to security interests granted for existing loans, Infogrames Entertainment and its European and Australian subsidiaries have agreed to provide additional guarantees, primarily in the form of:

- a pledge of the shares of certain European subsidiaries and of Atari Interactive, Inc. as well as of title to certain games published by Atari Europe (see “Guarantees provided by the Group”);
- a pledge of receivables from other Group entities.

The new agreement replaces and supersedes previous ones, as all creditor banks have transferred their receivables to the new lender under the agreement.

## 26.2. SALES OF ASSETS

As part of the Group's project to dispose of assets, and pursuant to undertakings made last February, Infogrames Entertainment and Atari Inc. have sold off the investment in the development of Stuntman and the related license. The purchaser also exercised an option to buy the Dallas-based Paradigm Entertainment studio, where Stuntman 2 is being developed.

In addition, Atari Inc. has announced that it has sold the rights to the Driver franchise and most of the assets of the Reflections development studio for US$ 24 million. This transaction is subject to the usual conditions and is expected to be finalized during the quarter ending September 30, 2006. As part of the transaction, the Group has entered into a limited-duration covenant not to compete pertaining to the franchise, under which it may continue to distribute the game Driver: Parallel Lines until the end of 2006 and other Driver products for a period of three months. The development studio is an assets of Atari Inc.

## 26.3. RESCHEDULING OF NOTES' MATURITY

A meeting of the Note holders held June 16, 2006 resolved to amend their terms and conditions and to reschedule to September 15, 2006 the repayment date of the first portion of the Notes’ principal of € 11.2 million (before interest).

## 26.4. FINAL STEP OF THE DEBT RESTRUCTURING PLAN AND RESTORATION OF THE GROUP’S INVESTMENT CAPACITY

On September 8, 2006 the Company signed an agreement with the principal holders of its bond and bank debt, providing for the implementation of a financial restructuring plan aimed at significantly reducing corporate debt, restoring its net worth and ensuring that it has sufficient cash to meet its operating expenses.

The agreement is part of a general plan announced by the Company on February 9, 2006, which has already led to a series of disposals of assets and a renegotiation of its bank debt, under an agreement made public on April 21, 2006.

The Company has asked an independent expert, Associés en Finances (223 Rue Saint Honoré, 75001 Paris), to ascertain that the plan was fair to all parties concerned. The expert's report will be issued prior to the shareholders' meeting.

The plan is in five steps:

### Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity

Under an amendment to existing agreements with banks, the new lender has agreed to:

- increase the short-term facility by € 25 million from € 20 million to € 45 million, and
- reschedule its maturity from March 31, 2007 to December 31, 2008.

A € 10-million portion of the loan will be repayable following the equity issue referred to in Step 4 below, and the balance on December 31, 2008.

### Step 2: Amending of certain terms of the 2005-2008 Notes

The Company has convened a meeting of the holders of its 6% Notes for September 29, 2006. The Notes have a face value of € 14 each and mature on March 15, 2008. There is a total of € 33.7 million in 2005-2008 Notes outstanding. The purpose of the meeting is to approve the rescheduling of the repayment of the first portion of the Notes' principal to February 15, 2007 and to amend some of the prepayment clauses.

The principal holder of 2005-2008 Notes, a fund managed by Boussard et Gavaudan Asset Management LP, owns 75.8% of the 2,403,772 Notes outstanding and has agreed to vote in favor of the changes.

### Step 3: Amending of certain terms of the OCEANE 2003-2009

A meeting of holders of the Company's bonds convertible or exchangeable for new or existing shares (OCEANE) maturing on April 1, 2009, with a value outstanding of € 124.3 million, was called on September 29, 2006 for the purpose of approving:

- an extension of the bond's maturity from April 1, 2009 to April 1, 2020, as the OCEANE 2003-2009 bonds' convertibility ends on April 1, 2009;
- a reduction of the bonds' interest rate from 4% to 0.01%,
- the elimination of an event-of-default clause.

Funds managed by GLG Partners and Bluebay Asset High Yield (Master Fund) (referred to as the "Investors"), which own 67.8% of the 16,487,489 OCEANE 2003-2009 in circulation, have agreed to vote in favor of the changes.

### Step 4: Shareholders' Meeting / Capital increase / Prepayment of 2005-2008 Notes / Restricted distribution of free warrants

The Company plans to increase its capital by € 74 million (including premiums over par), by means of a rights issue priced at € 0.15 per share, of which € 33.7 million will be used to redeem all of the 2005-2008 Notes, € 10 million will serve to repay part of the short-term loan and € 30 million will finance the Company's operations.

The principal holder of 2005-2008 Notes and the Investors are already irrevocably committed to purchasing shares not subscribed for during the offering period, for € 33.7 million and € 40 million, respectively. The foregoing commitments are subject to the customary conditions for this type of transaction and to the securing of an exemption to the tender offer requirement.

In consideration for their contribution to the structuring and implementation of the plan, the Investors and the principal holder of 2005-2008 Notes will receive share warrants subsequent to the share issue, exercisable over a period of three years for new Company shares at a price of € 0.15 each for up to, respectively 15% and 3% of shares outstanding[3] after the capital increase and the exchange tender offer called for by Step 5 below.

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[3] Assuming that all OCEANE 2003-2009 bonds are tendered under the exchange tender offer.

In this connection, the board of directors will ask the shareholders' meeting called to approve the financial statements, which is to convene on first notice on September 29, 2006, to vote on the following resolutions:

- a reduction of the shares' par value to one cent (€ 0.01);
- a reverse split of the Company's shares through the exchange of one new share with a par value of one euro (€ 1) for one hundred (100) shares with a par value of one cent (€ 0.01);
- the renewal of authority for financing transactions, including to issue shares as set forth above and for the purpose of the exchange tender offer for OCEANE 2003-2009 bonds under Step 5 below;
- restricted grants of free warrants to Boussard Gavaudan Asset Management LP and The BlueBay High Yield (Master Fund);
- the appointment of two additional directors nominated by Bluebay Asset Management Limited.

## Step 5: Exchange tender offer for the OCEANE 2003-2009 bonds

Provided that the resolutions relating to steps 2 to 4 are approved by the shareholders' meetings, subsequent to the equity issue of Step 4, the Company will make a simplified exchange tender offer for its OCEANE 2003-2009 bonds, each of which would be exchangeable for 32 new Company shares. On the basis of a price per share of € 0.15 (the offering price at the time of issue), the value of each OCEANE would come to € 4.80, a discount of approximately 37.5%, including accrued interest.

The Investors have agreed to tender the 11,185,658 OCEANE 2003-2009 bonds held by them, which represent 67.8% of those outstanding.

## Conditions precedent

In order to be carried out beyond its first step, the plan must be approved by the holders of 2005-2008 Notes and of OCEANE 2003-2009 bonds, as well as by a special shareholders' meeting. It must also be granted the necessary authorizations and exemptions by the financial market authorities.

The plan calls for the capital increase to be completed prior to December 30, 2006 or, if a shareholders' meeting must be reconvened due to a lack of quorum, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

## Impact of the plan on Infogrames Entertainment's current shareholders

As an indication, if all OCEANE 2003-2009 bonds are tendered under the exchange offer and are converted into Company shares, the impact of this conversion on the equity held by a shareholder with one percent of the Company's shares who does not exercise his rights to purchase new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 0.28% |
| After increase in capital and conversion of OCEANE bonds | 0.16% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.13% |

The dilutive impact for a shareholder with 1 percent of the Company's shares on June 30, 2006, who exercises his right to subscribe for new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 1% |
| After increase in capital and conversion of OCEANE bonds | 0.56% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.48% |

# NOTE 27 – CONSOLIDATED ENTITIES

| Company | Fiscal year end date | Country | Voting rights (%) | | Ownership (%) | |
|---|---|---|---|---|---|---|
| | | | 3/31/2006 | 3/31/2005 | 3/31/2006 | 3/31/2005 |
| A+ Multimedia Ltda | June 30 | Portugal | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Asia Holding Pty Ltd | March 31 | Australia | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Asia Pacific Pty Ltd | March 31 | Australia | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Australia Pty Ltd | March 31 | Australia | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Benelux BV | March 31 | Netherlands | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Denmark | March 31 | Denmark | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Deutschland GmbH | March 31 | Germany | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari do Brasil Ltda | December 31 | Brazil | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Entertainment GmbH | March 31 | Germany | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Europe SAS | March 31 | France | 99.99 | 99.99 | 99.99 | 99.99 |
| Atari France SAS | March 31 | France | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Hellas EPE | June 30 | Greece | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Inc. | March 31 | United States | 51.40 | 52.04 | 51.40 | 52.04 |
| Atari Interactive Australia Pty Ltd | March 31 | Australia | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Interactive Inc | March 31 | United States | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Israël Ltd | June 30 | Israel | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Italia SPA | June 30 | Italy | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Japan KK | March 31 | Japan | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Korea Ltd | March 31 | Corea | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Melbourne House Pty | March 31 | Australia | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Nordic AB | March 31 | Sweden | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Norway | March 31 | Norway | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Singapour Pte Ltd | March 31 | Singapore | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Studio Asia Pty Ltd | March 31 | Australia | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari Taiwan Ltd | March 31 | Taiwan | 100.00 | 100.00 | 100.00 | 100.00 |
| Atari UK | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| California US Holdings Inc. | March 31 | United States | 100.00 | 100.00 | 100.00 | 100.00 |
| Curved Logic Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Dynamic System GmbH | June 30 | Austria | 100.00 | 100.00 | 100.00 | 100.00 |
| Eden Studios SAS | March 31 | France | 100.00 | 100.00 | 100.00 | 100.00 |
| Game Nation Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Gamenation Inc | March 31 | United States | 100.00 | (1) | 100.00 | (1) |
| Gamecity GmbH | March 31 | Switzerland | 90.00 | 90.00 | 90.00 | 90.00 |
| Gremlin Group Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Gremlin Holding Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Hartland Trefoil Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Humongous Inc | March 31 | United States | 100.00 | (2) | 100.00 | (2) |
| IDRS SA | March 31 | France | 100.00 | 100.00 | 100.00 | 100.00 |
| I-Music SARL | March 31 | France | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Castlefield Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Entertainment SA | March 31 | France | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Entertainment Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames España Unipersonal | March 31 | Spain | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Interactive SA | March 31 | France | 99.97 | 99.97 | 99.96 | 99.96 |
| Infogrames Interactive Direct Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Interactive GmbH | March 31 | Germany | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Interactive Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Learning Interactive Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Learning Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Infogrames Studios Ltd. | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Maritquest Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Microprose Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Microprose Software Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Ocean Europe Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Ocean Holding Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Ocean International Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Ocean Media Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Ocean Software Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Paradigm Entertainment Inc | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Reflection Ltd | March 31 | United Kingdom | 51.40 | 52.04 | 51.40 | 52.04 |
| Stewart Holdings Ltd | March 31 | United Kingdom | 100.00 | 100.00 | 100.00 | 100.00 |
| Suomen Infogrames | March 31 | Finland | 100.00 | 100.00 | 100.00 | 100.00 |
| Entities accounted for by the equity method | | | | | | |
| Game One | December 31 | France | 45.46 | (3) | 45.46 | (3) |
| Sunflowers | December 31 | Germany | (4) | 30.02 | (4) | 30.02 |

(1) Gamenation, Inc. became a consolidated entity during the period.

(2) Humongous was formed through a transfer of assets by Atari Inc. and subsequently sold to Infogrames Entertainment.

(3) After the Group increased its interest in Game One, that company was accounted for by the equity method starting September 30, 2005.

(4) Sunflowers was removed from consolidation during the period ended March 31, 2006.

# NOTE 28 – EFFECT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ON THE GROUP'S FINANCIAL STATEMENTS

An additional review of “prepaid royalties” was conducted to determine how to classify them under IFRS.

The item covers two kinds of transactions:
1) Distribution agreements: rights pertain to the distribution of a game in a given territory over a given period and are contingent on the third party’s delivery of the game to be distributed. Accordingly, rights held do not qualify as an intangible asset under IAS 38 and the accounting procedure consists in recognizing payments as "prepaid expenses" as and when they are made, for as long as the game has not been delivered.
(2) Licenses to games and intellectual property rights: agreements cover exclusive licenses under which the Group can develop and distribute games in a given territory over a given period. The rights acquired qualify as intangible assets; these are contractual rights held by the Group and represent identifiable non-monetary assets without physical substance, which generate future economic benefits. In relation to past accounting treatment, this amounts to reclassifying recognized items as intangible assets.
Prepaid royalties are chiefly generated by US entities. The practice under US GAAP is as follows:
“Licenses to intellectual property are capitalized as assets upon the execution of the contract when no significant obligation of performance remains with the company or the third party. If significant obligations remain, the asset is capitalized when payments are due or when performance is completed as opposed to when the contract is executed. These licenses are amortized at the licensor’s royalty rate over unit sales to cost of goods sold. Management evaluates the carrying value of these capitalized licenses and records an impairment charge in the period management determines that such capitalized amounts are not expected to be realized. Such impairments are charged to cost of goods sold if the product has been released or previously sold, and if the product has never been released, these impairments are charged to research and product development.”

A review of the agreements that contribute materially to “prepaid royalties” resulted in a change in the original accounting for those assets. They were reclassified as either “prepaid royalties” or “other intangible assets”, irrespective of the short-term nature of some of the licenses. The reclassification (€ 13.5 million on March 31, 2005; € 6.6 million on March 31, 2004) had no impact on Group income. It did have an impact on the balance sheet and the cash-flow statement, however. The following sections of the note on the transition in the interim report for the period to September 30, 2005 are affected:

- Note C: Balance Sheet at year's start and on March 31, 2005
- Note D: Cash Flow Statements on March 31, 2005 and September 30, 2004
- Note F – 5: Explanatory note concerning the balance sheet
- Opening balance sheet for March 31, 2004
- Opening balance sheet for March 31, 2005
- Note G-3: Reconciliation of cash-flow statement

# A. INTRODUCTION

## 1. BACKGROUND AND OBJECTIVES

Infogrames Entertainment's shares are publicly traded in a European Union member country and, pursuant to the Regulation (EC) 1606/2002 of July 19, 2002, its consolidated financial statements for the year ending March 31, 2006 must be prepared and presented in accordance with International Financial Reporting Standards (IFRS) applicable on that date, as approved by the European Union.

The first financial statements to be published under IAS/IFRS will be those of fiscal 2005-2006, which will be presented alongside comparable data prepared in accordance with the same standards, except for IAS 32 and 39, which the Group has decided to apply from April 1, 2005, as permitted under IFRS 1.

In anticipation of the publication of financial statements for fiscal 2005-2006 and in accordance with the AMF recommendation on financial reporting during the transition period, Infogrames Entertainment has prepared financial information relative to the adoption of IAS/IFRS measuring the expected impact of the changeover to IFRS on:

- the income statement for the year ended March 31, 2005 (the benchmark year for fiscal 2005-2006) and the half-year to September 30, 2004 (the period to which the first six months of 2005-2006 are compared) (see Note 2 - IFRS Result for the periods ended March 31, 2005 and September 30, 2004),
- the opening balance sheet on the transition date (April 1, 2004), when the impact of the transition on equity will be recognized, and the balance sheet for March 31, 2005, the benchmark year for the fiscal 2005-2006 consolidated financial statements (see Note 3 - IFRS opening balance sheets for April 1, 2004 and March 31, 2005),
- shareholders' equity on the transition date of April 1, 2004, and for comparison purposes on March 31, 2005 (see Note 5 - Consolidated shareholders equity - transition to IFRS),
- the reconciliation of the summary income statement under French standards and the summary income statement under IFRS, for the year ended March 31, 2005 and for the half-year period to September 30, 2004 (Note 6.2. Notes concerning the income statement),
- differences between the fiscal 2004-2005 cash flow statement under French standards and under IFRS. (Note 7 - Cash flow statements),

The information that follows was reviewed by the Audit Committee on November 21, 2005 and by the Board of Directors on November 22, 2005. It has also been formally examined by the Company's auditors.

## 2. PROCEDURE FOR THE CHANGEOVER TO IFRS

For the purpose of changing over to the new standards (IAS and IFRS), the Group set up a project aimed at identifying and dealing with the principal differences in accounting methods.

Several measures were taken in 2004 and 2005 to prepare for a smooth transition to IFRS. In particular:

- outside consultants were brought in to help with technical aspects of the project;
- a committee was formed to monitor the implementation of changes required by the changeover to IFRS and to approve the main guidelines concerning the options that were available at the start of the process.

## 3. PREPARATION OF THE GROUP'S FIRST FINANCIAL STATEMENTS UNDER IFRS

Infogrames Entertainment applied to the fiscal 2004-2005 data the aspects and interpretations of IFRS that the Group deems relevant to the preparation of its consolidated financial statements for the year ending March 31, 2006, to show the impact of the changeover to the new standards.

The information contained in the notes below was accordingly prepared on the basis of:

- IFRS and their interpretation approved by the European Union at the time the financial statements were prepared;
- the options selected and exemptions used, corresponding in all likelihood to those the Group will apply for the preparation of its first consolidated financial statements under IFRS, for fiscal 2005-2006.

In view of the fact that some of the standards or their interpretation could change over time, it is possible that further adjustments may be made to the restated 2004-2005 consolidated financial statements during the course of fiscal 2005-2006.

## 4. OPTIONS SELECTED FOR THE FIRST-TIME ADOPTION OF IFRS ON APRIL 1, 2004

IFRS 1 ("First-time Adoption of IAS/IFRS") contains specific provisions for implementing the international standards. The Group has selected the following options:

### ▪ SHARE-BASED PAYMENTS (IFRS 3)

Under the option allowed by IFRS 1, the Group has decided to apply IFRS 2 only to rights granted after November 7, 2002 under its stock option and employee stock savings plans not yet fully vested as of April 1, 2005.

### ▪ BUSINESS COMBINATIONS (IFRS 3)

The Group has selected the option under IFRS 1 not to restate acquisitions prior to April 1, 2004 in accordance with IFRS 3. Accordingly, as provided by IFRS1, the treatment of goodwill charged to shareholders' equity under French standards, as permitted by the accelerated method of CRC 99-02, has been left unchanged in the opening balance sheet for April 1, 2004.

### ▪ VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND OF INTANGIBLE ASSETS (IAS 16)

The Group has decided not to make use of the IFRS 1 option according to which some or all intangible assets and property, plant and equipment may be accounted for at their fair market value in the opening balance sheet for April 1, 2004.

### ▪ EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (IAS 21)

As permitted under the IFRS 1 option, the combined amount of foreign exchange gains and losses has been fully offset by consolidated reserves and has no impact on shareholders' equity. All unrealized foreign exchange gains and losses have therefore been reclassified under consolidated reserves as of April 1, 2004 and shareholders' equity remains unchanged. Any foreign exchange differences predating the changeover to IFRS will accordingly not be taken into consideration when reporting gains or losses from future disposals of consolidated or affiliated entities.

### ▪ Financial Instruments (IAS 32 AND IAS 39)

As permitted under the IFRS 1 option, the Group has elected to apply IAS 32 and IAS 39 as they pertain to financial instruments, effective April 1, 2005.

### ▪ PENSIONS: UNRECOGNIZED ACTUARIAL GAINS AND LOSSES (IAS 19)

As permitted under the IFRS 1 option, the Group has elected to recognize the direct impact on equity of all actuarial gains and losses on pension commitments not yet recognized under French rules, effective April 1, 2004.

# B. INCOME ON MARCH 31, 2005 UNDER IFRS

| (€ millions) | March 31, 2005 IFRS (12 months) |
|---|---|
| Revenue | 577.2 |
| Cost of sales | (285.7) |
| **Gross profit** | **291.5** |
| **Gross margin** | **50.50%** |
| Research and development expenses | (110.2) |
| Marketing and sales expenses | (102.4) |
| General and administrative expenses | (72.0) |
| Restructuring charges | (14.1) |
| Gains (losses) from disposals of assets | (7.5) |
| Other non-recurring items | 0.1 |
| Goodwill impairment | (19.3) |
| **INCOME (LOSS) FROM OPERATIONS** | **(33.9)** |
| Net cost of debt | (17.9) |
| Other interest and investment income (expense) | 12.3 |
| **FINANCIAL INCOME (LOSS)** | **(5.6)** |
| Income Tax | 5.2 |
| **NET INCOME OF CONSOLIDATED ENTITIES** | **(34.3)** |
| Share of income of entities accounted for by the equity method | - |
| **NET INCOME (LOSS) OF CONSOLIDATED GROUP** | **(34.3)** |
| Minority interests | 0.7 |
| **NET INCOME (LOSS) AFTER MINORITY INTERESTS** | **(33.6)** |
| **Net income (loss) per share** | **(0.3)** |
| **Fully diluted income (loss) per share** | **(0.3)** |

# C. BALANCE SHEET AT YEAR'S START AND ON MARCH 31, 2005

| (€ millions) | 3/31/2005 IFRS | 4/1/2004 IFRS |
|---|---|---|
| Goodwill | 248.5 | 313.5 |
| Net value of intangible asset | 66.8 | 70.4 |
| Net value of property, plant and equipment | 14.1 | 19.8 |
| Share of entities accounted for by the equity method | 0.9 | 0.9 |
| Non-current financial assets | 2.9 | 4.1 |
| Other non-current assets | 12.5 | 18.0 |
| Deferred tax assets | 6.6 | 0.7 |
| **NON-CURRENT ASSETS** | **352.3** | **420.8** |
| Net value of inventories | 38.0 | 42.5 |
| Trade receivables | 61.0 | 57.1 |
| Tax credits | - | - |
| Other current assets | 18.8 | 31.0 |
| Cash and cash equivalents | 36.3 | 40.4 |
| **CURRENT ASSETS** | **154.1** | **177.6** |
| **TOTAL ASSETS** | **506.4** | **598.4** |

| (€ millions) | 3/31/2005 IFRS | 4/1/2004 IFRS |
|---|---|---|
| Capital stock | 111.9 | 74.0 |
| Other paid-in capital | 645.1 | 600.6 |
| Consolidated reserves | (678.5) | (627.7) |
| **Shareholders' equity, net of minority interests** | **78.5** | **46.9** |
| Minority interests | 46.1 | 32.7 |
| **CONSOLIDATED SHAREHOLDERS' EQUITY** | **124.6** | **79.6** |
| Provisions for liabilities and charges due in more than one year | 0.1 | 0.1 |
| Debt maturing in more than one year | 165.7 | 286.4 |
| Deferred tax liabilities | - | - |
| Other non-current liabilities | 1.2 | 0.9 |
| **NON-CURRENT LIABILITIES** | **167.0** | **287.4** |
| Provisions for liabilities and charges due in less than one year | 7.7 | 10.7 |
| Debt maturing in less than one year | 77.6 | 76.5 |
| | | - |
| Trade payables | 110.8 | 119.4 |
| Taxes payable | 0.6 | 1.0 |
| Other current liabilities | 18.1 | 23.8 |
| **CURRENT LIABILITIES** | **214.8** | **231.4** |
| **TOTAL LIABILITIES AND SHAREHOLDERS EQUITY** | **506.4** | **598.4** |

# D. CASH FLOW STATEMENTS ON MARCH 31, 2005

| (€ millions) | 3/31/2005 | See explanatory note |
|---|---|---|
| Net income (loss) from entities accounted for by the equity method | (34.3) | |
| Non-cash revenue and expenses | | |
| Amortization and depreciation allowances (cancellations) on non-current assets | 78.5 | |
| Expenses (revenue) related to payments in shares | 3.1 | |
| Losses (gains) on disposals of fixed assets | 6.4 | |
| Other expenses and revenue | (0.4) | |
| Debt servicing | 18.6 | |
| Restructuring of OCEANE 2000-2005 bond debt | (15.6) | |
| Taxes (due and deferred) | (5.2) | |
| **Cash flow before interest and taxes** | **51.1** | **Note 7** |
| Taxes paid | (1.5) | |
| Changes in working capital | | |
| Inventories | 3.0 | |
| Trade receivables | (15.9) | |
| Trade payables | (8.1) | |
| Other liabilities and receivables | 27.3 | |
| **NET CASH FLOW GENERATED BY THE BUSINESS** | **55.9** | **Note 7** |
| Purchases | | |
| Intangible assets | (57.1) | |
| Property, plant and equipment | (2.7) | |
| Financial assets | (0.7) | |
| Disposals | | |
| Intangible assets | 18.1 | |
| Property, plant and equipment | **0.5** | |
| Financial assets | 0.3 | |
| Public offering of Atari Inc shares | 28.8 | |
| Impact of changes in consolidated entities | (0.5) | |
| **NET CASH FLOW FROM CAPITAL TRANSACTIONS** | **(13.3)** | **Note 7** |
| Net funds raised by | | |
| Equity issues for cash | 41.1 | |
| Debt issues | 3.3 | |
| Net funds disbursed for | | |
| Net interest payments | (11.0) | |
| Debt repayments | (54.6) | |
| Tender offer for convertible bonds | (27.8) | |
| Other financial transactions | 3.9 | |
| **NET CASH FLOW FROM FINANCING TRANSACTIONS** | **(45.1)** | **Note 7** |
| Impact of currency exchange rate | (0.5) | |
| **CHANGE IN NET CASH** | **(3.0)** | **Note 7** |
| **CASH AT BEGINNING OF YEAR** | **39.3** | |
| **CASH AT END OF YEAR** | **36.3** | |

In order to clearly show the “cost of debt” and “restructuring of OCEANE 2000-2005 bond debt”, changes in the presentation were made in relation to the note on transition in the interim report. The reclassifications concern the following items: “Cost of debt”, “Restructuring of OCEANE 2000-2005 bond debt” and “Other”.

# E. 2005 CONSOLIDATED SHAREHOLDERS' EQUITY – CHANGEOVER TO IFRS

The table below shows the effect of the changeover from French standards to IFRS on shareholders' equity on April 1, 2004:

| | Capital stock | Other paid-in capital | Consolidated reserves | Unrealized foreign exchange gains and losses | Group's share of equity as of April 1, 2004 | Minority interests | Shareholders' equity as of April 1, 2004 |
|---|---|---|---|---|---|---|---|
| **Consol. Shareholders's equity as of April 1, 2004 (French standards)** | **74.0** | **600.6** | **(474.0)** | **(144.4)** | **56.2** | **80.3** | **136.5** |
| Unrealized foreign exchange gains and losses, zeroed out on April 1, 2004 (IFRS 1) | - | - | (144.4) | 144.4 | - | - | - |
| Impairment of goodwill (IAS 36) | - | - | (1.1) | - | (1.1) | - | (1.1) |
| Capital leases (IAS 17) | - | - | (0.1) | - | (0.1) | - | (0.1) |
| Intangible assets - market shares (IAS 38) | - | - | - | - | - | (46.5) | (46.5) |
| Intangible assets - write-down of prepayments (IAS 38) | - | - | (8.1) | - | (8.1) | (1.1) | (9.2) |
| Employee benefits - pensions (IAS 19) | - | - | (0.1) | - | (0.1) | - | (0.1) |
| **Consol. Shareholders' equity as of April 1, 2004 (IFRS)** | **74.0** | **600.6** | **(627.7)** | **-** | **46.9** | **32.7** | **79.6** |

The table below shows the effect of the changeover from French standards to IFRS on shareholders' equity on March 31, 2005:

| | Capital stock | Other paid-in capital | Net income (loss) for the year, after minority interests | Consolidated reserves | Unealized foreign exchange gains and losses | Group's share of equity as of March 31, 2005 | Minority Interests | Shareholder's equity as of March 31, 2005 |
|---|---|---|---|---|---|---|---|---|
| **Consol. shareholders' equity as of March 31, 2005 (French standards)** | **111.9** | **645.1** | **(25.3)** | **(478.0)** | **(161.5)** | **92.2** | **112.7** | **204.9** |
| Option 1: Unrealized foreign exchange gains and losses, eliminated on April 1, 2004 (IFRS | - | - | | (144.4) | 144.4 | - | - | - |
| Impairment of goodwill (IAS 36) | - | - | 1.9 | (1.1) | - | 0.8 | - | 0.8 |
| Capital leases (IAS 17) | - | - | - | (0.1) | - | (0.1) | - | (0.1) |
| Intangible assets - market shares (IAS 38) | - | - | - | - | - | - | (64.4) | (64.4) |
| Intangible assets – write-down of prepayments (IAS 38) | - | - | (6.7) | (7.6) | 0.6 | (13.7) | (2.2) | (15.9) |
| Intangible assets – restatement of production funds (IAS 38) | | - | (0.6) | - | - | (0.6) | - | (0.6) |
| Employee benefits – pensions (IAS 19) | - | - | - | (0.1) | - | (0.1) | - | (0.1) |
| Share-based payments (IFRS 2) | - | - | (2.4) | 2.4 | - | - | - | - |
| Restatement of fully diluted earnings (IFRS 3) | - | - | (0.5) | (0.5) | 1.1 | 0.1 | - | 0.1 |
| **Consol. shareholders' equity as of March 31, 2005 (IFRS)** | **111.9** | **645.1** | **(33.6)** | **(629.4)** | **(15.4)** | **78.5** | **46.1** | **124.6** |

# F. DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES APPLIED BY THE GROUP (FRENCH STANDARDS) AND IFRS

## 1. MAIN RECLASSIFICATIONS

### ▪ BALANCE SHEET RECLASSIFICATIONS

IAS 1 (Presentation of financial statements) requires that a distinction be made between current and non-current items in the IFRS balance sheet, which does not correspond to the distinction made under French standards based on the nature and/or the liquidity of assets and liabilities. The manner in which the balance sheet is presented has accordingly been changed. Assets and liabilities related to the operating cycle and those with a maturity of less than 12 months as at the closing date have been treated as current, while other assets and liabilities have been treated as non-current. In addition, certain specific rules pertaining to offsetting assets and liabilities have resulted in some balance sheet items being reclassified in relation to existing practices.

The application of IAS 1 has also meant that minority interests are included in shareholders' equity, with information on the respective shares of the Group and of minority interests being indicated.

Deferred tax assets and liabilities are reported on specific balance sheet lines (under non-current items) whereas they used to be included under other receivables and liabilities.

### ▪ INCOME STATEMENT RECLASSIFICATIONS

For the income statement, the application of IAS 1 means that extraordinary and non-recurrent items are reclassified on the lines corresponding to the underlying assets (cost of sales, administrative and sales expenses, interest income or results from discontinued operations).

Goodwill amortization allowances are included in operating expenses before carrying out the IFRS adjustments required by IFRS 3 on business combinations (see 6.3.2. Impairment of Goodwill)

## 2. EXPLANATORY NOTES REGARDING INCOME

| (€ MILLIONS) | MARCH 31, 2005 | | | | |
|---|---|---|---|---|---|
| | FRENCH STANDARDS | IFRS ADJUSTMENTS | IFRS IMPACT | IFRS | NOTE |
| REVENUE | 602.1 | (24.9) | - | 577.2 | |
| COST OF SALES | (298.4) | 13.2 | (0.5) | (285.7) | |
| **GROSS PROFIT** | **307.7** | **(11.7)** | **(0.5)** | **291.5** | |
| RESEARCH AND DEVELOPMENT | (85.7) | (16.2) | (8.3) | (110.2) | |
| MARKETING AND SALES | (126.5) | 24.4 | (0.3) | (102.4) | |
| OVERHEAD AND ADMINISTRATION | (69.3) | - | (2.7) | (72.0) | |
| RESTRUCTURING CHARGES | - | (14.1) | - | (14.1) | |
| GAINS (LOSSES) FROM SALES OF ASSETS | - | (7.0) | (0.5) | (7.5) | |
| OTHER OPERATING REVENUE (EXPENSES) | - | 0.1 | | 0.1 | |
| IMPAIRMENT OF GOODWILL | - | (21.2) | 1.9 | (19.3) | |
| **OPERATING INCOME (LOSS)** | **22.2** | **(45.7)** | **(10.4)** | **(33.9)** | |
| INTEREST INCOME (EXPENSES) | (22.3) | 16.0 | 0.7 | (5.6) | |
| EXTRAORDINARY ITEMS | (8.5) | 8.5 | - | - | |
| INCOME TAX | 5.2 | - | - | 5.2 | |
| GOODWILL AMORTIZATION | (21.2) | 21.2 | - | - | |
| **NET INCOME (LOSS) OF CONSOLIDATED ENTITIES** | **(24.6)** | **(0.0)** | **(9.7)** | **(34.3)** | |
| SHARE OF INCOME OF ENTITIES ACCOUNTED FOR BY THE EQUITY METHOD | - | - | - | - | |
| **CONSOLIDATED NET INCOME (LOSS)** | **(24.6)** | **(0.0)** | **(9.7)** | **(34.3)** | |
| MNORITY INTERESTS | (0.7) | - | 1.4 | 0.7 | |
| **NET INCOME (AFTER MINORITY INTERESTS)** | **(25.3)** | **(0.0)** | **(8.3)** | **(33.6)** | |
| **EXPLANATORY NOTE** | | **§ 6.2.1.1.** | **§ 6.2.1.2.** | | |

## 2.1 EXPLANATORY NOTES REGARDING INCOME TO MARCH 31, 2005

### Reconciliation of income for the year ended March 31, 2005 - reclassifications

| (€ millions) | March 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Reallocation of extraordinary items | Presentation of goodwill amortization | Presentation of R & D amortization | Recognition of revenue | **IFRS reclassifications** |
| | IAS 1 | IAS 1 | IAS 1 | IAS 1/IAS 18 | |
| Revenue | - | - | - | (24.9) | **(24.9)** |
| Cost of sales | - | - | 13.2 | - | **13.2** |
| **GROSS PROFIT** | **-** | **-** | **13.2** | **(24.9)** | **(11.7)** |
| Research and development | - | - | (16.2) | - | **(16.2)** |
| Marketing and sales | - | - | - | 24.4 | **24.4** |
| Overhead and administration | - | - | - | - | **-** |
| Restructuring charges | (17.1) | - | 3.0 | - | **(14.1)** |
| Gains (losses) from sales of assets | (7.0) | - | - | - | **(7.0)** |
| Other operating revenue (expenses) | 0.1 | - | - | - | **0.1** |
| Impairment of goodwill | - | (21.2) | - | - | **(21.2)** |
| **OPERATING INCOME (LOSS)** | **(24.0)** | **(21.2)** | **-** | **(0.5)** | **(45.7)** |
| Extraordinary items | 8.5 | - | - | - | **8.5** |
| Interest income (expense) | .5 | - | - | 0.5 | **16.0** |
| Income tax | - | - | - | - | **-** |
| Goodwill amortization | - | 21.2 | - | - | **21.2** |
| **NET INCOME (LOSS) OF CONSOLIDATED ENTITIES** | **-** | **-** | **-** | **-** | **-** |
| Share of income of entities accounted for by the equity method | - | - | - | - | **-** |
| **CONSOLIDATED NET INCOME (LOSS)** | **-** | **-** | **-** | **-** | **-** |
| Minority interests | | | | | **-** |
| **NET INCOME (AFTER MINORITY INTERESTS)** | **-** | **-** | **-** | **-** | **-** |
| **Explanatory notes** | **§ 6.4.2.** | **§ 6.3.2.** | **§ 6.4.3.** | **§ 6.4.1.** | **§ 6.2.** |

## Reconciliation of income for the year ended March 31, 2005 - adjustments

| (€ millions) | March 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Share-based payments | Impairment of goodwill | Business combinations | Intangible assets | **IFRS Adjustments** |
| | IFRS 2 | IAS 36 | IFRS 3 | IAS 38 | **Total** |
| Revenue | - | - | - | - | **-** |
| Cost of sales | - | - | | (0.5) | **(0.5)** |
| **GROSS PROFIT** | **-** | **-** | **-** | **(0.5)** | **(0.5)** |
| Research and development | (0.1) | - | | (8.2) | **(8.3)** |
| Marketing and sales | (0.3) | - | - | - | **(0.3)** |
| Overhead and administration | (2.7) | - | - | - | **(2.7)** |
| Restructuring charges | - | - | - | - | **-** |
| Gains (losses) from sales of assets | | - | (0.5) | | **(0.5)** |
| Other operating revenue (expenses) | - | - | - | - | **-** |
| Impairment of goodwill | - | 1.9 | - | - | **1.9** |
| **OPERATING INCOME (LOSS)** | **(3.1)** | **1.9** | **(0.5)** | **(8.7)** | **(10.4)** |
| Extraordinary items | - | - | - | - | **-** |
| Interest income (expense) | - | - | - | 0.7 | **0.7** |
| Income tax | - | - | - | - | **-** |
| Goodwill amortization | - | - | - | - | **-** |
| **NET INCOME (LOSS) OF CONSOLIDATED ENTITIES** | **(3.1)** | **1.9** | **(0.5)** | **(8.0)** | **(9.7)** |
| Share of income of entities accounted for by the equity method | - | - | - | - | **-** |
| **CONSOLIDATED NET INCOME (LOSS)** | **(3.1)** | **1.9** | **(0.5)** | **(8.0)** | **(9.7)** |
| Minority interests | 0.7 | - | - | 0.7 | **1.4** |
| **NET INCOME (AFTER MINORITY INTERESTS)** | **(2.4)** | **1.9** | **(0.5)** | **(7.3)** | **(8.3)** |
| **Explanatory notes** | **§ 6.3.1.** | **§ 6.3.2.** | | **§ 6.3.4.** | **§ 6.2.** |

# 3. IFRS ADJUSTMENTS TO INCOME FOR FISCAL 2004-2005

## 3.1 SHARE-BASED PAYMENT

Under French standards, stock options granted to employees are not accounted for but are reported as off-balance sheet commitments. Applying IFRS 2 requires that an expense be recognized equal to the benefits granted to employees in the form of share-based payments.

The value of options is calculated by the Group at the time they are granted, using the Black & Scholes valuation model. The resulting sum is recorded as employee compensation over the period in which the rights are acquired, with a direct corresponding entry in shareholders' equity. In accordance with IFRS 2, only options for shares granted after November 7, 2002 and for which rights had not been vested by April 1, 2005 have been estimated and accounted for as employee compensation.

The table below shows the impact of applying IFRS 2 on income for the periods concerned:

| (€ millions) | March 31, 2005 (12 months) |
|---|---|
| Impact of IFRS 2 on shareholders' equity at year's start | - |
| Research and development expenditures | (0.1) |
| Marketing and sales expenses | (0.3) |
| Overhead and administrative expenses | (2.7) |
| Impact of IFRS 2 on operating income | (3.1) |
| Impact of IFRS 2 on income of minority interests | 0.7 |
| Impact of IFRS 2 on net income after minority interests | (2.4) |
| **Impact of IFRS 2 on consolidated reserves** | **3.1** |
| **Impact of IFRS 2 on net income after minority interests** | **(2.4)** |
| **Impact of IFRS 2 on income of minority interests** | **(0.7)** |
| **Impact of IFRS 2 on shareholders' equity** | **-** |

## 3.2 IMPAIRMENT OF GOODWILL

Under French standards, goodwill is amortized in a straight line over a period of 10 to 15 years.
In accordance with IFRS 3, goodwill is no longer amortized after April 1, 2004, but is subject to an annual impairment test. The amortization recognized for fiscal 2004-2005 under French standards has accordingly been restated under IFRS (see note 6.2.1.1. Reconciliation of fiscal 2004-2005 income reclassifications)

The method used for the impairment test on goodwill consists primarily of comparing the recoverable value of each of the Group's operating divisions to the corresponding net assets (including goodwill). Recoverable value is determined essentially on the basis of discounted future cash flows over the next five years and a disposal value. Goodwill impairments are not reversible.

The table below shows the adjustment required by the impairment of goodwill:

| (€ millions) | March 31, 2005 (12 months) |
|---|---|
| Impact of IFRS 3 on shareholders' equity at year's start | (1.1) |
| Offsetting of goodwill amortization | 21.2 |
| Write-offs resulting from impairment tests | (19.3) |
| Impact of IFRS 3 on operations | 1.9 |
| **Impact of IFRS 3 on consolidated reserves** | **(1.1)** |
| **Impact of IFRS 3 on net income after minority interests** | **1.9** |
| **Impact of IFRS 3 on income of minority interests** | **-** |
| **Impact of IFRS 3 on shareholders' equity** | **0.8** |

## 3.3 EMPLOYEE BENEFITS

Under French accounting rules, all of the Group's pension and related liabilities have been treated as off balance sheet commitments.

Post-employment benefits granted by the Group vary depending on the legal obligations and policies of each subsidiary in this respect. They include both defined-contribution and defined-benefit plans.

In the case of defined-contribution plans, the Group's obligation is limited to the payment of regular premiums to outside organizations, which manage and administer the plans. The corresponding expense is recorded during the year as "Employee compensation" and includes any additional benefits acquired by employees during the period.

Only defined-benefit plans give rise to future commitments by the Group. They consist of obligations resulting from termination benefits.

The obligations are valued at the end of each period, taking into account, inter alia, the seniority of the personnel and its turnover rate by age category.

No evidence of significant long-term employee benefits for which no provisions had previously been put aside came to light in the course of the transition to IFRS. The table below shows retirement obligations not accounted for under French standards:

| (€ millions) | March 31, 2005 (12 months) |
|---|---|
| Impact of IAS 19 on shareholders' equity at year's start | (0.1) |
| Payroll expenses | -<br>- |
| Impact of IAS 19 on income from operations | - |
| **Impact of IAS 19 on consolidated reserves** | **(0.1)** |
| **Impact of IAS 19 on net income after minority interests** | **-** |
| **Impact of IAS 19 on income of minority interests** | **-** |
| **Impact of IAS 19 on shareholders' equity** | **(0.1)** |

## 3.4 OUTSOURCED DEVELOPMENT COSTS

Under French standards, prepayments of royalties to suppliers of software under development agreements entered into for certain products have been recognized as an asset. The asset was amortized, with allowances recorded under "cost of sales" in the income statement, and any write-down was considered a "research and development expenditure". Whenever a project was terminated, the corresponding prepayments were immediately recorded as extraordinary expenses.

Under IFRS, outsourced development expenses incurred under development agreements and meeting the accounting criteria of IAS 38 must be reported as intangible assets. The amortization method used for those assets is the declining balance method determined on the basis of anticipated economic benefits. Amortization expenses and any write-downs must be included under "research and development expenditures" in the income statement.

The table below shows the impact of the application of IAS 38 to outsourced development costs:

| (€ millions) | March 31, 2005 (12 months) |
|---|---|
| Impact of IAS 38 on shareholders' equity at year's start | (9.2) |
| Research and development expenditures | (7.4) |
| Impact of IAS 38 on income from operations | (7.4) |
| **Impact of IAS 38 on consolidated reserves** | **(9.2)** |
| **Impact of IAS 38 on translation reserves** | **0.7** |
| **Impact of IAS 38 on net income after minority interests** | **(6.7)** |
| **Impact of IAS 38 on income of minority interests** | **(0.7)** |
| **Impact of IAS 38 on shareholders' equity** | **(15.9)** |

## 3.5 CAPITAL LEASES

As required by IAS 17 "Leases", the Group has restated certain leases originally considered operating leases as capital leases, which has caused the value of property plant and equipment to increase by 1.1 million euros on April 1, 2004, and debt to rise by the equivalent amount.

| (€ millions) | March 31, 2005 (12 months) |
|---|---|
| Impact of IAS 17 on shareholders' equity at year's start | (0.1) |
| Net value of assets acquired under capital leases | 0.7 |
| Corresponding liabilities | (0.8) |
| IAS 17 balance sheet adjustment | (0.1) |
| **Impact of IAS 17 on consolidated reserves** | **(0.1)** |
| **Impact of IAS 17 on income** | **-** |
| **Impact of IAS 17 on income of minority interests** | **-** |
| **Impact of IAS 17 on shareholders' equity** | **(0.1)** |

# 4. MAJOR IFRS RECLASSIFICATIONS WITH NO IMPACT ON INCOME

## 4.1 REVENUE AND OTHER REVENUE

Practices used to recognize revenue differ from those of IAS 18 - Revenue from Ordinary Business in the following respect:

Certain sales incentives such as participation in advertising and promotion, which used to be recorded as sales expenses, have been reclassified as deductions from revenue in the financial statements prepared in accordance with IFRS (negative impact of € 24.4 million for the year ended March 31, 2005).

Certain rebates granted for early payment of invoices, which used to be treated as interest expense, are now also deducted from revenue in accordance with IFRS (negative impact of € 0.5 million in fiscal 2004-2005).

The table below shows a summary of the reclassifications:

| | March 31, 2005 |
|---|---|
| **Revenue under French standards** | **602.1** |
| Early payment rebates (financial expense) | (0.5) |
| Participation in advertising and promotion (sales expenses) | (24.4) |
| **IAS 18 RECLASSIFICATION ON REVENUE** | **(24.9)** |
| **IFRS Revenue** | **577.2** |

## 4.2 RECLASSIFICATION OF EXTRAORDINARY ITEMS

Applying IAS 1 requires that extraordinary and non-recurring items be reclassified as other operating revenue and expenses on the income statement lines corresponding to the underlying asset (cost of sales, administrative and sales expenses, interest income and expense).

For the year ended March 31, 2005 extraordinary items were as follows:

| *(€ millions)* | Restructuring charges | Other financial expenses and revenue | Gains and losses from sales of assets | Other operating revenue | Extraordinary items 2004-2005 French standards |
|---|---|---|---|---|---|
| Restructuring charges | (17.2) | - | - | - | (17.2) |
| Capital losses on disposals | - | - | (0.8) | - | (0.8) |
| Gains from the repurchase of convertible bonds | - | 15.5 | - | - | 15.5 |
| Sales of Atari Inc shares | - | - | (20.2) | - | (20.2) |
| Disposals of fixed assets | - | - | 14.0) | - | 14.0 |
| Litigation | - | - | | 0.8 | 0.8 |
| Other revenue (expenses) | - | - | - | (0.6) | (0.6) |
| **Restatement of extraordinary items under IFRS** | **(17.2)** | **15.5** | **(7.0)** | **0.2** | **(8.5)** |

## 4.3 OUTSOURCED DEVELOPMENT COSTS

Amortization originally recorded as cost of sales, research and development expenditures and restructuring charges (see principles set forth in 6.3.4) are reclassified as research and development expenditures under IFRS.

# 5. EXPLANATORY NOTES REGARDING THE BALANCE SHEET

| (€ millions) | March 31, 2005 French standards | IFRS reclassification | IFRS impact | IFRS | Note | April 1, 2004 French standards | IFRS Reclassification | IFRS impact | IFRS | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| Goodwill | 145.8 | - | 102.7 | 248.5 | § 6.5.2. | 186.2 | - | 127.3 | 313.5 | § 6.5.1. |
| Net value of intangible assets | 190.1 | - | (123.3) | 66.8 | § 6.5.2. | 203.2 | - | (132.8) | 70.4 | § 6.5.1. |
| Net value of property, plant and equipment | 13.4 | - | 0.7 | 14.1 | § 6.5.2. | 18.7 | - | 1.1 | 19.8 | § 6.5.1. |
| Share in entities accounted for by the equity method | 0.9 | - | - | 0.9 | § 6.5.2. | 0.9 | - | - | 0.9 | § 6.5.1. |
| Non-current financial assets | 2.9 | - | - | 2.9 | § 6.5.2. | 4.1 | - | - | 4.1 | § 6.5.1. |
| Other non-current assets | - | 12.5 | - | 12.5 | § 6.5.2. | - | 18.0 | - | 18.0 | § 6.5.1. |
| Deferred tax assets | - | 6.6 | - | 6.6 | § 6.5.2. | - | 0.7 | - | 0.7 | § 6.5.1. |
| **NON-CURRENT ASSETS** | **353.1** | **19.1** | **(19.9)** | **352.3** | | **413.1** | **18.7** | **(4.4)** | **427.4** | |
| Net value of inventories | 38.0 | - | - | 38.0 | § 6.5.2. | 42.5 | - | - | 42.5 | § 6.5.1. |
| Current prepaid royalties | 60.0 | (1.2) | (58.8) | - | § 6.5.2. | 57.2 | (6.0) | (51.2) | - | § 6.5.1. |
| Trade receivables | 61.0 | - | - | 61.0 | § 6.5.2. | 57.1 | - | - | 57.1 | § 6.5.1. |
| Tax credits | | - | - | - | § 6.5.2. | - | - | - | - | § 6.5.1. |
| Other current assets | 36.7 | (17.9) | - | 18.8 | § 6.5.2. | 43.7 | (12.7) | - | 31.0 | § 6.5.1. |
| Cash and cash equivalents | 36.3 | - | - | 36.3 | § 6.5.2. | 40.4 | - | - | 40.4 | § 6.5.1. |
| **CURRENT ASSETS** | **232.0** | **(19.1)** | **(58.8)** | **154.1** | | **240.9** | **(18.7)** | **(51.2)** | **171.0** | |
| **TOTAL ASSETS** | **585.1** | **-** | **(78.7)** | **506.4** | | **654.0** | **-** | **(55.6)** | **598.4** | |
| Capital stock | 111.9 | - | - | 111.9 | § 5.1. | 74.0 | - | - | 74.0 | § 5.1. |
| Other paid-in capital | 645.1 | - | - | 645.1 | § 5.1. | 600.6 | - | - | 600.6 | § 5.1. |
| Consolidated reserves | (664.8) | - | (13.7) | (678.5) | § 5.1. | (618.4) | - | (9.3) | (627.7) | § 5.1. |
| **Shareholders' equity, net of minority interests** | **92.2** | **-** | **(13.7)** | **78.5** | | **56.2** | **-** | **(9.3)** | **46.9** | |
| Minority interests | 112.7 | | (66.6) | 46.1 | § 5.2. | 80.3 | | (47.6) | 32.7 | § 5.1. |
| **CONSOLIDATED SHAREHOLDERS' EQUITY** | **204.9** | **-** | **(80.3)** | **124.6** | | **136.5** | **-** | **(56.9)** | **79.6** | |
| Provisions for liabilities due in more than one year | - | - | 0.1 | 0.1 | § 6.5.2. | - | - | 0.1 | 0.1 | § 6.5.1. |
| Liabilities due in more than one year | 157.3 | - | 8.4 | 165.7 | § 6.5.2. | 279.1 | - | 7.3 | 286.4 | § 6.5.1. |
| Deferred tax liabilities | - | - | - | - | § 6.5.2. | - | - | - | - | § 6.5.1. |
| Other non-current liabilities | - | - | 1.2 | 1.2 | § 6.5.2. | - | - | 0.9 | 0.9 | § 6.5.1. |
| **NON-CURRENT LIABILITIES** | **157.3** | **-** | **9.7** | **167.0** | | **279.1** | **-** | **8.3** | **287.4** | |
| Provisions for liabilities due in less than one year | 7.7 | - | - | 7.7 | § 6.5.2. | 10.7 | - | - | 10.7 | § 6.5.1. |
| Liabilities due in less than one year | 67.6 | - | 10.0 | 77.6 | § 6.5.2. | 74.6 | - | 1.9 | 76.5 | § 6.5.1. |
| | | - | - | - | § 6.5.2. | - | - | - | - | § 6.5.1. |
| Trade payables | 110.8 | - | - | 110.8 | § 6.5.2. | 119.4 | - | - | 119.4 | § 6.5.1. |
| Taxes payable | 0.6 | - | - | 0.6 | § 6.5.2. | 1.0 | - | - | 1.0 | § 6.5.1. |
| Other current liabilities | 36.2 | - | (18.1) | 18.1 | § 6.5.2. | 32.7 | - | (8.9) | 23.8 | § 6.5.1. |
| **CURRENT LIABILITIES** | **222.9** | **-** | **(8.1)** | **214.8** | | **238.4** | **-** | **(7.0)** | **231.4** | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **585.1** | **-** | **(78.7)** | **506.4** | | **654.0** | **-** | **(55.6)** | **598.4** | |

## 5.1. OPENING BALANCE SHEET FOR APRIL 1, 2004

| (€ millions) | French standards | IAS 1 reclassification | Prepaid royalties IAS 38 | Capital leases IAS 17 | Employee benefits IAS 19 | Market shares IFRS 1/IAS 38 | Impairment of goodwill IAS 36 | IFRS |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 186.2 | - | - | - | - | 128.4 | (1.1) | 313.5 |
| Net value of intangible assets | 203.2 | - | 42.0 | - | - | (174.9) | - | 70.3 |
| Net value of property, plant and equipment | 18.7 | - | - | 1.0 | - | - | - | 19.7 |
| Share in entities accounted for by the equity method | 0.9 | - | - | - | - | - | - | 0.9 |
| Non-current financial assets | 4.1 | - | - | - | - | - | - | 4.1 |
| Other non-current assets | - | 18.0 | - | - | - | - | - | 18.0 |
| Deferred tax assets | - | 0.7 | - | - | - | - | - | 0.7 |
| **NON-CURRENT ASSETS** | **413.1** | **18.7** | **42.0** | **1.0** | **-** | **(46.5)** | **(1.1)** | **427.2** |
| Net value of inventories | 42.5 | - | - | - | - | - | - | 42.5 |
| Current prepaid royalties | 57.2 | (6.0) | (51.2) | - | - | - | - | - |
| Trade receivables | 57.1 | - | - | - | - | - | - | 57.1 |
| Tax credits | - | - | - | - | - | - | - | - |
| Other current assets | 43.7 | (12.7) | - | - | - | - | - | 31.0 |
| Cash and cash equivalents | 40.4 | - | - | - | - | - | - | 40.4 |
| **CURRENT ASSETS** | **240.9** | **(18.7)** | **(51.2)** | **-** | **-** | **-** | **-** | **171.0** |
| **TOTAL ASSETS** | **654.0** | **-** | **(9.2)** | **1.0** | **-** | **(46.5)** | **(1.1)** | **598.2** |
| Capital stock | 74.0 | - | - | - | - | - | - | 74.0 |
| Other paid-in capital | 600.6 | - | - | - | - | - | - | 600.6 |
| Consolidated reserves | (618.4) | - | (8.1) | (0.1) | (0.1) | - | (1.1) | (627.8) |
| **Shareholders’ equity, net of minority interests** | **56.2** | **-** | **(8.1)** | **(0.1)** | **(0.1)** | **-** | **(1.1)** | **46.8** |
| Minority interests | 80.3 | - | (1.1) | - | - | (46.5) | - | 32.7 |
| **CONSOLIDATED SHAREHOLDERS’ EQUITY** | **136.5** | **-** | **(9.2)** | **(0.1)** | **(0.1)** | **(46.5)** | **(1.1)** | **79.5** |
| Provisions for liabilities due in more than one year | - | - | - | - | 0.1 | - | - | 0.1 |
| Liabilities due in more than one year | 279.1 | 6.5 | - | 0.8 | - | - | - | 286.4 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - |
| Other non-current liabilities | - | 0.9 | - | - | - | - | - | 0.9 |
| **NON-CURRENT LIABILITIES** | **279.1** | **7.4** | **-** | **0.8** | **0.1** | **-** | **-** | **287.4** |
| Provisions for liabilities due in less than one year | 10.7 | - | - | - | - | - | - | 10.7 |
| Liabilities due in less than one year | 74.6 | 1.5 | - | 0.3 | - | - | - | 76.4 |
| | - | - | - | - | - | - | - | - |
| Trade payables | 119.4 | - | - | - | - | - | - | 119.4 |
| Taxes payable | 1.0 | - | - | - | - | - | - | 1.0 |
| Other current liabilities | 32.7 | (8.9) | - | - | - | - | - | 23.8 |
| **CURRENT LIABILITIES** | **238.4** | **(7.4)** | **-** | **0.3** | **-** | **-** | **-** | **231.3** |
| **TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY** | **654.0** | **-** | **(9.2)** | **1.0** | **-** | **(46.5)** | **(1.1)** | **598.2** |

## 5.2. BALANCE SHEET FOR MARCH 31, 2005

| (€ millions) | French standards | IAS 1 reclassification | Prepaid royalties IAS 38 | Capital leases IAS 17 | Employee benefits IAS 19 | Market shares IAS 38 | Impairment of goodwill IAS 36 | IFRS |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 145.8 | - | - | - | - | 101.9 | 0.8 | 248.5 |
| Net value of intangible assets | 190.1 | - | 43.0 | - | - | (166.3) | - | 66.8 |
| Net value of property, plant and equipment | 13.4 | - | - | 0.7 | - | - | - | 14.1 |
| Share in entities accounted for by the equity method | 0.9 | - | - | - | - | - | - | 0.9 |
| Non-current financial assets | 2.9 | - | - | - | - | - | - | 2.9 |
| Other non-current assets | - | 12.5 | - | - | - | - | - | 12.5 |
| Deferred tax assets | - | 6.6 | - | - | - | - | - | 6.6 |
| **NON-CURRENT ASSETS** | **253.1** | **19.1** | **43.0** | **0.7** | **-** | **(64.4)** | **0.8** | **352.3** |
| Net value of inventories | 38.0 | - | - | - | - | - | - | 38.0 |
| Current prepaid royalties | 60.0 | (1.2) | (58.8) | - | - | - | - | - |
| Trade receivables | 61.0 | - | - | - | - | - | - | 61.0 |
| Tax credits | - | - | - | - | - | - | - | - |
| Other current assets | 36.7 | (17.9) | - | - | - | - | - | 18.8 |
| Cash and cash equivalents | 36.3 | - | - | - | - | - | - | 36.3 |
| **CURRENT ASSETS** | **232.0** | **(19.1)** | **(58.8)** | **-** | **-** | **-** | **-** | **154.1** |
| **TOTAL ASSETS** | **585.1** | **-** | **(15.8)** | **0.7** | **-** | **(64.4)** | | **506.4** |
| Capital stock | 111.9 | - | - | - | - | - | | 111.9 |
| Other paid-in capital | 645.1 | - | - | - | - | - | | 645.1 |
| Consolidated reserves | (664.8) | (0.7) | (13.6) | (0.1) | (0.1) | - | | (679.3) |
| **Shareholders' equity, net of minority interests** | **92.2** | **(0.7)** | **(13.6)** | **(0.1)** | **(0.1)** | **-** | | **77.7** |
| Minority interests | 112.7 | - | (2.2) | - | - | (64.4) | | 46.1 |
| **CONSOLIDATED SHAREHOLDERS' EQUITY** | **204.9** | **(0.7)** | **(15.8)** | **(0.1)** | **(0.1)** | **(64.4)** | | **123.8** |
| Provisions for liabilities due in more than one year | - | - | - | - | 0.1 | - | | 0.1 |
| Liabilities due in more than one year | 157.3 | 8.1 | - | 0.3 | - | - | | 165.7 |
| Deferred tax liabilities | - | - | - | - | - | - | | - |
| Other non-current liabilities | - | 1.2 | - | - | - | - | | 1.2 |
| **NON-CURRENT LIABILITIES** | **157.3** | **9.3** | **-** | **0.3** | **0.1** | **-** | | **167.0** |
| Provisions for liabilities due in less than one year | 7.7 | - | - | - | - | - | | 7.7 |
| Liabilities due in less than one year | 67.6 | 9.5 | - | 0.5 | - | - | | 77.6 |
| | | - | - | - | - | - | | - |
| Trade payables | 110.8 | - | - | - | - | - | | 110.8 |
| Taxes payable | 0.6 | - | - | - | - | - | | 0.6 |
| Other current liabilities | 36.2 | (18.1) | - | - | - | - | | 18.1 |
| **CURRENT LIABILITIES** | **222.9** | **(8.6)** | **-** | **0.5** | **-** | **-** | | **214.8** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **585.1** | **-** | **(15.8)** | **0.7** | **-** | **-** | | **505.6** |

## 5.3. INTANGIBLE ASSETS

### ▪ MARKET SHARES

According to IFRS 1, intangible assets acquired as part of business combinations and not covered under the definition of intangible assets of IAS 38 must be reported as goodwill. Accordingly, market shares, which are reported on a separate line under French rules, must be deleted from intangible assets and ascribed to goodwill for the group's portion and to minority reserves for the minority interests' portion.

| (€ millions) | March 31, 2005 (12 months) | April 1, 2004 Opening |
|---|---|---|
| Market shares | 166.3 | 174.9 |
| of which: attributable to minority interests | (64.4) | (46.5) |
| Net value of goodwill initially linked to market shares | 101.9 | 128.4 |
| **Impact of IAS 38 on consolidated reserves** | **-** | **-** |
| **Impact of IAS 38 on net income after minority interests** | **-** | **-** |
| **Impact of IAS 38 on income of minority interests** | **(64.4)** | **(46.5)** |
| **Impact of IAS 38 on shareholders' equity** | **(64.4)** | **(46.5)** |

Differences in minority portions between April 1, 2004 and March 31, 2005 primarily reflect changes in the ownership of Atari Inc.

### ▪ PREPAID ROYALTIES

In accordance with IAS 38, the portion of development expenditures originally considered current assets and satisfying the criteria for being recognized as intangible assets under IFRS have been reclassified as intangible assets. Applying IAS 38 has had an impact on shareholders' equity (note 6.3.4) and on the balance sheet, as shown in the table blow:

| (€ millions) | March 31, 2005 (12 months) | April 1, 2004 Opening |
|---|---|---|
| **Reclassification of prepaid royalties** | | |
| Prepayment of current royalties | (60.0) | (57.2) |
| Intangible assets | 58.9 | 1.2 |
| Other current assets | 1.3 | 6.0 |
| **Impact of IAS 38 on the net value of intangible assets** | (15.9) | (9.2) |
| **Total impact of IAS 38 on intangible assets** | **43.0** | **42.0** |

## 5.4. PROPERTY, PLANT AND EQUIPMENT

The Group has elected to continue valuing property, plant and equipment and intangible assets on the basis of their depreciated cost. The alternative method, which provides for a regular revaluation of several categories of assets, has not been used.

## 5.5. PROVISIONS

Provisions can be analysed as follows between current and non-current liabilities

| (€ millions) | March 31, 2005 (12 months) | April 1, 2004 Opening |
|---|---|---|
| Provisions for pension benefits | 0.1 | 0.1 |
| **Provisions for liabilities due in more than one year** | **0.1** | **0.1** |
| Other contingency provisions (liabilities due in less than one year) | 7.7 | 10.7 |
| **Provisions for liabilities due in less than one year** | **7.7** | **10.7** |

## 5.6. DEFERRED TAXES

Deferred taxes are calculated for all temporary differences between the taxable base and the consolidated value of assets and liabilities. They include the elimination of entries in the financial statements of individual subsidiaries under optional tax treatment.

The liability method is used and the effect of changes in tax rates is recognized in equity or income in the year in which the rate change is decided. Deferred tax assets are recognized in the balance sheet whenever it is more likely than unlikely that they will be used in subsequent years. Deferred tax assets and liabilities are not discounted.

The Group determines its ability to use those assets on the bases of such factors as:

- the prospects for future taxable income,
- the role of extraordinary expenses not expected to reoccur affecting past losses,
- the history of taxable income over the previous years,
- if applicable, the existence of under-valued assets which the Group contemplates selling.

In light of the tax status of Infogrames Entertainment, adjustments identified in connection with the transition to IFRS have no impact on the deferred tax situation as previously reported under French rules.

## 5.7 CASH AND CASH EQUIVALENTS

In accordance with IAS 7 "Cash Flow Statements", cash includes actual cash as well as short-term, liquid and easily convertible investments with a known cash value.

Investments in listed shares or those that cannot be converted into cash within three months are excluded from cash for the purpose of the cash flow statement.

## 5.8 FINANCIAL INSTRUMENTS

In accordance with the option provided by IFRS 1, the Group has elected to not apply IAS 32 and IAS 39 in advance for the purpose of the 2004-2005 financial statements.

Equity-linked financial instruments are a combination of debt and equity. As provided for by IAS 32, issuers of financial instruments must classify those instruments or their various components as either liabilities or equity, depending on the nature of the contract and based on the definitions of debt and equity.

Bonds convertible into or exchangeable for new or existing shares (*Obligations Convertibles ou Echangeables en Actions Nouvelles ou Existantes* - OCEANE) issued by the Group will accordingly be accounted for in a manner that shows their debt and equity portions, starting in fiscal 2005-2006

## 5.9 OTHER CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

### ▪ OTHER CURRENT AND NON-CURRENT ASSETS

Because the Group opted, as permitted under IFRS 1, not to apply IAS 32 and 39 to the comparative financial statements for 2004-2005, the following reclassifications have been made concerning other current and non-current assets:

| | March 31, 2005 | April 1, 2004 |
|---|---|---|
| **Reclassification of other current assets (French standards)** | **(19.1)** | **(18.7)** |
| Bond debt costs | 4.8 | 4.1 |
| Bond call premiums | 6.7 | 13.0 |
| Other | 1.0 | 0.9 |
| **Other non-current assets (IFRS)** | **12.5** | **18.0** |
| **Deferred taxes (IFRS)** | **6.6** | **0.7** |

### ▪ OTHER CURRENT AND NON-CURRENT LIABILITIES

Reclassifications of other current and non-current liabilities concern primarily the reporting of production funds and can be summarized as follows:

| | March 31, 2005 | April 1, 2004 |
|---|---|---|
| **Reclassification of other current liabilities (French standards)** | **(18.1)** | **(8.9)** |
| **Reclassification of production funds** | | |
| Liabilities due in more than one year (IFRS) | 8.1 | 6.5 |
| Liabilities due in less than one year (IFRS) | 9.5 | 1.5 |
| **Other reclassifications** | | |
| Other non-current assets (IFRS) | 0.5 | 0.9 |

# G. CASH FLOW STATEMENTS

## 1. GENERAL PRESENTATION OF THE CASH FLOW STATEMENT

The application of IFRS does not cause major changes in the presentation of the cash flow statement as compared to the method used up to now by Infogrames Entertainment. Changes in cash are still shown in terms of flows from three activities, i.e.:

- operations,
- capital transactions,
- financing.

Under the definition of cash and cash equivalents (see 26.5.7 Cash and Cash Equivalents), bank overdrafts are now included in net cash flow from financing.

Other significant reclassifications made in the cash flow statement are as follows:

- disbursements related to debt servicing and to income tax are henceforth shown separately and excluded from net cash flow;
- given the amount of spending for development, disbursements related to intangible assets are henceforth shown on a separate line under capital transactions rather than operating transactions.

## 2. PRESENTATION OF CASH FLOW STATEMENT ADJUSTMENTS

The adjustments made to the cash flow statement for the purpose of changing over to IFRS have been divided into two categories:

- restatements with an impact on net income,
- reclassifications that only affect the presentation of the cash flow statement.

Restatements are explained in the explanatory note on income.

## 3. RECONCILIATION OF THE CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2005

| (€ millions) | March 31, 2005 French standards | Ajustments | Reclassifications | March 31, 2005 IFRS |
|---|---|---|---|---|
| Net income (loss) of consolidated entities | (25.3) | (8.3) | (0.7) | (34.3) |
| Minority interests | 0.7 | (1.4) | 0.7 | - |
| Goodwill amortization | 21.2 | (21.2) | | - |
| Non-cash expenses and revenue | | | | |
| Depreciation allowances (cancellations) on non-current assets | 11.1 | 67.4 | | 78.5 |
| Write-downs and amortization of prepaid royalties | 46.6 | (46.6) | | - |
| Expenses (revenue) related from stock options and other benefits | - | 3.1 | | 3.1 |
| Losses (gains) on sales of fixed assets | 5.9 | 0.5 | | 6.4 |
| Restructuring of OCEANE 2000-2005 bond debt | (15.6) | | | (15.6) |
| Other | 11.5 | | (11.9) | (0.4) |
| Interest and investment income | - | (1.1) | 19.7 | 18.6 |
| Taxes (due and deferred) | (5.9) | | 0.7 | (5.2) |
| **Cash flow before interest and taxes** | **50.2** | **(7.6)** | **8.5** | **51.1** |
| Taxes paid | | | (1.5) | (1.5) |
| Changes in working capital | | | | - |
| Inventories | 2.3 | | 0.7 | 3.0 |
| Prepaid royalties | (56.9) | 56.9 | | - |
| Trade receivables | (18.8) | | 2.9 | (15.9) |
| Trade payables | (8.1) | | | (8.1) |
| Other receivables and liabilities | 20.9 | 5.6 | 0.8 | 27.3 |
| **NET CASH FLOW FROM OPERATIONS** | **(10.4)** | **54.9** | **11.4** | **55.9** |
| Purchases | | | | - |
| Intangible assets | (2.1) | (55.0) | - | (57.1) |
| Property, plant and equipment | (2.7) | - | - | (2.7) |
| Financial assets | (0.7) | - | - | (0.7) |
| Disposals | | | | - |
| Intangible assets | 18.1 | - | - | 18.1 |
| Property, plant and equipment | 0.5 | - | - | 0.5 |
| Financial assets | 29.1 | - | - | 29.1 |
| Impact of changes in consolidated entities | (0.5) | - | - | (0.5) |
| **NET CASH FLOW FROM CAPITAL TRANSACTIONS** | **41.7** | **(55.0)** | **-** | **(13.3)** |
| | - | - | - | - |
| | - | - | - | - |
| Net funds raised by | | | | - |
| Equity issues for cash | 41.1 | - | - | 41.1 |
| Debt issues | 2.9 | - | 0.4 | 3.3 |
| | | - | - | - |
| Net funds disbursed for | | | | - |
| Net interest payments | - | 0.4 | (11.4) | (11.0) |
| Debt repayment | (54.3) | (0.3) | - | (54.6) |
| Exchange tender offer for convertible bonds | (27.8) | | | (27.8) |
| Other financing cash flows | 3.9 | - | - | 3.9 |
| **NET CASH FLOW FROM FINANCING TRANSACTIONS** | **(34.2)** | **0.1** | **(11.0)** | **(45.1)** |
| Impact of currency exchange rates | (0.5) | | | (0.5) |
| **CHANGE IN NET CASH** | **(3.4)** | **-** | **0.4** | **(3.0)** |
| **CASH** | | | | |
| Balance at beginning of year | 39.3 | | | 39.3 |
| Balance at end of year (a) | 35.9 | | 0.4 | 36.3 |
| **Changes** | **(3.4)** | **-** | **0.4** | **(3.0)** |
| (a) Cash | 36.2 | | | 36.2 |
| Investment securities | 0.1 | | | 0.1 |
| Bank overdrafts | (0.4) | | 0.4 | |
| Total | 35.9 | - | 0.4 | 36.3 |

# AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Period ended March 31, 2006

In accordance with the terms of our appointment by your Shareholders' Meeting, we have performed an audit of the consolidated financial statements of Infogrames Entertainment for the year ended March 31, 2006, as attached to this report.
The consolidated financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements, based on our audit. The financial statements have for the first time been prepared in accordance with International Financial Reporting Standards adopted for the European Union. For purposes of comparison, they include the financial statements for the previous year, restated in accordance with IFRS, except for IAS 32 and IAS 39 which, as permitted under IFRS 1, have been applied by the Company only since April 1, 2005.

## I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform examinations to obtain a reasonable assurance that the consolidated financial statements are free from material misstatements. An audit includes an examination, on a test basis, of evidence supporting the transactions reflected in the accounts. It also requires assessing the accounting principles used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the opinion hereunder.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position, assets and results of the consolidated entities, in accordance with IFRS as adopted for the European Union.

Without qualifying the above opinion, we wish to call to your attention:

- the significant uncertainty regarding the continued operation of the company, referred to in note 2.1 to the financial statements, which:
  - describes the Company's financial position, the terms of the financial restructuring plan agreed upon on September 8, 2006 with the principal holders of the bank and bond debt, as well as current measures taken to finance operations until the share issue called for by the financial restructuring plan;
  - indicates that the consolidated financial statements have been prepared under the going-concern assumption, on the expectation that the plan and the measures would be successful;
  - and explains that this success is contingent on the extension of operational financing currently being negotiated and the approval of the financial restructuring plan by the Company's shareholders;
- the change in estimates described in note 1.3 to the financial statements concerning accounting for in-house development expenses.

## II. GROUNDS FOR OUR OPINION

In accordance with the provisions of article L.823-9 of the Commercial Code on the justification of our opinion, we hereby report to you the following:

- Going concern

Note 2.1 to the financial statements, referred to in the first part of this report, explains the Company's position and recent changes, as well as the significant uncertainty concerning its continued operation.
Based on our audit and the information that we have received to date and as part of our assessment of the accounting rules and principles applied by your Company, we have ascertained that the notes provide proper information regarding the position of the Company and its recent development, as well as the significant uncertainty concerning its continued operation.

- Valuation of goodwill and receivables from subsidiaries

The Company performs impairment tests on goodwill and intangible assets in accordance with principles explained in note 2.12 to the financial statements. The manner in which the tests are performed and their results are reported in note 3.3 to the financial statements.

We have examined the methods used as well as the projected cash flows and assumptions made, and have ascertained that notes 2.12 and 3.3 to the financial statements provide appropriate information.

- Accounting for development expenses

The Company accounts for the cost of developing games in a manner explained in note 2.9 to the financial statements. As indicated in the first part of this report, the accounting for in-house development expenses has changed in a manner reported in note 1.3 to the financial statements.

As part of our examination of the accounting principles applied by your Company, we have reviewed the grounds for the above change in method and how development expenses are recognized in assets and subsequently amortized, as well as the method used to verify their recoverable value. We have also ascertained that notes 1.3 and 2.9 to the financial statements provide the relevant information.

The above procedures form part of our audit of the consolidated financial statements and contributed to our opinion stated in the first part of our report.

## III. SPECIFIC TESTS AND PROCEDURES

We have also verified the consistency of the information contained in the Group's annual report, in accordance with professional standards applicable in France. We have no observations to make regarding the fairness of that information and its consistency with the financial statements.

Lyon and Villeurbanne, September 14, 2006

The Auditors

| | |
|---|---|
| Pin Associes | Deloitte & Associes |
| Jean-François Pin | Alain Descoins |

# INFORMATION CONCERNING THE PARENT COMPANY

(Year ended March 31, 2006)

## BOARD OF DIRECTORS' REPORT ON THE FINANCIAL STATEMENTS OF INFOGRAMES ENTERTAINMENT SA

**Prepared pursuant to the provisions of article L.225-100 of the Commercial Code**
**(Year ended March 31, 2006)**

Lyon, September 8, 2006

The annual financial statements of Infogrames Entertainment cover a period of 12 months (April 1, 2005 to March 31, 2006), as opposed to 9 months (July 1, 2004 to March 31, 2005) for the previous period.

As previously noted, Infogrames Entertainment SA, which is the parent company of the Atari Group, derives most of its revenue (other than investment and interest income) from services performed on behalf of its subsidiaries and billed to them (general management, financial and legal management, cash management, information systems, general resources, etc.). Its business is therefore not at all representative of the Group as a whole.

The Group's annual report, which contains information on the business of the subsidiaries as well as detailed data on its principal business lines, is issued together with the consolidated financial statements in the annual report filed with the AMF, of which this report also forms an integral part.

## 1. BUSINESS ENVIRONMENT AND HIGHLIGHTS

As part of their review of the financial statements, the Auditors notified the Company in December 2005 that certain facts could undermine the going-concern nature of the business and, as required by article L 234-1(3) of the Commercial Code, initiated a warning procedure ("*procédure d'alerte*").

Accordingly, the Auditors, as required by article L 234-1 of the Commercial Code, issued a warning report ("*rapport d'alerte*"), which will be submitted to the next shareholders' meeting.

In response to the Auditor's observations above, and as announced in February 2006, Infogrames implemented an action plan aimed at refinancing its overall debt, disposing of certain assets and securing new sources of operating funds. This plan, if carried out, should ensure the long-term continuation of the Group's operations.

On June 24, 2005, the Group purchased 35.81% of the shares of Game One for € 0.5 million, in which it had held a 14.19% interest on March 31, 2005. On July 25, 2005, the Group's ownership of Game One was reduced back to 45.46% after Game One issued shares in favor of MTV.

The Group's business environment and other highlights are reviewed in the above-mentioned report on the consolidated financial statements.

# 2. PARENT COMPANY BUSINESS AND FINANCIAL RESULTS

## 2.1. BUSINESS

The Company is the umbrella entity for the Infogrames/Atari Group, which it heads. It derives most of its revenue other than investment and interest income from services performed on behalf of that Group's subsidiaries and billed to them.

## 2.2. CONDENSED INCOME STATEMENT

As noted above, the Company has changed its fiscal year-end date to March 2005; the financial statements for the period to March 31, 2005 accordingly cover a period of 9 months, from July 1, 2004 to March 31, 2005 (see section 1 above).

Below is pro-forma income statement for the new year-end date, prepared to make the information comparable for a nine-month period.

| (€ millions) | **March 31, 2006** (12 months) | **March 31, 2005** **(9 months)** | **March 31, 2005** (12 months pro forma) |
|---|---|---|---|
| Operating income (loss) | (3.8) | (4.1) | (5.4) |
| Financial result | (239.4) | (23.0) | (40.1) |
| Extraordinary items | 49.8 | 10.8 | 18.6 |
| Corporate income tax | 0.9 | 0.2 | 1.5 |
| **Net income for the year** | **(192.5)** | **(16.1)** | **(25.4)** |

- Operating revenue amounted to € 16.9 million, up from € 9.8 million the previous year; they represent primarily services billed to Group subsidiaries.

- Operating expenses rose to € 20.7 million from € 13.9 million the previous year.

- The operating loss was € 3.8 million, compared to € 4.1 million last year. It reflected an imbalance between expenses incurred by the parent company and management fees charged. An important factor were the high fees paid for a series of financial transactions.

- The financial loss amounted to € 239.4 million, versus € 23.0 million the previous year.

  The high losses for the year ended March 31, 2005 were due primarily to the following:
  - a net debt servicing cost of € 5.0 million, partly offset by net interest income of € 1.9 million from loans to subsidiaries;
  - an impairment of € 12 million on investment holdings and related receivables, including € 11 million on the shares of the CUSH subsidiary.
  - a reduction in premiums on bonds outstanding (€ 3.7 million);
  - a net foreign exchange loss of 4.5 million, including changes in provisions (allowances of € 3 million).

  The net financial loss for the year reflected mainly:
  - interest expense of € 5.8 million, including € 5.3 million on loans extended to Group entities;
  - the reversal of a loss provision of € 4 million previously recognized on foreign-exchange;
  - a debt servicing cost of € 8.4 million (for bond and bank debt);
  - impairment provisions of € 197 million on investments in subsidiaries, € 40 million on receivables from subsidiaries and € 1.7 million on the redemption of bonds.

- Non-recurring income amounted to € 49.8 million, compared with € 10.8 million last year. This reflected primarily net gains of € 52.7 million on the sale of Hasbro rights in June 2005.

Taking into account the operating loss, financial and non-recurring items, a net tax gain of € 0.9 million (from consolidation), the net loss amounted to € 192.5 million for the year ended March 31, 2006, compared with € 16.1 million on March 31, 2005.

## 2.3. CONDENSED BALANCE SHEET

| (€ millions) | March 31, 2006 | March 31, 2005 |
|---|---|---|
| Intangible assets, property and equipment | 0.9 | 1.1 |
| Loans and investments | 337.8 | 552.7 |
| Other receivables and adjustment accounts | 27.8 | 33.6 |
| Cash and marketable securities | 0.1 | 8.7 |
| **TOTAL ASSETS** | **366.6** | **596.1** |
| Shareholders' equity | 95.1 | 278.6 |
| Contingency and loss allowances | 24.9 | 31.8 |
| Debt | 239 .6 | 275.0 |
| Other liabilities and adjustment accounts | 7.0 | 10.7 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **366.6** | **596.1** |

- The Company has total assets of € 366.6 million, consisting primarily of long-term investment holdings and loans.

  As of March 31, 2006, its financial assets comprised equity holdings (€ 287.8 million) and receivables from subsidiaries (€ 50.0 million).
  The decline in financial assets from March 31, 2005 to March 31, 2006 was primarily caused by increased impairments of investments in subsidiaries and related receivables recognized during the period (net increase in provisions of € 207.9 million).
  Shareholders' equity amounted to € 95.1 million, down from € 278.6 million on March 31, 2005, a drop of € 183.5 million resulting from:
  - the issuance of € 9.0 million in shares as consideration for those of Humongous;
  - the recognition of a loss for the year of € 192.5 million.

- Risk provisions primarily concerned foreign-exchange risks (€ 16.7 million) and a provision of € 6.4 million was set aside on a Company subsidiary with a negative net worth.

- The total debt (€ 239.6 million) includes i) € 23.4 million in medium-term bank debt repayable on March 31, 2008, ii) € 44.8 million owed to subsidiaries and iii) a € 163.2-million bond and note debt (including discounts of € 8.9 million). The bonds and notes mature as follows:
  - 2005-2008 Notes (€ 33.7 million): one-third each on September 15, 2006, March 15, 2007 and March 15, 2008;
  - OCEANE 2003-2009 (€ 124.3 million): April 1, 2009;
  - OCEANE 2000-2005 (€ 5.3 million): July 1, 2011.

  The debt reduction of € 35.4 million from March 31, 2005 resulted primarily from:
  - the repayment of medium-term bank loans of € 13.3 million,
  - a net reduction of € 25.4 million in sums owed to Group subsidiaries;

## 2.4. CONDENSED CASH FLOW STATEMENTS

| (€ millions) | March 31, 2006 (12 months) | March 31, 2005 (9 months) |
|---|---|---|
| Cash flow from operations | 39.3 | 1.3 |
| Cash flow from investments | (0.5) | (0.3) |
| Net cash flow from financing | (47.8) | 15.9 |
| **Net cash flow for the year** | **(9.0)** | **16.8** |
| Cash at year's start | 8.7 | (8.1) |
| Cash at year's end | (0.3) | 8.7 |

Cash on hand decreased by € 9.0 million and the company had negative cash balances of € 0.3 million on March 31, 2006.
Net cash flow from operations of € 39.3 million reflected a negative overall cash flow of € 42.4 million combined with a decrease in working capital of € 3.1 million.
Net cash flow from financing of € 47.8 million for the period ended March 31, 2006 reflected mainly:

- The repayment of bank loans of € 13.3 million;
- The repayment of Group loans of € 34.5 million.

# 3. BUSINESS AND FINANCIAL RESULTS OF SUBSIDIARIES

The section below covers only the Company's significant subsidiaries.

### ▪ ATARI, INC.

Atari, Inc. is based in the United States and incorporated in Delaware; its stock is traded on the New York Stock Exchange and the Company owns 51.4% of its shares. In addition to distributing Atari products in North America, Atari, Inc. is a major developer and publisher.

For the year ended March 31, 2006 (12 months), Atari, Inc. had revenue of $ 218.7 million (compared with $ 407.8 million in fiscal 2004-2005), an operating loss of $ 68.6 million (compared with operating income of $ 6.3 million in fiscal 2004-2005) and a net loss of $ 69.0 (compared with net income of $ 5.7 million in fiscal 2004-2005). It should be noted that the above figures are from the subsidiary's annual report (form 10K filed with the SEC).
The decline in the performance of Atari Inc was the result of adverse trends in the market and a corporate structure no longer appropriate to the volume of sales. Measures are currently under way to cut costs.

### ▪ ATARI INTERACTIVE, INC.

Atari Interactive, Inc. is a wholly-owned subsidiary of the Company that develops and publishes video games, including those from the Hasbro catalog. It also holds the rights to the Atari name.

For the fiscal year ended March 31, 2006, Atari Interactive, Inc. reported revenue of $ 18.7 million (€ 15.5 million), chiefly from licensing agreements with other Group entities. It ended the year with a net loss of $ 25.5 million (€ 21.1 million).

The loss reflected expenses incurred by the Company for research and development.

For the year to March 31, 2005 revenue was $ 49.1 million (€ 39.0 million) and the company reported income of $ 7.5 million (€ 5.9 million).

### ▪ EDEN GAMES S.A.S.

Eden Games, a wholly-owned subsidiary of the Company, is a French video game development studio that employs a staff of more than 100, for the most part developers.

For the fiscal period ended March 31, 2006 (12 months), Eden Games' revenue was € 9.3 million (compared with € 4.7 million for the 9-month fiscal 2004-2005) and it generated operating income of € 0.8 million (€ 0,3 million in 2004/2005 – 9 months) and a small net profit of € 0.5 million, little changed from the € 0.1 million of the nine months of fiscal 2004-2005.

### ▪ PARADIGM ENTERTAINMENT, INC.

Paradigm Entertainment, Inc., a wholly-owned subsidiary of the Company, is a US video game development studio that employs a staff of 75, for the most part developers.

For the year ending March 31, 2006. Paradigm Entertainment reported revenue of $ 7.9 million (€ 6,5 million), operating income of $ 0.3 million (€ 0,2 million) and a net profit of $ 0,4 million (€ 0,3 million).

For the year ended March 31, 2005, revenue was $ 9.2 million (€ 7.3 million), the company had operating income of $ 0.5 million (€ 0,4 million) and net income of $0.7 million (€0.6 million).

## ▪ ATARI EUROPE

Atari Europe is a wholly-owned subsidiary of the Company that oversees and coordinates the European and Asian distribution of Atari products; as such, it holds ownership interests in the Group's main distribution subsidiaries in Europe, with the exception of those located in Germany, the United Kingdom, Australia and Asia.

For the period ended March 31, 2006 (12 months), Atari Europe reported revenue of € 109.6 million (compared with € 89.4 million for the 9-month fiscal 2004-2005), operating income of € 4.3 million (€ 2.7 million in 2004/2005, over 9 months) and net income of € 0.7 million (€ 1.0 million in 2004/2005, over 9 months).

## ▪ ATARI FRANCE

Atari France, a wholly-owned subsidiary of Atari Europe, distributes all Atari-brand products in France.

For the nine-month fiscal period ended March 31, 2006, Atari France reported revenue of € 51.3 million (€ 38.4 million in 2004-2005, over 9 months) and operating income of € 1.4 million (€ 0.2 million in 2004-2005, over 9 months); it ended the year with a net profit of € 1.3 million, after having broken even over the 9 months of fiscal 2004/2005.

## ▪ INFOGRAMES ENTERTAINMENT GMBH

Infogrames Entertainment GmbH, a wholly-owned subsidiary of the Company, is a German holding company which owns all of the shares of ATARI Deutschland GmbH, the distributor of Atari products in Germany.

For the 12 months ended March 31, 2006, Atari Deutschland GmbH had revenue of € 35.9 million (versus € 42.3 million in fiscal 2004-2005), an operating loss of € 0.4 million (compared with an operating loss of € 0.3 million in fiscal 2004-2005) and net income of € 0.4 million (after breaking even in fiscal 2004/2005).

## ▪ ATARI UNITED KINGDOM, LTD.

Atari United Kingdom is incorporated in England and wholly owned by the Company; it distributes all Atari products in the United Kingdom.

For the 12 months ended March 31, 2006, Atari UK had revenue of € 34.0 million (versus € 63.2 million in fiscal 2004-2005), and an operating loss of € 6.1 million (compared with income of € 3.8 million in fiscal 2004/2005), resulting in a net loss of € 6.1 million (versus a profit of € 1.4 million in fiscal 2004/2005).

The loss at Atari United Kingdom Ltd. was attributable to significant changes in market conditions.

## ▪ ATARI BENELUX

Atari Benelux is wholly owned by Atari Europe and distributes all Atari products in the Benelux countries.

For the 12 months ended March 31. 2006, Atari Benelux had revenue of € 17.4 million (versus € 20.4 million in fiscal 2004-2005), income from operations of € 0.6 million (compared with € 1.3 million in fiscal 2004/2005) and a net profit of € 0.4 million (down from € 1.0 million in fiscal 2004/2005).

## ▪ ATARI ASIA HOLDING PTY LIMITED

ATARI Asia Holding is a wholly-owned Australian subsidiary of the Company, which acts as a holding entity for the Group's Asian entities (video game development, publishing and distribution companies) other than Atari Japan KK, which is directly owned by the Company.

Its principal subsidiary is Atari Australia Pty Ltd., a distributor of Atari and many third-party products in Australia, which reported revenue of € 28.6 million (€ 36.3 million in fiscal 2004-2005), operating income of € 2.3 million (€ 3.0 million in fiscal 2004/2005) and net income of € 2.2 million (€ 3.0 million in fiscal 2004/2005).

# 4. SHAREHOLDERS

## 4.1. OWNERSHIP AND VOTING RIGHTS

On March 31, 2006, the Company's shareholders were entitled to an aggregate of 196,285,737 votes. The data below was prepared on the basis of information obtained from the registrar.

To the best of the Company's knowledge, share ownership and voting rights divided up as follows on March 31, 2006 :

| | Number of shares | (%) | Number of voting rights | (%) |
|---|---|---|---|---|
| Founders (1) | 4,244,036 | 2.23% | 7,866,468 | 4.01% |
| Hasbro, Inc. | 2,977,945 | 1.57% | 4,748,171 | 2.42 % |
| Public | 182,504,176 | 96.20% | 183,671,098 | 93.57 % |
| Total | 189,726,158 | 100.0% | 196,285,737 | 100.0% |

*(1) Directly or indirectly held by Bruno Bonnell, Christophe Sapet and Thomas Schmider.*

To the best of the company's knowledge, no other shareholder owns, alone or in association with others, 5 percent or more of the shares or voting rights.

## 4.2. CHANGES IN OWNERSHIP DURING THE FISCAL YEAR

Eurazeo SA reported to the Financial Markets Authority on August 30, 2004 that its holdings had fallen below the 5% limit on voting rights following the disposal of shares on the market, and that it held at the time 3.04% of the Company's shares and 4.90% of its voting rights.

On November 3 and 16, 2004, Eurazeo SA reported to the Company that it had sold virtually all of its stock and held 32,789 shares with 65,578 voting rights as of November 16.

As a result of those disposals, on March 31, 2005 Eurazeo SA held 0.02% of the Company's stock and 0.04% of voting rights.

The Company was notified by a letter dated December 1, 2005 that, as of November 29, 2005, UBS AG, of 100 Liverpool Street, London, EC2M 2RH, England, held 2.12% of its shares and 2.02% of voting rights.

The Company was subsequently notified by a letter dated December 28, 2005 that the above investor has reduced its interest to less than 2 percent of shares and voting rights and, as of December 20, 2005, held 0.02% of the shares and voting rights.

## 4.3. TRADING BY THE COMPANY IN ITS OWN STOCK

Since March 31, 2005 (correct date?), the Company no longer holds any of its own shares.

## 4.4. EMPLOYEE STOCK OWNERSHIP

As of March 31, 2006, the Company's employees owned approximately 0.3% of its shares, through an employee savings plan.

# 5. APPROPRIATION OF EARNINGS

The next shareholders' meeting will be asked to allocate the loss of € 192,527,473 for the year ended to retained earnings.

## 5.1. DIVIDENDS AND DIVIDEND TAX CREDITS FOR THE PAST THREE FISCAL YEARS

The Company did not pay out dividends for the past three years and does not anticipate proposing the distribution of a dividend for fiscal 2005-2006.

## 5.2. NON-DEDUCTIBLE EXPENSES

Expenses not deductible for tax purposes include:

- depreciation allowances of € 17,800 on private vehicles;
- taxes of € 16,200 on private vehicles;
- miscellaneous fines totaling € 1,000.

# 6. DIRECTORS

## 6.1. AS OF MARCH 31, 2006, THE FOLLOWING PERSONS HELD SEATS ON THE COMPANY'S BOARD OF DIRECTORS:

- **BRUNO BONNELL**

Mr. Bonnell holds degrees in chemical engineering and economics from the university of Paris Dauphine. He founded IESA with Thomas Schmider and Christophe Sapet in 1983.

Chairman and Chief Executive Officer of IESA since May 24, 1987.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2008.

Other positions currently held: Chairman of the Board of Directors and Chief Executive Officer of Atari Inc.; Chief Financial Officer (interim) of Atari, Inc.; Chief Creative Officer of Atari, Inc.; Chairman of Robopolis SAS and Sorobot SAS; director of Danone S.A., Eurazeo S.A., LZ Publications; member of the supervisory board of Pathé S.A.

Mr. Bonnell is also an officer of most of the Group's subsidiaries in France and other countries.

Positions previously held: During the past five years, Mr. Bonnell also served as Chairman of I-Volution SAS and as a director of IXO S.A.* and Interactive Partners.

- **THOMAS SCHMIDER**

Mr. Schmider is a graduate of the Lyon ESC school of business. He founded IESA with Bruno Bonnell and Christophe Sapet in 1983.

Director since June 20, 1990; Chief Operating Officer

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2008.

Other current positions held: Chief Executive Office and/or Director of Atari, Inc. and Pyramide XV.

Mr. Schmider is also an officer of most of the Group's subsidiaries in France and other countries.

Positions previously held: During the past five years, Mr. Schmider also served as Chairman of the Board of S.A.O.S A.S.S.E, director of Flamatis, Infosources, Interactive Partners, Exodia S.A. and IXO S.A.*, and Chairman of SUP SAS.

- **CHRISTOPHE SAPET**

Mr. Sapet is a graduate of Ecole Nationale Supérieure de Chimie et de Physique (ENSCP) and of CESMA (Lyon ESC School of Business) and a co-founder of Infogrames Entertainment.

Director since May 24, 1987;

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2008.

Other positions currently held: Managing Director of XK Interactive (a partnership); Representative of XK Interactive in his capacity as Chairman of I-Partners S.A.S.

Positions previously held: During the past five years, Mr. Sapet also served as Chief Financial Officer of IESA (until December 2005); Chairman and Chief Executive Officer of IXO S.A.*, Himalaya S.A.*, TOP Achats.com S.A., and Wattmusic S.A.; Chairman of Francité France S.A.S., General Manager of Interactive Partners; Director of Flamatis S.A., IXO Publishing S.A.*, Zonejeux.com S.A. and Capbooster; Member of the Supervisory Board of TOP Achat.com S.A., Francité International, Inc. and as permanent representative of IXO S.A. on the Board of Directors of Capitol S.A.

### ▪ JEAN-MICHEL PERBET

After serving as chief executive officer of Sony Europe and Chairman of Sony France (Electronics Division), Mr. Perbet was appointed Chairman of Atari Europe and, since September 7, 2005, Executive Vice President for Marketing and Distribution. A graduate of the IPAG business school, he started out as the distributor of Texas Instruments' TI99/4 the first home computer sold in France, and later set up the first sale network for home computer software, VIFI Nathan. He also organized Sony's personal computer operations in Europe, which brought out the Vaio PC line there.

A director since December 18, 2003; Chairman of Atari Europe and Executive Vice President for Marketing and Distribution.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2009.

### ▪ GREY PHANTOM LIMITED, REPRESENTED BY DAVID WARD (RESIGNED NOVEMBER 22, 2005)

Mr. Ward is the founder of the Ocean Group.

Director from May 29, 2002 to November 22, 2005.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2007.

Other positions held by Mr. Ward: director of Atari, Inc., Atari United Kingdom Limited, Ocean Holdings Limited, Ocean International Limited, Imagine Software Limited and Ifone Holdings Limited.

### ▪ EVENCE-CHARLES COPPÉE

Evence-Charles Coppée joined Infogrames Entertainment in September 2005 as the Group’s Executive Vice President for Administration and Finance, after having served as chief executive officer and joint manager of the Paris daily *Libération*.

Before joining *Libération*, he spent ten years as a key operational executive at Chargeurs/Pathé, whose operations include textiles, transportation, communications and movies. A Belgian national, Mr. Coppée started his professional career at the Boston Consulting Group, where he stayed for seven years .

A director since October 20, 2005; Executive Vice President for Administration and Finance.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

Other positions held: Director of Lafarge Ciments S.A.

### ▪ CLAUDE DE SAINT VINCENT

Claude de Saint Vincent is currently the chief executive officer of Groupe Dargaud (since 1991), where he is in charge of publishing and film and video production.

Before joining Groupe Dargaud, he served as vice president for communications and development at the La Sept/Arte television channel. Mr. de Saint Vincent has also worked as sales and marketing manager for Groupe Air France. He is a graduate of the *Hautes Etudes Commerciales* business school.

Outside director since October 20, 2005.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

Other positions held: Managing director of Groupe Dupuis since 2004.

### ▪ DOMINIQUE D’HINNIN

Dominique d’Hinnin has been serving since 1998 as the chief financial officer of Groupe Lagardère.

A graduate of Ecole Normale Supérieure and a senior tax inspector, he joined Groupe Lagardère in 1990 as assistant to Philippe Camus. He then served successively as head of internal audit for the group and chief financial officer at Hachette Livre, before his 1994 appointment as Executive Vice-President of Grolier Inc.

Named outside director on November 22, 2005 following the resignation of Grey Phantom Ltd.; Chairman of the Audit Committee. Mr. d’Hinnin sits on the board of directors in his personal capacity and not as a representative of Groupe Lagardère.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2007.

- **ADVISOR TO THE BOARD**

**Benoît Regnault de Maulmin**
Member since April 18, 2002

Other positions currently held: managing director of Game Production Fund 1 S.A., director of Anuman Interactive S.A., member of the supervisory board of Metaboli S.A.

Positions previously held: During the past five years, Mr. Regnault de Maulmin also served as chairman of the board of Inskor Entertainment Ltd., director of Infogrames Entertainment and Interactive Partners and managing director of Interactive Finance S.A. and Game production Fund S.A.

Asterisks (*) above indicate that the company has been liquidated, in accordance with article L. 620-1 of the Commercial Code.

## 6.2. AS OF MARCH 31, 2006, THE COMPANY'S GENERAL MANAGEMENT CONSISTED OF THE FOLLOWING PERSONS

| | |
|---|---|
| Bruno Bonnell | Chairman and Chief Executive Officer |
| Thomas Schmider | Chief Operating Officer |
| Jean-Michel Perbet | Executive Vice President for Marketing and Distribution; Chairman, Europe |
| Evence-Charles Coppée | Executive Vice President for Administration and Finance |

- **EMPLOYEE REPRESENTATIVES (ELECTED BY THE WORKS' COUNCIL MEETING OF THE INFOGRAMES ENTERTAINMENT FRENCH ENTITIES ON JANUARY 11, 2005)**

| | |
|---|---|
| Nadège De Bergevin (supervisory employees) | Senior producer |
| Alexandre Breas, manager (supervisors) | Manager |
| Fabien Roy (staff) | Department assistant |

The Board of Directors does not include members elected by the employees.

# 7. COMPENSATION PAID TO OFFICERS AND DIRECTORS

The table below shows the aggregate compensation, benefits in kind and directors' fees received by each officer, either directly or indirectly, from the Company or other Group entities during the year ended March 31, 2006.

| € 000 | B. Bonnell | T. Schmider | C. Sapet | JM. Perbet | EC. Coppée | Others |
|---|---|---|---|---|---|---|
| 2005-2006 fixed compensation | (1) 561.9 | 240.0 | 140.7 | 289.9 | (4) 178.4 | |
| 2005-2006 variable compensation | 30.0 | 180.0 | 62.2 | 137.5 | | |
| One-time compensation paid in fiscal 2005-2006 | | | *(6)* 430.0 | | | |
| *Plus benefits in kind* | *(2) 3.1* | *(2) 3.8* | *(2) 2.5* | *(2) 3.9* | | |
| | *(1) 168.21* | | | | | |
| Directors' fees | (3) 21.9 | (3) 21.9 | 23.3 | 10 | (3) - | (3) 25.0 |
| **Total for period to 3/31/2006 (12 months)** | **785.1** | **445.7** | **658.7** | **441.3** | **178.4** | **25.0** |
| 2004-2005 fixed compensation | 546.4 | 193.4 | 140.6 | (4) 205.6 | | |
| 2004-2005 variable compensation | - | 65.1 | - | 34.4 | | |
| *Plus benefits in kind* | *(2) 2.3* | *(2) 2.9* | *(2) 2.6* | *2.9* | | |
| | *122.6* | | | | | |
| Directors' fees | *10.0* | *10.0* | *10.0* | *10.0* | - | *19.7* |
| **Total for period to 3/31/2005 (9 months)** | (5) **681.3** | (5) **271.4** | **153.2** | **252.9** | **0.0** | **19.7** |
| 2003-2004 fixed and variable compensation | 802.1 | 385.7 | 60.0 | 137.5 | | |
| *Plus benefits in kind* | *(2) 2.7* | *(2) 2.9* | *(2) 2.8* | *1.3* | | |
| Directors' fees | - | - | - | - | | |
| **Total for period to 6/30/2004 (12 months)** | **804.8** | **388.6** | **62.8** | **138.8** | | |

*(1) Mr. Bonnell received fixed compensation of € 561,895 and variable compensation of € 30,000 for the period. As noted earlier, the fixed portion of Mr. Bonnell's compensation as Chairman and Chief Executive Officer of Infogrames Entertainment was reduced to € 5,000 in gross monthly pay starting in 2004, by decision of the board of directors, in order to take into account compensation received in the United States from Atari, Inc. for his position as Chairman of the Board of Directors and Chief Creative Officer. For the 12-month period to March 31, 2006, Mr. Bonnell received fixed compensation of € 60,000 and variable compensation of € 30,000 from Infogrames Entertainment. Over the same period, he was paid a salary € 501,895 ($607,293) by Atari Inc., in addition to € 168,211 ($203,536) in benefits in kind (per diem allowances while in the United States). Atari Inc. also paid premiums of $2,237 on a life insurance policy in favor of Mr. Bonnell,*

*(2) Company car*

*(3) Messrs. Bonnell, Schmider and Coppée did not receive directors' fees as members of the board of Atari Inc.*

*Messrs. Ward and de Maulmin received € 15,000 € 10,000, respectively for serving as directors of Infogrames Entertainment.*

*Messrs. d'Hinnin and de Saint Vincent did not receive directors' fees as members of the board of Infogrames Entertainment.*

*(4) Compensation paid for the period from September 2005 to March 2006.*

*5) In addition to the above compensation, in January 2004, Messrs. Bonnell and Schmider received respectively 110,000 and 70,000 shares (valued at respectively € 574,113 and € 334,899) from the Company, in consideration of the restructuring of the debt over the past three years.*

*6) Mr. Sapet was paid € 430,000 in severance pay when he resigned from his position as chief operating officer, under an agreement approved by the board of directors on December 14, 2005, as required by article L225-38 of the Commercial Code.*

## ▪ INFORMATION CONCERNING OFFICERS' VARIABLE COMPENSATION

The variable portion of executive compensation is calculated on the basis of set targets and may be up to 100% of their fixed annual compensation. The table above shows gross variable compensation paid to the members of general management for the year ended March 31, 2006.

As of the date of this report, the board of directors of Infogrames Entertainment had not approved any variable compensation for the fiscal year preceding 2005-2006. None of the persons above received variable compensation from Atari, Inc. during fiscal 2005-2006.

**Commitments of any nature made by the Company to its officers, causing or likely to cause compensation, indemnities or benefits to be paid for taking, leaving or changing a position or subsequent thereto** ***(Article. L. 225-102-1 of the Commercial Code)***

1 – At its meeting of September 7, 2005, the board of directors of Infogrames Entertainment set the terms and conditions of Mr. Evence Coppée's appointment as executive vice president. Some of the conditions applicable to deferred compensation that may be paid to Mr. Coppée fall within the scope of article 8 of Act L. 2005-842 of July 26, 2005 and were subject to prior approval by the Company's directors, as required by article L.225-138 of the Commercial Code.

Mr. Coppée's terms of employment provide that he would be paid an indemnity equal to one and a half times his annual compensation (currently € 300,000) and not less than € 337,000 if he were to leave his position for any reason whatsoever. The minimum indemnity would be increased to € 675,000 if his termination (resignation or discharge) occurs within six months of a takeover of the Company by a third party.

In consideration of the above indemnities, Mr. Coppée undertakes to refrain from holding any position whatsoever in the video-game sector for a period of eighteen months.

2 – At its meeting of December 14, 2005, the board of directors approved the terms of the departure of Mr. Sapet from his position as executive vice president. Those terms fall within the scope of article 8 of Act L. 2005-842 of July 26, 2005 and were subject to prior approval by the Company's directors, as required by article L.225-138 of the Commercial Code.

In connection with his departure, Mr. Sapet received a negotiated indemnity of € 430,000, payable in several installments until May 2006, and kept 100,000 stock options granted to him 7 September 7, 2005 exercisable at a price of € 1.38 per share. The above conditions were first reviewed by an outside director before being approved by the board of directors.

# 8. RISKS TO WHICH THE BUSINESS IS EXPOSED

- **FINANCIAL RISKS**

## Risks related to the "going concern" nature of the business

The Group sustained large losses in previous years and during the period ended. It also has had to repay maturing bank and bond debts even though it had insufficient cash flow from operations to do so. A series of transactions have therefore had to be carried out in recent years, aimed at restructuring the Group's finances and, in particular, reducing its debt. The principal measures taken in this respect are described below:

- the sale back to Hasbro of digital rights to certain properties initially licensed by Hasbro under a December 2000 agreement, for $ 65 million;
- the sale of the "games.com" domain name and Timeshift license for a combined US$ 14.5 million;
- the rescheduling of the maturity of the first € 11.2-million portion of the 2005/2008 Notes from March 15 to June 15, 2006;
- the rescheduling of the repayment of € 23.4 million in medium-term bank debt from July 31, 2005 to March 31, 2008.

The foregoing transactions caused a reduction in the Group's debt, which amounted to € 173.2 million on March 31, 2006 (as measured in accordance with IFRS); the Company's own debt, measured in accordance with French standards, was € 239.6 million, of which € 44.8 million related to other Group entities. Detailed information on the Company's debt and its maturity is provided in note 13 to the annual financial statements.

Since March 31, 2006, the Group has continued to make efforts in this area, by:

- securing a new € 20-million bank credit facility;

- disposing of the Paradigm studio and the Stuntman license for US$ 10.8 million;
- deferring the due date of the € 11.2-million first portion of the 2005/2008 Notes from June 15 to September 15, 2006;
- signing a preliminary agreement for the sale of the "Driver" game license and most of the assets of the Reflections studio for US$ 24 million.

The Group's debt has restricted its ability to invest in game development. This impediment, which adversely affected the Group's revenue and income during the year, was recently aggravated by the general stagnation in the video-game market, due in part to the delayed or deferred releases of new consoles.

In the period to July 31, 2007 and prior to the implementation of the restructuring plan below, the Group must secure additional financing of € 35 million to € 50 million for its operations and, based on current maturity schedules, must repay debt of € 63.3 million. The principal debt repayments due over the coming period (exclusive of bank loans of € 14.7 million, which are covered by cash balances on March 31, 2006) are as follows:

- September 15, 2006: first portion of the 2005/2008 Notes (€ 11.2 million);
- March 15, 2007, second portion of the 2005/2008 Notes (€ 13.4 million, including interest);
- Throughout the period, sums owed to production funds (€ 18.3 million in aggregate, of which € 12.4 million up to March 31, 2007);
- In April 2007, interest on 2003-2009 convertible bonds (€ 4.6 million).

In order to be able to meet the above obligations, the Group entered into an agreement on September 8, 2006 with the principal holders of its bank and bond debt, to enable it to carry out a financial restructuring plan aimed at significantly reducing its debt, restoring its net worth and providing it with sufficient cash to meet its operating needs. The plan, which is described in note 28.5 to the annual financial statements, is divided into five separate steps:

Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity from March 31, 2007 to December 31, 2007, except for a sum of € 10 million, which is to be repaid upon completion of the Step 4 measures.

Step 2: Modification of some of the terms and conditions of the 2005/2008 Notes (deferral of the scheduled maturity date of the first fraction of the principal from September 15, 2006 to February 15, 2007, and amendment of the event-of-default clauses). The principal holder of the Notes, which accounts for 75.8% of that debt, has agreed to vote in favor of these modifications at the next Note holders’ meeting on September 29, 2006.

Step 3: Modification of some of the terms and conditions of the OCEANE 2003/2009 bonds (reduction of the interest rate from 4% to 0.01%, rescheduling of the maturity from April 1, 2009 to April 1, 2020, termination of the bonds' convertibility effective April 1, 2009, elimination of event-of-default clauses). Investors holding 67.8% of the OCEANE bonds outstanding have agreed to vote in favor of those changes at the next annual bondholders' meeting, scheduled for September 29, 2006.

Step 4: Rights issue of € 74 million (including premiums over par) at € 0.15 per share, from the proceeds of which € 34 million is to be used to redeem all 2005/2008 Notes, € 10 million to repay part of the bridging loan and € 30 million to finance the Group's operations. The principal holder of 2005-2008 Notes and the Investors are already irrevocably committed to purchasing shares not subscribed for during the offering period, for € 33.7 million and € 40 million, respectively. The foregoing commitments are subject to the customary conditions for these types of transactions and to the securing of an exemption to the tender offer requirement.

Step 5: Provided that steps 1 through 4 are completed, an exchange tender offer would be made for the OCEANE 2003-2009 bonds (each bond being exchangeable for 32 new Infogrames Entertainment shares). The lending banks have pledged to tender the OCEANE 2003-2009 bonds they hold, or about 67.8% of those outstanding.

The foregoing plan, except for the first step, must be approved by the bodies of holders of the 2005-2008 Notes and of the OCEANE 2003-2009 bonds, as well as by a special shareholders' meeting. Its implementation also requires that authorizations and exemptions be granted by the Financial Markets Authority (AMF). The plan calls for the capital increase to be completed prior to December 30, 2006 or, if a shareholders' meeting must be reconvened, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

In order to have enough operating cash (including for products to be in stores for the Christmas season), the Group is seeking to obtain short-term financing in Europe and the United States by means of factoring or through credit facilities secured by trade receivables. This would supplement the € 25-million loan secured under the restructuring plan and provide financing in anticipation of the equity issue included in step four of the plan. For Atari Inc., negotiations are under way in the United States aimed at obtaining financing of about US$ 20 million.

On the basis of the foregoing, the Company has prepared its annual financial statements under the going concern assumption, based on the expected success of both the measures taken to finance operations until the capital increase and the overall financial restructuring plan. Management considers such success probable given the progress in negotiations on the financing of operations and the pledges received from the principal bondholders and lender banks. Nevertheless, there is a degree of uncertainty regarding the effective securing of financing and the completion of the restructuring plan that is inherent to this type of situation. In particular, the financial restructuring is contingent on approval by meetings of bond and note holders and by the shareholders' meeting, as well as by the AMF.

Should the various planned measures fail, the value of the Company's assets and liabilities would be affected, including its financial assets with a value of € 337.8 million on the balance sheet for March 31, 2006.

## Risk exposure from the debt

As part of the renegotiation of its bank debt, Infogrames Entertainment signed a new agreement with a major foreign bank in April 2006, providing for the refinancing of the entire short and medium-term bank debt of the Company and its subsidiaries. The agreement mainly makes available € 25.5 million in medium-term credit facilities and a one-year operating credit facility of € 20 million.

The current situation requires that a substantial portion of the cash flow generated by operations be allocated to debt service, limiting the Group's operating opportunities. As of March 31, 2006, the Group consolidated net debt amounted to € 173.2 million and it had consolidated shareholders' equity of € 9.8 million.

Even though the Group's plan contains several measures aimed at increasing equity and protecting the Group over the long term against free cash-flow fluctuations, the high debt can have significant consequences for its business, including reducing the Group's ability to:

- use cash generated by operations, much of which has to be set aside for servicing the debt, and as the Group's agreements with banks place restrictions on capital expenditures;
- invest in research and development to produce games for next-generation consoles, an essential aspect of the Group's business;
- obtain new loans to finance working capital, investments, debt servicing and other needs;
- withstand a drop in sales and adverse economic conditions because much of the Group's cash must be earmarked for debt servicing.

The Group could be faced with significant liquidity problems if it is unable to pay sums due on the debt or fees and compensation owed by it, and if it cannot meet its other cash needs with available free cash flow. Should this occur, it could be forced to dispose of more assets, defer certain capital projects, find new sources of funds or restructure its debt.

Depending on the prevailing circumstances at the time, the Group could then find it impossible to do either of the above under favorable terms, or could even be completely unable to sell assets or raise funds. The financing agreements to which the Group is a party limits its capacity to take initiatives that could generate new revenue.

### Risk exposure related to the acceleration of the Group's debt maturities

Loans and financing secured by the Group can become immediately due and payable in their entirety prior to their scheduled maturity if it defaults on certain contractual obligations or if events occur that are liable to have a material adverse effect on the Group's financial position.

The new € 20-million short-term credit facility extended on April 14, 2006 to the Group's European subidiaries, as well as the medium-term bank loan of € 25.5 million extended by the new lender are subject to event-of-default clauses. The short-term facility also includes event-of-default clauses based on financial ratios.

The Group's bond debt (OCEANE 2003-2009, OCEANE 2011, 2005/2008 Notes) does not require it to satisfy certain financial ratios, although repayment can be accelerated if the Group defaults on other loans and in the case of other events of default.

Loans and credit facilities extended to Infogrames Entertainment are also subject to acceleration clauses, including in the event of cross default between loans, and provide for mandatory prepayment in the event of default on either payment. For example, failure to make a payment on time under a bank loan causes the entire loan as well as all other bank loans to be in default.

### Risks related to the enforcement of guarantees provided by the Group

In connection with short- and medium-term financing provided to the Company and its European and Asian subsidiaries within the framework of the refinancing of its bank debt, in April 2006 the Group had to renew and provide guarantees (security interests, senior pledges) to the new bank lender, involving essential assets of the Group. The 2005-2008 Notes are also secured by a senior pledge of 40.1 million Atari, Inc. shares.

Should the Group default on the Notes, their holders could enforce guarantees securing them, which would cause a very significant reduction in the Group's assets and imperil its ability to continue operating.

### Risks related to production funds

As part of its strategy aimed at diversifying its sources of financing, the Group has set up European production funds of € 26.7 million to finance game development; € 7.7 million of this sum was collected in the period to March 31, 2006. The Group continues to seek financing for games from production funds, which are an important source of financing for it. If the Group no longer had access to these funds in the future, this would likely have a material adverse effect on its ability to release certain games.

### Risks from operating losses by the Group

The Group incurred an operating loss of € 154.1 million (under IFRS) for the year ended March 31, 2006, compared with a loss of € 33.9 million (under IFRS before IAS 32-39) in fiscal 2004-2005. In light of those losses, management has implemented a plan designed to reduce operating costs.

### Risks related to the Group's ability to distribute dividends

The Company did not pay out dividends for fiscal 2005-2006 and does not envisage paying any in the near future. Its ability to distribute dividends depends on its ability to generate distributable earnings (which depend on its operating income, cash balances and financial position). In addition, certain financing agreements to which the Company is a party prohibit or limit the payment of dividends under certain circumstances.

- **CONTRACTUAL RISKS**

### Risks related to licenses

The Group does not hold title to all of the assets it needs to conduct its business. It depends to a large extent on licensing agreements for themes and hardware applications granted by third parties. The success of its publishing business is largely dependent on its ability to acquire intellectual property and to develop it in full compliance with applicable agreements. Accordingly, apart from financial considerations, the term and renewal of licenses for themes and characters obtained by the Group depend on compliance with contractual requirements concerning how they are used. In particular, the Group is bound by confidentiality rules concerning the technology of patent holders and the financial terms of contracts signed with them.

The Group enters into licensing agreements with copyright holders for the purpose of developing its business. Given the fact that no single license used by the Atari Group accounted for more than 20% of consolidated revenue in fiscal 2006, the Group considers that the loss of a license (through non-renewal or cancellation) would not by itself have a significant impact on the Group's business or income. Nevertheless, the simultaneous loss of several licenses would be likely to have a significant adverse impact on the Group's financial position, business and income if such loss failed to be offset by new licenses with the same impact on its business.

### Risks related to third-party publishers

During the year ended March 31, 2006, 47% of the Group revenue came from business with third-party publishers, who contract with it for the distribution or joint publication of their products, either worldwide or in a specific region. The Group is highly selective when it comes to this particular business. Should collaboration between Infogrames Entertainment and those publishers come to an end, the loss of revenue from this distribution business would have a material adverse effect on the Group's financial position.

### Risks related to relations with copyright holders

The success of its publishing business is largely dependent on its ability to acquire intellectual property and to develop it in full compliance with applicable agreements. Accordingly, apart from financial considerations, the term and renewal of licenses for themes and characters obtained by the Group depend on compliance with contractual requirements concerning how they are used. In particular, the company is bound by confidentiality rules concerning the technology of patent holders and the financial terms of contracts signed with them.

### Risks related to console manufacturers

The Group's business depends to a large extent on licenses granted by console manufacturers. Such licenses usually have a life of three years and make it possible to develop products for proprietary hardware (Game Cube, Game Boy Advance, PS2, PSP, Microsoft X-BOX etc.). Licensing agreements require that the Group provide a guarantee against claims that may be lodged against the manufacturers in connection with these products. The guarantees cover the content, marketing and distribution of its products, including infringements of copyright and other intellectual property rights held by third parties.

On the other hand, no license is required for products in PC-compatible format.

### Risks related to dependency on game console manufacturers

The Group is dependent on console manufacturers, from which it purchases cartridges and other game media, as do all other makers of console games. The availability of supplies therefore depends on media being manufactured. There is no particular dependency in the case of PC games.

## ▪ RISK EXPOSURE RELATED TO THE VIDEO-GAME MARKET

### Risks related to next-generation consoles

Interactive entertainment software consists primarily of games for personal computers and tabletop or handheld consoles. While technological advances in personal computers have progressed in a relatively straight line, games consoles have been developing in cycles, as new equipment with ever-increasing capabilities contributes to broadening the market. The year 2006 represented a transitional period for the world video-game market. The Playstation 3 console is expected to be released worldwide in the fall of 2006.

During transitional periods and at the beginning of each new cycle, business conditions for video game publishers temporarily deteriorate, as the shift to new consoles generally causes a slowdown in sales of software for those devices until they are well established on the market. The current transitional period may last longer in the case of the Playstation 3, as its price will be higher than that of other consoles.

At the same time, publishers must make large capital investments in research and development in order to produce titles for the new generation of consoles. They must anticipate developments in order to prepare games for advances in console technology. Studios must therefore have sufficient financial resources to respond to technological developments and to survive during temporary stagnation periods. The large number of people needed to produce a game rises along with the new technology and increases the cost of games. Publishers seek to anticipate correctly and to make the right choice of formats in which to develop games. This is a very important decision and strategic choice in view of the sums at stake. A wrong choice or a delayed release of the console for which the game is made could have adverse repercussions on projected sales. Likewise, the cost of promoting and marketing games is constantly increasing.

In order to minimize the risk of consumers opting for given systems, the Atari Group intends to continue pursuing a strategy of not depending on specific technological formats, but instead offering software for all of the leading game platforms on the market.

## Risks related to the life span and success of games

The main intrinsic risks to which video game publishers are exposed have to do with the inherently short life span of individual games and the speed at which technology evolves. Another is that the release of a product may be deferred. In the highly competitive interactive entertainment market, where having a hit product is increasingly the only thing that matters, continued success for publishers depends on the ability to offer, on a regular basis, new games that reflect what players want, without being dependent on the success of a single title. The commercial success of games depends on their popularity, a factor that is not easily predictable.

Besides using creative and technical resources to ensure that each new game released is of the highest quality, Atari seeks to minimize its exposure to market risks by offering an extensive and diversified product line containing a mix of original titles, its own franchises and games based on licensed popular themes.

## Risks related to delays in the release of games

Postponing the release of a major game can have a highly adverse impact on Group income and the trading price of shares. There can be significant repercussions whenever the game whose release has been deferred had to be released at the same time as the movie on which it is based. A late release can be due to the production studio (staff changes, changes in production stages, etc.) or to outside factors. The Group pays considerable attention to the selection of third-party developers and the diligence of production processes, although this does not eliminate all risks of lateness. The next sequel of "Alone in the Dark", one of the Group's major games, is scheduled to be released in March 2007. Any postponement of its release to a later period would have a material adverse effect on the Group's financial position.

## Risks related to piracy

The impact of piracy is difficult to gauge, but the Group believes that it results in substantial loss of revenue. This is especially serious at the time new games come out, since piracy is most prevalent in the period immediately following product release. Because of differences in legislation among countries, it is difficult to coordinate worldwide measures to fight piracy.

A pragmatic approach to fighting piracy is used, based on the degree of risk exposure and the countries concerned. In France and elsewhere in Europe, Atari works closely with the anti-piracy unit set up by SELL (the French association of entertainment software manufacturers), the Entertainment Leisure Software Publishing Association (ELSPA) and customs authorities. In the United States, it has access to the services of a specialized anti-piracy firm through its membership in the Entertainment Software Association (ESA). The Company also works with specialized firms to fight against the unlawful downloading of its products.

- **LEGAL RISKS**

### Risks related to litigation

The Group is or may become involved in a certain number of legal proceedings during the ordinary course of business. Damages are or may be claimed under some of the proceedings, such as those concerning important intellectual property.

### Risks related to changes in regulations applicable to video games

The Group's operations are not governed by specific rules or regulations and are not subject to government licensing. Nevertheless, if the public image of video games, and in particular action games, were to become negative, this could result in more regulations concerning the classification and distribution of such products.

- **RISKS RELATED TO INFOGRAMES ENTERTAINMENT SUBSIDIARIES**

Infogrames Entertainment has several subsidiaries around the world. They are majority-owned and most of their directors are appointed by the Group. Atari Inc, however, is incorporated in the United States and is governed by the law applicable there, including concerning the appointment of outside directors and the protection of minority shareholders. As a result, even though Infogrames Entertainment owns 51.4% of Atari's shares (the balance being held by the public), it does not exercise the same control over its US subsidiary's business as it does in the case of other subsidiaries.

### Risk of Atari Inc. being delisted from the NASDAQ Global Market

Atari, Inc. was notified on September 1, 2006 that NASDAQ had initiated a procedure aimed at moving its shares to another listing, due to the fact that their trading price had been below one dollar for several months. Solutions are currently being examined by Atari Inc., its lawyers and the NASDAQ, aimed at avoiding the delisting, including by means of a reverse stock split.

However, if the measures proposed by Atari, Inc. fail to satisfy the conditions for continued listing on the Global Market - which is the most active exchange on which NASDAQ-quoted securities are traded - the shares of Atari Inc. could be delisted by the NASDAQ from the NASDAQ Global Market and moved to an exchange with less trading volume and liquidity; this could have a material adverse effect on the price and trading of Atari Inc. shares.

- **RISKS RELATED TO HUMAN RESOURCES**

### Risks related to personnel requirements

The Group's success is to a large extent due to the accomplishments of its technical staff and management. Advances in technology and the need to make more complex and innovative games requires increasingly specific expertise. Each production stage can now call upon contributions by hundreds of persons over periods that can extend to several years.

The Group can therefore be faced with serious problems when seeking to hire technically skilled and experienced employees for its studios. A shortage of skilled personnel would adversely affect the Company's ability to pursue its growth and reorganization strategy, or could cause payroll costs to increase, which in turn could materially affect its business, income, financial position and growth prospects.

The Group's reputation and hands-on approach to human resource management has enabled it to attract the best talent to work with its development staff.

### Risks related to the departure of key executives

The Group recently had to deal with the resignations of two senior executives at its Atari Inc. subsidiary, when president and CEO Jim Caparro and CFO Diane Baker resigned from their positions. Should other key executives leave in coming months, the Group could find it difficult to replace them and this could cause its business to slow down and have an adverse impact on its financial position, income and ability to achieve objectives.

- **RISKS RELATED TO THE COMPANY'S FINANCIAL REPORTING**

## Risks related to the valuation of goodwill

Reviews of assumptions used to measure the book value of goodwill can materially affect its valuation. There are two main categories of assumptions. Technical assumptions include the weighted average cost of capital, the present value of future cash flows and the growing perpetuity of free cash flows. Economic assumptions include changes in anticipated economic and financial factors affecting the Group, the life span and success of games and delayed releases of games.

## Risk related to the changeover to IFRS

The Group changed over to IFRS and indicated the impact of the restatements this entailed in a transitional statement included with the 2005-2006 interim financial statements. Group's consolidated financial statements for the years ended March 31, 2006 were prepared in accordance with IFRS. Future changes in IFRS and their interpretation, and their adoption by the European Commission subsequent to March 31, 2006 could require adjustments in previously reported financial information.

## Risks related to changes in accounting practices

Since April 1, 2005, the Group capitalizes all internal development expenses incurred after the end of the pre-production stage (when the technical feasibility is certain). The expenses are then amortized starting on the release date of the games, over an 18-month period.

- **FINANCIAL RISKS**

## Currency risks

Even though more than half of the Group's revenue is generated outside the euro zone, its sales do not expose it to significant currency risks. This is so because overall revenue and expenses are balanced in the principal currencies (euros and US dollars). Accordingly, the Group generally does not make use of currency hedges for its commercial transactions.

Exposure to foreign-exchange risk associated with the financing of subsidiaries is handled by the parent corporation, which arranges for hedges as required depending on the specific type of financing concerned. As of March 31, 2006, the Group had not hedged its exchange-rate exposure on these sums, which represent long-term financing for its United States operations.

Nevertheless, the Group's financial statements are presented in euros, and its assets, liabilities, revenue and expenses in other currencies must be translated into euros at the applicable exchange rate in order to be reported in the Group's consolidated financial statements. Whenever the value of the euro increases in relation to another currency, the value in euros of the Group's assets, liabilities, revenue and expenses that were in that other currency declines. The opposite occurs whenever the exchange value of the euro declines. Consequently, fluctuations in euro exchange rates can have an impact on the value in euros of the Group's assets, liabilities, revenue and expenses outside the euro-zone, even if their value in domestic currencies has remained unchanged. Exposure to foreign-exchange risk is most critical in the case of sales, the income of subsidiaries operating in US dollars, as well as the value of intangible assets and the Group's goodwill in these subsidiaries.

For example, a one-percent decline in the value of the dollar in relation to the euro would cause consolidated revenue to drop by € 1.7 million (IFRS), based on the 2006 financial statements. Consolidated net income would decline by € 1.2 million and shareholders' equity by some € 1.2 million.

## Interest-rate risks

The Group's exposure to interest-rate risks is not significant because almost 73 percent of its net debt is in the form of fixed-rate bonds. The balance of its financing is represented by EURIBOR-linked floating-rate debt. A one-point increase in the base rate would cause annual interest expense to go up by about € 0.3 million.

### Exposure to industrial and environmental risks

The Group's business consists of developing, publishing and distributing entertainment software. It has no significant direct environmental impact. In general, the Group subcontracts all of the manufacturing of the digital media (CDs, cartridges, etc.) to third parties.

## ▪ OTHER RISKS

To the best of the Company's knowledge, no specific factors other than those referred to above are likely to have a material impact on its business.

## ▪ MEASURES TAKEN TO PROTECT THE BUSINESS

### Protection of intellectual property

In order to minimize its exposure to the above risks and to maintain a relationship of trust with others, the Group has implemented procedures for formalizing and validating all production and operating steps for individual products, from both a legal and a technical standpoint. An international team of a dozen specialized lawyers in Europe and the United States looks after the management, oversight and acquisition of intellectual property by the Group, which also works with leading copyright law firms. Where appropriate, the Group registers its product names and copyrights in as many countries as possible, besides Europe and the United States. In addition, all console manufacturers incorporate protective features in their systems to prevent unlicensed persons from using them.

### Supply shortages

ATARI seeks to reduce the risk of supply shortages by diversifying its manufacturing sources. In the case of products for PCs (31% of the Group's sales worldwide), the risk is limited due to the large number of companies in Europe and the United States that can produce disks, and to their adaptability. On the other hand, the Group does not have control over the manufacture of products for other platforms, as this is an area in which console manufacturers have exclusive rights. Its exposure is limited, however, by the fact that manufacturing facilities generally have a dual structure.

The Group does not file patents for its games and its business does not depend on a specific patent.

### Insurance

The Group is insured worldwide against general and and business liability. It also purchases liability insurance for its officers and directors. In general, the Group's business does not expose it to any special, unusual risks, with the exception of the possible failure of a supplier or the general recall of a game. Insurance purchased by the Group is complemented by local policies (in particular in North America) that take into consideration the specific nature of the relevant market. The table below shows current coverage provided under the main policies.

| | Worldwide except North America (€) | North America (USD) |
|---|---|---|
| Property damage / Business interruption | Replacement value up to 19 million | Replacement value up to 80 million |
| Business liability | Ceiling of 12 million | Ceiling of 2 million |
| Intellectual property liability | Ceiling of 5 million | Ceiling of 2 million |
| Liability of officers and directors | Ceiling of 20 million | Ceiling of 40 million |
| Claims by employees | Limited to € 3 million (July 1, 2005 to June 30, 2006) | Ceiling of 5 million |

Atari, Inc. is also covered by a USD 15-million umbrella business liability policy.

- **EXTRAORDINARY EVENTS AND LITIGATION**

**Litigation**

The Company and certain Group entities (excluding Atari, Inc.) are involved in litigation and claims in the ordinary course of their business. None of the litigation is considered likely to have a material impact on the Company's financial statements.
However, during the fiscal year ended March 31, 2006, a significant case arose in which the Company is being sued by a former employee who claims that he co-authored one of the Group's best-selling franchises. The plaintiff is seeking damages for moral prejudice and financial loss suffered as a result of the allegedly unlawful distribution by the Group of games based on that universe. Damages claimed are in excess of € 17 million.

At this preliminary stage of the proceeding, the Company is categorically rejecting the plaintiff's claim of authorship and considers the grounds and amount of his claim to be unfounded. Accordingly, management considers it unnecessary to recognize a provision for this dispute.

# 9. INFORMATION CONCERNING THE WORKFORCE [1]

[1] Act no. 2001-420 of May 15, 2001 on new economic regulations.

Total Workforce of the Atari Group

On March 31, 2006, The Atari Group had 982 employees, down from 1,221 on March 31, 2005. The table below shows how the Group's workforce breaks down by region.

| Region | Employees | % |
|---|---|---|
| Americas | 323 | 32.89 % |
| Europe | 555 | 56.52 % |
| Asia-Pacific | 104 | 10.59 % |
| **Total** | **982** | **100 %** |

Workforce: French entities of Infogrames Entertainment [2]
On December 31, 2005, the Group's French entities employed 160 persons, compared with 162 on December 31, 2004. Of these, 150 were permanent employees and 10 were employed under temporary contracts.

[2] The holding entity, Infogrames Entertainment S.A.S., Atari Europe S.A.S. and Atari France S.A.S., exclusive of Eden Games S.A.S. and corporate officers

The table below shows a breakdown of the workforce by gender and category:

| Category | Number of employees | By gender | | % |
|---|---|---|---|---|
| Non-supervisory | 13 | M: 4 | F: 9 | 8.1% |
| Technicians | 34 | M: 12 | F: 22 | 21.3 % |
| Supervisors | 24 | M: 13 | F: 11 | 15% |
| Supervisory | 89 | M: 62 | F: 27 | 55.6 % |
| **Total** | **160** | **M: 91** | **F: 69** | **100 %** |

During 2005, the Group's French subsidiaries hired 18 new permanent employees (including 8 returning from assignments abroad) and 14 temporary employees. They employed an average of 2.23 temporary employees over the period as a whole.

A total of 34 employees left the payroll of French subsidiaries in 2005 (77 in 2004), including 9 who were laid off, 8 were let go for other reasons, 5 whose temporary employment contracts ended and 12 who resigned.

### Organization, working hours and absenteeism

Work schedules at French subsidiaries that are part of the Group have a fixed portion during which employees must be present and a variable portion that makes it possible for employees to work flexible hours, provided they report their schedules. In the case of autonomous executives, working time is measured as a maximum number of days per year. The collective agreement in effect at the French entities specifies a 35 hour working week. Employees were absent from work for a cumulative total of 3,336 days in calendar 2005 [3], so that a theoretical total of 39,782 days were worked by the staff, for an absenteeism rate of 8.39%, explained primarily by maternity, parenting and sick leaves.

[3] Exclusive of paid leaves, compensatory leaves, sabbatical leaves and work stoppages.

### Subcontracting

The Company uses subcontractors, including for the maintenance of its premises and for reception and telephone services, which are partly shares with other tenants in its building.

### Compensation

Gross annual payroll (excluding senior executives and trainees) for all of the French subsidiaries attached to the Group amounted to € 7,651,000 in calendar 2005, down from € 8,577,000 in 2004.

The Compnay's employees do not receive overtime pay. All overtime is compensated with time off under the 35-hour-workweek agreement.

Health and safety

The number of occupational accidents or of accidents on the way to and from work involving employees of French entities is extremely low. No accident occurred at work in 2005 and 2004 and no accidents on the way to and from work were reported (2 in 2004 and 0 in 2003. There were no reports of occupational illnesses in 2005, 2004 or 2003.

Training

Funds equal to 1.86% of total payroll were spent on training in 2005.

Charitable contributions

The Company contributes to the best of its ability to charitable causes, including by sponsoring a child education program in Africa.

## ▪ INFORMATION CONCERNING EMPLOYEE PROFIT SHARING

### Profit-sharing agreement

An employee profit-sharing agreement was negotiated on December 15, 1999, for the Group's entities in France. Sums allocated to the employees are calculated in accordance with the legal profit-sharing method and are distributed to the employees of the Group's French entities. The agreement provides that employees have the option to have their benefits paid into the Group Employee Savings Plan (*Plan d'Epargne Entreprise*) (see below).

On March 31, 2006 , a provision of € 59,980 had been recognized for employee profit sharing.

There is no optional profit-sharing agreement.

### Employee Savings Plan

An employee savings plan was also established for the Group's French entities on December 15, 1999. Employees may pay into it the sums they receive under the profit-sharing plan and make additional voluntary deposits as permitted by law.

Stock offerings of € 1.3 million and € 2.5 million, respectively, were made to employees on December 2001 and June 2003.

In March 2005, employees subscribed for € 1,414,307.95 in stocks under a special offering.

As of March 31, 2006, the Group's French employees held 518,000 shares, or approximately 0.3% of the Company's stock, through the employee savings plan.

Sums deposited in the employee savings plan may be placed, at each employee's option, in an Infogrames mutual fund invested in Infogrames Entertainment stock and money-market fund shares, in a fund invested exclusively in money-market instruments, or in diversified mutual funds (international equities and bonds).

# 10. CAPITAL PROJECTS - RESEARCH AND DEVELOPMENT

The Company does not directly carry out any activities in this area. Information concerning the Group is given in the report on the consolidated financial statements.

# 11. DEVELOPMENTS SUBSEQUENT TO THE END OF THE FISCAL PERIOD

## 11.1. NEW AGREEMENT WITH BANKS

Infogrames Entertainment and its principal European subsidiaries signed a final agreement with a major foreign bank on April 13, 2006 (agreement on terms signed March 28, 2006), providing for the refinancing of the entire short and medium-term bank debt of the Company and its subsidiaries (not including Atari, Inc.).

The agreement, which was approved by the Lyon Commercial Court on April 14, 2006, as required by articles 611-8 to 611-11 of the Commercial Code, allows the Company to defer the repayment of € 25.5 million in short and medium-term bank credit facilities that expired between December 15, 2008 and March 15, 2005. Infogrames Entertainment and Atari Europe will examine with the lender how the bank debt can be allocated among the Group's operating subsidiaries.

The agreement also provides a one-year, € 20-million short-term credit facility in the form of cash, letters of credit or standby loans to finance the operations of the European subsidiaries. The Group reserves the option to obtain additional local financing in Europe or Asia, secured by trade receivables of up to € 30 million during peak periods. That ceiling may be further raised with the consent of the lender.

The short-term credit facility was extended to Atari Europe, Atari France, Atari Deutschland and Atari UK and is guaranteed by Infogrames Entertainment and Atari Europe. The agreement does not affect the borrowing capacity of Atari, Inc. and Atari Interactive, Inc.

There are several mandatory prepayment clauses attached to the short-term operating credit facility, including in the following instances:

- Failure to meet financial ratios (Revenue/EBITDA/operating cash flow);
- Early redemption of the OCEANE 2003-2009 or OCEANE 2011 bonds other than in exchange for new securities;
- Prepayment of the 2005-2008 Notes other than the first one-third fraction initially maturing March 15, 2006 (provided that repayment is on or after December 15 or is in the form of other securities), except in exchange for newly-issued securities;

- Sales of assets by the Group or new financing, in which case 50% of the proceeds from the sale of any assets (other than those held by California U.S. Holdings or Atari, Inc. and its subsidiaries) or from new financing obtained (other than financing obtained by California US Holding or Atari, Inc.) must be used to repay sums outstanding in excess of € 30 million, which ceiling may possibly be raised with the lender's consent.

In addition to security interests granted for existing loans, Infogrames Entertainment and its European and Australian subsidiaries have agreed to provide additional guarantees, primarily in the form of:

- a pledge of the shares of certain European subsidiaries and of Atari Interactive, inc. as well as of title to certain games published by Atari Europe (see "Guarantees provided by the Group");
- a pledge of receivables from other Group entities.

The new agreement replaces and supersedes previous ones, as all creditor banks have transferred their receivables to the new lender under the agreement.

## 11.2. RECLASSIFICATION OF THE SHARES OF EUROPEAN SUBSIDIARIES

On June 1, 2006, the Company reclassified the shares of certain European subsidiaries. The objective was to simplify the Group's corporate organization, by having all shares of distribution entities in the Europe, Australia and Asia held by Atari Europe SAS, a wholly-owned holding entity.

This was done by transferring shares with a value of € 58.1 million to Atari Europe SAS, in consideration of the following:

- assumption by Atari Europe of € 23.4 million in bank debt under the medium-term facility extended to Infogrames Entertainment by a new lender on April 13, 2006;
- write-off of the € 17.7 million shareholder advance between the Company and Atari Europe,
- issuance of € 17 million in new shares of Atari Europe to Infogrames Entertainment in connection with a capital increase.

A report on the transfer was prepared by a transfer appraiser (*commissaire aux apports*), in which the value of transferred assets is appraised, as required by article L 225-147(2) of the French Commercial Code.

## 11.3. RESCHEDULING OF NOTES' MATURITY

On June 16, 2006, a meeting of the holders of 6% 2005-2008 Notes resolved to amend their indenture and to postpone to September 15, 2006 the repayment date of the first € 11.2-million fraction of the notes' principal (before interest).

## 11.4. TRANSFER OF ATARI INC SHARES TO CALIFORNIA US HOLDING INC

As part of measures aimed at restructuring its US holdings, Infogrames Entertainment purchased 2,000,000 Atari Inc. shares from Atari Interactive Inc. on April 5, 2006 for US$ 1.28 million (€ 1.04 million). Subsequently, Infogrames Entertainment transferred of the Atari Inc. shares it held, or 9,010,663 shares, to California US Holding, Inc. for US$ 5.8 million (€ 4.7 million).

## 11.5. FINAL STEP IN THE RESTRUCTURING OF THE DEBT AND RESTORATION OF THE GROUP'S CAPITAL EXPENDITURE CAPACITY

On September 8, 2006 the Company signed an agreement with the principal holders of its bond and bank debt, providing for the implementation of a financial restructuring plan aimed at significantly reducing corporate debt, restoring its net worth and ensuring that it has sufficient cash to meet its operating expenses.

The agreement is part of a general plan announced by the Company on February 9, 2006, which has already led to a series of disposals of assets and a renegotiation of its bank debt, under an agreement made public on April 21, 2006.

The Company has asked an independent expert, Associés en Finances (223 Rue Saint Honoré, 75001 Paris), to ascertain that the plan was fair to all parties concerned. The expert's report will be issued prior to the shareholders' meeting.

The plan is in five steps:

**Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity**

Under an amendment to existing agreements with banks, the new lender has agreed to:

- increase the short-term facility by € 25 million from € 20 million to € 45 million, and
- reschedule its maturity from March 31, 2007 to December 31, 2008.

A € 10-million portion of the loan will be repayable following the equity issue referred to in Step 4 below, and the balance on December 31, 2008.

**Step 2: Amending of certain terms of the 2005/2008 Notes**

The Company has convened a meeting of the holders of its 6% Notes for September 29, 2006. The Notes have a face value of € 14 each and mature on March 15, 2008. There is a total of € 33.7 million in 2005/2008 Notes outstanding. The purpose of the meeting is to approve the rescheduling of the repayment of the first portion of the Notes' principal to February 15, 2007 and to amend some of the prepayment clauses.

The principal holder of 2005/2008 Notes, a fund managed by Boussard et Gavaudan Asset Management LP, owns 75.8% of the 2,403,772 Notes outstanding and has agreed to vote in favor of the changes.

**Step 3: Amending of certain terms of the OCEANE 2003/2009**

A meeting of holders of the Company's bonds convertible or exchangeable for new or existing shares (OCEANE) maturing on April 1, 2009, with a value outstanding of € 124.3 million, was called on September 29, 2006 for the purpose of approving:

- an extension of the bond’s maturity from April 1, 2009 to April 1, 2020, as the OCEANE 2003/2009 bonds’ convertibility ends on April 1, 2009;
- a reduction of the bonds' interest rate from 4% to 0.01%,
- the elimination of an event-of-default clause.

Funds managed by GLG Partners and Bluebay Asset High Yield (Master Fund) (referred to as the "Investors"), which own 67.8% of the 16,487,489 OCEANE 2003/2009 in circulation, have agreed to vote in favor of the changes.

**Step 4: Shareholders' Meeting / Capital increase / Prepayment of 2005/2008 Notes / Restricted distribution of free warrants**

The Company plans to increase its capital by € 74 million (including premiums over par), by means of a rights issue priced at € 0.15 per share, of which € 33.7 million will be used to redeem all of the 2005-2008 Notes, € 10 million will serve to repay part of the short-term loan and € 30 million will finance the Company's operations.

The principal holder of 2005-2008 Notes and the Investors are already irrevocably committed to purchasing shares not subscribed for during the offering period, for € 33.7 million and € 40 million, respectively. The foregoing commitments are subject to the customary conditions for these types of transactions and to the securing of an exemption to the tender offer requirement.

In consideration for their contribution to the structuring and implementation of the plan, the Investors and the principal holder of 2003-2008 Notes will receive share warrants subsequent to the share issue, exercisable over a period of three years for new Company shares at a price of € 0.15 each for up to, respectively 15% and 3% of shares outstanding[4] after the capital increase and the exchange tender offer called for by Step 5 below.

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[4] Assuming that all of the OCEANE 2003-2009 are tendered under the offer

In this connection, the board of directors will ask the shareholders' meeting called to approve the financial statements, which is to convene on first notice on September 29, 2006, to vote on the following resolutions:

- a reduction of the shares' par value to one cent (€ 0.01);
- a reverse split of the Company's shares through the exchange of one new share with a par value of one euro (€ 1) for one hundred (100) shares with a par value of one cent (€ 0.01);
- the renewal of authority for financing transactions, including to issue shares as set forth above and for the purpose of the exchange tender offer for OCEANE 2003/2009 bonds under Step 5 below;
- restricted grants of free warrants to Boussard Gavaudan Asset Management LP and The BlueBay High Yield (Master Fund);
- the appointment of two additional directors nominated by Bluebay Asset Management Limited.

**Step 5: Exchange tender offer for the OCEANE 2003-2009 bonds**

Provided that the resolutions relating to steps 2 to 4 are approved by the shareholders' meetings, subsequent to the equity issue of Step 4, the Company will make a simplified exchange tender offer for its OCEANE 2003/2009 bonds, each of which would be exchangeable for 32 new Company shares. On the basis of a price per share of € 0.15 (the offering price at the time of issue), the value of each OCEANE would come to € 4.80, a discount of approximately 37.5%, including accrued interest.

The Investors have agreed to tender the 11,185,658 OCEANE 2003/2009 bonds held by them, which represent 67.8% of those outstanding.

## Conditions precedent

In order to be carried out beyond its first step, the plan must be approved by the holders of 2005/2008 Notes and of OCEANE 2003/2009 bonds, as well as by a special shareholders' meeting. It must also be granted the necessary authorizations and exemptions by the financial market authorities.

The plan calls for the capital increase to be completed prior to December 30, 2006 or, if a shareholders' meeting must be reconvened due to a lack of quorum, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

## Impact of the plan on Infogrames Entertainment's current shareholders

As an indication, if all OCEANE 2003-2009 bonds are tendered under the exchange offer and are converted into Company shares, the impact of this conversion on the equity held by a shareholder with one percent of the Company's shares who does not exercise his rights to purchase new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 0.28% |
| After increase in capital and conversion of OCEANE bonds | 0.16% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.13% |

The dilutive impact for a shareholder with 1 percent of the Company's shares on June 30, 2006, who exercises his right to subscribe for new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 1% |
| After increase in capital and conversion of OCEANE bonds | 0.56% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.48% |

# 12. PARENT COMPANY'S PROSPECTS

**Major titles are to be released in fiscal 2006-2007, principally for next generation consoles (Xbox 360, PS3, PSP and NDS).** The new games, which earned critical accolades at the recent E3 trade show, include:

- The eagerly awaited **Test Drive Unlimited** (Xbox 360, PC, PS2, PSP) is the first-ever "massively open" online racing game and a likely future reference for the genre on next-generation consoles.
- **Arthur and the Minimoys** (PS2, PSP, PC, GBA, Nintendo DS, Mobile), based on the forthcoming eponymous Luc Besson animated feature film, will be released in various countries at the same time as the movie.
- **Neverwinter Nights 2** (PC), marks the return of the celebrated RPG, which sold more than 2 million worldwide and has one of the largest and most active followings in the role-playing genre.
- **Dragon Ball Z: Budokai Tenkaichi 2** (PS2 and Wii) is the sequel to Dragon Ball Z: Budokai Tenkaichi, the best-selling DBZ game in 2005; more than ten million DBZ-franchise games have been sold worldwide since 2002.
- **Alone in the Dark** (Xbox 360, PS3, PC), to be released during fiscal 2007-2008, is the latest release under the seminal "survival horror" genre franchise for PC and next-generation consoles; the original version sold more than six million copies worldwide.
- **Hot Pxl (PSP),** a concept based on more than 200 mini-games, which will take full advantage of the PSP's unique features, such as the console's capacity to download unreleased bonuses through its online connection;
- **Dungeons & Dragons: Tactics** (PSP);
- **Earthworm Jim** (PSP and Nintendo DS).

Other games scheduled to be released include:

- Asterix and Obelix Mission Wifix (Nintendo DS and PSP), Totally Spies 2: Undercover! (Nintendo DS and PSP), Battlezone (PSP), Saint Seiya: the Hades (2), Point Blank (NDS), Naruto: Ultimate Ninja (PS2), One Piece: Grand Adventure (PS2), Thrillville (PS2, PSP, Xbox), Dora the Explorer Fairy Tale Adventure (PC), Dora the Explorer Back Pack Adventure (PC), Dora the Explorer Dance to the Rescue (PC), Age of Pirates: Caribbean Tales (PC), Dig Dug Digging Strike (NDS), Rebelstar Tactical Command (GBA), Rainbow Island Islands Evolution (PSP).

# 13. INFOGRAMES ENTERTAINMENT SA FIVE-YEAR FINANCIAL SUMMARY

| (€ 000) | 06/30/2002 (12 months) | 06/30/2003 (12 months) | 06/30/2004 (12 months) | 03/31/2005 (9 months) | 03/31/2006 (12 months) |
|---|---|---|---|---|---|
| Capital stock | 67,223 | 68,123 | 74,334 | 111,895 | 115,694 |
| Number of common shares outstanding | 110,240,08 | 111,714,862 | 121,900,566 | 183,496,508 | 189,726,158 |
| Cumulative number of preferred shares (without voting rights) outstanding | - | | - | - | - |
| Maximum number of shares to be issued | 19,958,298 | 20,798,749 | 28,738,107 | 28,482,356 | 25,846,320 |
| in consideration for the conversion of bonds | 14,021,784 | 13,726,372 | 19,153,232 | 18,235,065 | 18,235,065 |
| in consideration for the exercise of stock options | 4,361,514 | 5,497,377 | 6,287,437 | 6,802,305 | 7,611,255 |
| in consideration for the exercise of warrants | 1,575,000 | 1,575,000 | 3,297,438 | 3,363,386 | 0 |
| Net revenue | 24,840 | 25,764 | 17,172 | 8,295 | 12,694 |
| Income (loss) before taxes, employee profit sharing, depreciation and provision allowances (net allowances of the year) | 102,298 | (22,917) | (54,809) | (49,660) | 9,316 |
| Corporate income tax | 808 | 325 | 1,611 | 185 | 943 |
| Employees' share of year's income (charge for the period) | (23) | 0 | (49) | 0 | (4) |
| Income (loss) after tax, employee profit sharing, depreciation and provision allowances | (100,369) | (107,543) | (289,949) | (16,088) | (192,527) |
| Distributed income | - | ,- | - | - | - |
| Income (loss) after tax and employee profit sharing but before depreciation and provision allowances (net allowances of the year) | 0.94 | (0.21) | (0.44) | (0.27) | 0.05 |
| Income (loss) after tax, employee profit sharing, depreciation and provision allowances | (0.91) | (0.96) | (2.38) | (0.09) | (1.01) |
| Dividend per share | - | - | - | - | - |
| Average number of employees during the year | 107 | 108 | 57 | 10 | 16 |
| Total payroll for the year | 6,319 | 4,083 | 3,401 | 1,207 | 2,042 |
| Cost of employee benefits for the year (social security, charitable contributions, etc.) | 2,740 | 1,751 | 1,485 | 337 | 576 |

## 14. SUMMARY OF AUTHORITY CURRENTLY GRANTED TO INCREASE CAPITAL AND USE MADE OF SAID AUTHORITY DURING FISCAL 2005-2006 (ARTICLE L.225-100 OF THE COMMERCIAL CODE)

| Nature of authority | Stock-holders' meeting of | Term / Expiration | Ceiling (nominal) | Use during the fiscal year ended |
|---|---|---|---|---|
| Authority granted to the board of directors to issue common stock and securities with rights to shares, with preemptive rights | January 19, 2005<br>Resolution 10 | 26 months<br>March 19, 2007 | €100,000,000<br>(over the term of the authority) | Not used |
| Authority granted to the board of directors to issue common stock and securities with rights to shares, with preemptive rights | January 19, 2005<br>Resolution 11 | 26 months<br>March 19, 2007 | €120,000,000<br>(over the term of the authority) | TRANSFER OF HUMONGOUS SHARES<br>The board of directors made use of the authority granted to it to pay for the shares of Humongous transferred to the Company, by issuing 6,299,505 new shares and raising capital by € 3,798,727.66.<br>The ceiling on the authority granted is accordingly now €101,543,165 |
| Authority granted to the board of directors to increase capital through the capitalization of reserves, earnings or other paid-in capital | January 19, 2005<br>Resolution 13 | 26 months<br>March 19, 2007 | € 75,000,000 | Not used |
| Authority granted to the board of directors to grant stock options | January 19, 2005<br>Resolution 15 | 38 months<br>March 19, 2008 | Subject to the restrictions of article L.225-182 of the Commercial Code | On September 7, 2005, the board of directors issued 2,150,000 options under the authority granted by the resolution |
| Authorization for the Board of Directors to increase capital by issuing stock or other securities with a right to the corporation's equity for offering to members of an employee savings plan or group pension plan | January 19, 2005<br>Resolution 16 | 26 months<br>March 19, 2007 | € 10,000,000 | Not used during the period |

# 15. ADDITIONAL REPORTS REQUIRED BY ARTICLE L.225-129-5 OF THE COMMERCIAL CODE

The information referred to in article L.225-129-5 of the Commercial Code and article 155-2 of the Decree of March 23, 1967 was provided to the annual shareholders' meeting held on October 20, 2005.

# FINANCIAL STATEMENTS

## 1. BALANCE SHEET

| (€ 000) | Notes | 3/31-2006 | 3/31-2005 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 4 | 892 | 1,061 |
| Loans and investments | 5 | 337,789 | 552,692 |
| **Total fixed assets** | | **338,681** | **553,753** |
| Trade receivables | 6 | 3,130 | 877 |
| Other receivables from operations | 7 | 1,159 | 3,522 |
| Other receivables | 8 | 934 | 900 |
| Cash and cash equivalents | 9 | 72 | 8,707 |
| **Total current assets** | | **5,295** | **14006** |
| Adjustment accounts | 10 | 22,626 | 28,341 |
| **Total assets** | | **366,602** | **596,100** |
| **Liabilities** | | | |
| Capital stock | 11 | 115,694 | 111,895 |
| Other paid-in capital | 11 | 750,666 | 745,456 |
| Legal reserve | 11 | 946 | 946 |
| Other reserves | 11 | (23,369) | (23,369) |
| Retained earnings | 11 | (556,289) | (540,201) |
| Net income for the year | 11 | (192,527) | (16,088) |
| **Shareholders' equity** | | **95,121** | **278,639** |
| Contingency and loss allowances | 12 | 24,876 | 31,793 |
| Bond debt | 13 | 163,218 | 163,218 |
| Other debt | 14 | 76,391 | 111,746 |
| Trade payables | 15 | 6,771 | 10,088 |
| Adjustment accounts | | 225 | 616 |
| **Total liabilities and shareholders' equity** | | **366,602** | **596,100** |

## 2. INCOME STATEMENT

| (€ 000) | Notes | 3/31-2006 (12 months) | 3/31-2005 (9 months) |
|---|---|---|---|
| Sales | | 12,694 | 8,295 |
| Other revenue | | 4,247 | 1,519 |
| Operating revenue | 16 | 16,941 | 9,814 |
| Other purchases and expenses | 17 | (17,629) | (11,795) |
| Taxes | | (368) | (397) |
| Personnel expenses | 18 | (2,618) | (1,544) |
| Depreciation and provision allowances | 19 | (169) | (142) |
| Operating expenses | | (20,784) | (13,878) |
| **Operating income (loss)** | | (3,843) | (4,064) |
| Financial revenue | | 11,422 | 44,360 |
| Financial expenses | | (250,838) | (67,383) |
| **Financial income** | 20 | **(239,416)** | **(23,023)** |
| **Earnings before taxes** | | **(243,259)** | **(27,087)** |
| Extraordinary gains | | 93,736 | 27,999 |
| Extraordinary losses | | (43,943) | (17,185) |
| **Extraordinary items** | 21 | **49,793** | **10,814** |
| Company income tax | 22 | 943 | 185 |
| Employees' share of profit | | (4) | 0 |
| **Net income for the year** | | **(192,527)** | **(16,088)** |

# 3. CASH FLOW STATEMENT

| (€ millions) | 3/31-2006 (12 months) | 3/31-2005 (9 months) |
|---|---|---|
| **Operating transactions** | | |
| Net income (loss) | (192.5) | (16.1) |
| Depreciation and amortization allowances | 205.3 | (33.1) |
| Other non-cash revenue and expenses | 0.2 | 29.8 |
| Capital gains or losses from the disposal of assets | 29.4 | 13.1 |
| **Cash flow from operations** | **42.4** | **(6.3)** |
| Change in working capital | (3.1) | 7.5 |
| **Cash flow from operations** | **39.3** | **1.3** |
| **Investment transactions** | | |
| Fixed asset purchases: | | |
| - financial assets | (0.5) | (0.4) |
| - other | | |
| Fixed asset disposals: | | |
| - financial assets | | |
| - other | | 0.1 |
| **Cash flow from investments** | **(0.5)** | **(0.3)** |
| **Financing transactions** | | |
| Change in loans to and from Group entities (1) | (34.5) | 29.7 |
| Change in borrowings and debt (2) | (13.3) | (54.8) |
| Share issues | | 41.0 |
| **Net cash flow from financing** | **(47.8)** | **15.9** |
| **Net cash flow for the year** | **(9.0)** | **16.8** |

(1) - For the period ended March 31, 2006, the item "Change in loans to and from Group entities" essentially reflects the following transactions:

- repayments by the Company of € 20.9 million in loans;
- new advances by subsidiaries of € 13.6 million.

(2) - For the period ended March 31, 2006, the item "Change in borrowings and debt" reflects the repayment of € 13.3 million in bank loans.

## Additional information concerning fiscal 2005-2006 with no impact on cash flow

Acquisition of Humongous shares for € 9.0 million in exchange for new shares (see note 1.2)

Sale of Humongous shares to California US Holding in consideration for the set-off of an advance of € 9.1 million (see note 1.2).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

These notes form an integral part of the financial statements of Infogrames Entertainment (the "Company") for the fiscal period ended March 31, 2006, which show total assets of € 366,602,000 and in which the income statement reports a loss of € 192,527,000.

The company financial statements for the fiscal year ended March 31, 2006 cover a period of 12 months, from April 1, 2005 to March 31, 2006.
The previous fiscal year was of nine months and covered the period from July 1, 2004 to March 31, 2005.

## 1. HIGHLIGHTS OF THE PERIOD

### 1.1. HASBRO

In June 2005, Infogrames Entertainment and Hasbro, Inc. agreed to:

- amend the original license in consideration for the payment by Hasbro of US$ 65 million; that sum was accordingly received during the first half of the year; as explained below, Infogrames continues to have the right to sell games based on the intellectual properties covered by the license in its inventories or under development on the date of the agreement, until March 2007;
- grant Infogrames a new exclusive ten-year license to the Dungeons & Dragons universe on all current conventional media (so-called "digital" systems, e.g. PC, game cartridges for Sony, Microsoft and other consoles) and all interactive systems (including: online, mobile phone, wireless, interactive television, etc.);
- grant Infogrames a new exclusive seven-year license to nine Hasbro "family/children" properties: Monopoly, Scrabble, Risk, etc for online, mobile phone, wireless, interactive television and other applications.

In keeping with the practice in the industry, the new licensing agreements contain certain guaranteed minimums (see note 24).

Infogrames may continue to sell other games on the following conditions:

- Previously released games: distribution will end no later than March 31, 2007 or, subsequent to December 31, 2005, three months after Hasbro notifies Infogrames that another licensee has acquired a property;
- Games under development: distribution for up to 18 months and up to no later than March 31, 2007.

The agreement resulted in the following accounting entries:

- Gain of € 52.7 million from the change in the Hasbro licensing agreement
- Write-off of an uncollected prepayment of € 2.7 million
- Net accounting gain of € 50.0 million.

### 1.2. HUMONGOUS

On August 22, Infogrames Entertainment purchased the shares of Humongous, Inc. previously held by Atari, Inc. (93.7%) and Atari Interactive, Inc. (6.3%). Humongous, Inc. owns rights to characters and themes, principally of best-selling children and family games in the United States, including the Backyard Sports series, Freddi Fish, Pajama Sam, Spy Fox, etc.

The acquisition is in line with the Group's general strategy of streamlining its own holdings and those of its US subsidiary and to shift control of certain Group operations.

Under the purchase agreement, Infogrames Entertainment has acquired all of the shares of Humongous, Inc. The shares were valued at € 9,032,783 and were paid for with 6,229,505 newly-issued Infogrames Entertainment shares (3.3% of those outstanding), which were admitted to trading on Euronext on September 2, 2005. The value of the acquisition was independently appraised (by a *Commissaire* aux *Apports*), as required by article L-225-147 of the French Commercial Code.

In October 2005, Infogrames Entertainment sold Humongous, Inc. to its wholly-owed subsidiary California US Holding, Inc., for the purpose of bringing all of its assets in the United States under a single umbrella entity. The sale price of € 9,115,295 was used to offset a loan from California US Holding, Inc.

## 1.3. GAME ONE

On June 24, 2005, the Group purchased 35.81% of the shares of Game One for € 0.5 million and added them to the 14.19% it owned on March 31, 2005. On July 25, 2005, the Group's ownership of Game One was reduced back to 45.46% after Game One issued shares in favor of MTV.

## 1.4. AGREEMENT REACHED WITH THE HOLDERS OF 2005-2008 NOTES

As part of the refinancing of Infogrames Entertainment's overall debt, the holder of its 2005-2008 Notes agreed as follows:

At a general meeting that took place on March 28, 2006 under applicable legal quorum and majority voting rules, the holders of 81 percent of Infogrames' 2005-2008 Notes outstanding present or represented approved, by a 96.5-percent majority, a series of resolutions aimed at amending the indenture of the notes. The changes include:

- extending the maturity of the notes' first principal repayment of € 13.4 million to June 15, 2006;
- leaving the maturity dates of the second and third repayments unchanged at March 15, 2007 and March 15, 2008;
- adding interest at 9% per annum to the first portion of principal and interest originally due on March 15, for the period from March 15 to June 15, 2006; sums repayable on March 15, 2007 and March 15, 2008 will not be affected;
- modifying the security interests backing the notes, by increasing the number of Atari Inc shares pledged from 33.1 million to 40.1 million.

# 2. PRINCIPAL ACCOUNTING POLICIES AND METHODS

## 2.1. PRINCIPLES APPLIED TO THE PREPARATION OF THE FINANCIAL STATEMENTS

Infogrames Entertainment's financial statements have been prepared in accordance with the accounting methods and principles generally admitted in France.

### GOING-CONCERN ASSUMPTION

The Group sustained large losses in previous years and during the period ended. It also has had to repay maturing bank and bond debts even though it had insufficient cash flow from operations to do so. A series of transactions have therefore had to be carried out in recent years, aimed at restructuring the Group's finances and, in particular, reducing its debt. The principal measures taken in this respect are described below:

- the sale back to Hasbro of digital rights to certain properties initially licensed by Hasbro under a December 2000 agreement, for $ 65 million;
- the sale of the "games.com" domain name and Timeshift license for a combined US$ 14.5 million;
- the rescheduling of the maturity of the first € 11.2-million portion of the 2005-2008 Notes from March 15 to June 15, 2006;
- the rescheduling of the repayment of € 23.4 million in medium-term bank debt from July 31, 2005 to March 31, 2008.

With the help of these measures, the Group reduced its net debt to € 173.2 million (as measured under IFRS) by March 31, 2006; as measured under French accounting standards, the Company debt amounted to € 239.6 million, of which € 44.8 million was owed to Group subsidiaries. Detailed information on the debt and its maturity is included in note 13 to the consolidated financial statements.

Since March 31, 2006, the Group has continued to make efforts in this area, by:

- securing a new € 20-million bank credit facility;
- disposing of the Paradigm studio and the Stuntman license for US$ 10.8 million;
- deferring the due date of the € 11.2-million first portion of the 2005-2008 Notes from June 15 to September 15, 2006;
- signing a preliminary agreement for the sale of the "Driver" game license and most of the assets of the Reflections studio for US$ 24 million.

The Group's debt has restricted its ability to invest in game development. This impediment, which adversely affected the Group's revenue and income during the year, was recently aggravated by the general stagnation in the video-game market, due in part to the delayed or deferred releases of new consoles.

In the period to July 31, 2007 and before implementing the plan set out below, the Group must obtain additional financing of an estimated € 35 million and € 50 million to cover operating expenses, as well as repay debt of € 63.3 million based on current maturity schedules. The principal debt repayments due over the coming period (exclusive of bank loans of € 14.7 million, which are covered by cash balances on March 31, 2006) are as follows:

- September 15, 2006: first portion of the 2005-2008 Notes (€ 11.2 million);
- March 15, 2007, section portion of the 2005-2008 Notes (€ 13.4 million, including interest);
- Throughout the period, sums owed to production funds (€ 18.3 million in aggregate, of which € 12.4 million up to March 31, 2007);
- April 2007, interest on 2003-2009 convertible bonds (€ 4.6 million).

In order to be able to meet the above obligations, the Group entered into an agreement on September 8, 2006 with the principal holders of its bank and bond debt, to enable it to carry out a financial restructuring plan aimed at significantly reducing its debt, restoring its net worth and providing it with sufficient cash to meet its operating needs. The plan, which is described in note 28.5 to the consolidated financial statements, is divided into five separate steps:

Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity from March 31, 2007 to December 31, 2008 except for a sum of € 10 million, which is to be repaid upon completion of the Step 4 measures.

Step 2: Modification of some of the terms and conditions of the 2005-2008 Notes (deferral of the scheduled maturity date of the first fraction of the principal from September 15, 2006 to February 15, 2007 and amendment of the event-of-default clauses). The principal holder of the Notes, which accounts for 75.8% of that debt, has agreed to vote in favor of these modifications at the next Note holders' meeting on September 29, 2006.

Step 3: Modification of some of the terms and conditions of the OCEANE 2003-2009 bonds (reduction of the interest rate from 4% to 0.01%, rescheduling of the maturity from April 1, 2009 to April 1, 2020, termination of the bonds' convertibility effective April 1, 2009, elimination of event-of-default clauses). Investors holding 67.8% of the OCEANE bonds outstanding have agreed to vote in favor of those changes at the next bondholders' meeting, scheduled for September 29, 2006.

Step 4: Rights issue of € 74 million (including premiums over par) at € 0.15 per share, from the proceeds of which € 34 million is to be used to redeem all 2005-2008 Notes, € 10 million to repay part of the bridging loan and € 30 million to finance the Group's operations. The principal holder of 2005-2008 Notes and the Investors are already irrevocably committed to purchasing shares not subscribed for during the offering period, for € 33.7 million and € 40 million, respectively. The foregoing commitments are subject to the customary conditions for this type of transaction and to the securing of an exemption to the tender offer requirement.

Step 5: Provided that steps 1 through 4 are completed, an exchange tender offer would be made for the OCEANE 2003-2009 bonds (each bond being exchangeable for 32 new Infogrames Entertainment shares). The lending banks have pledged to tender the OCEANE 2003-2009 bonds they hold, or about 67.8% of those outstanding.

The foregoing plan, except for the first step, must be approved by the bodies of holders of the 2005-2008 Notes and of the OCEANE 2003-2009 bonds, as well as by a special shareholders' meeting. Its implementation also requires that authorizations and exemptions be granted by the Financial Markets Authority (AMF). The plan calls for the capital increase to be completed prior to December 15, 2006 or, if a shareholders' meeting must be reconvened, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

In order to have enough operating cash (including for products to be in stores for the Christmas season), the Group is seeking to obtain short-term financing in Europe and the United States by means of factoring or through credit facilities secured by trade receivables. This would supplement the € 25-million loan secured under the restructuring plan and provide financing in anticipation of the equity issue included in step four of the plan. For Atari Inc., negotiations are under way in the United States aimed at obtaining financing of about US$ 20 million.

On the basis of the foregoing, the Company has prepared its annual financial statements under the going concern assumption, based on the expected success of both the measures taken to finance operations until the capital increase and the overall financial restructuring plan. Management considers such success probable given the progress in negotiations on the financing of operations and the pledges received from the principal bondholders and lender banks. Nevertheless, there is a degree of uncertainty regarding the effective securing of financing and the completion of the restructuring plan that is inherent to this type of situation. In particular, the financial restructuring is contingent on approval by meetings of bond and note holders and by the shareholders' meeting, as well as by the AMF.

An adverse outcome regarding the foregoing measures would result in adjustments to the value of the Company's assets and liabilities, including goodwill and financial assets, recognized in the balance sheet for March 31, 2006 at € 337.8 million.

The annual financial statements have also been prepared in accordance with basic accounting principles of no offsetting between periods and consistency of accounting methods.

## 2.2 ACCOUNTING PRINCIPLES

The method used to calculate the value of most items reported in the accounts is the historical cost method.

The principal methods used are as follows:

### ▪ PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is reported at cost (purchase price and incidental expenses) and depreciated over a period that varies according to the nature of the asset:

| | |
|---|---|
| ▪ Tools and equipment | 1 to 4 years |
| ▪ Improvements and fixtures | 10 years |
| ▪ Furniture | 2 to 10 years |

Property, plant and equipment is depreciated on a straight-line basis.

The application CRC Rule 2002-10 had no impact on the financial statements.

### ▪ LOANS AND INVESTMENTS

The gross value of interests in subsidiaries is the acquisition cost of the corresponding securities.

A provision is set aside whenever the recoverable value of the investment is less than its book value. The recoverable value is estimated based on criteria used at the time of acquisition (such as financial multiples), market value, prospects for a return on the investment calculated on a discounted cash-flow basis and adjusted net worth.

- **RECEIVABLES**

Receivables are recorded at their face value. An impairment allowance is set aside whenever their inventory value is less than their gross book value.

- **TRANSACTIONS IN FOREIGN CURRENCIES**

Income and expenses in foreign currencies are reported at the corresponding value on the date of the transaction concerned. Foreign-currency liabilities, receivables and cash balances are shown on the balance sheet after conversion on the basis of foreign-exchange rates in effect at the end of the year. Any differences resulting from the conversion of liabilities and receivables is reported in the balance sheet under "Unrealized foreign exchange gains (losses)".

Provisions are set aside for any unrealized foreign-exchange losses not expected to be offset by gains.

- **BOND DEBT AND REDEMPTION PREMIUMS**

Debt securities are reported at their face value. Issue and redemption premiums, if any, are reported as assets on the balance sheet under "Adjustment accounts" and written off as interest and investment expenses over the life of the securities, unless the redemption risk has been hedged.

- **TAX CONSOLIDATION**

Tax expenses are borne by each entity, as if there were no tax consolidation. Any tax saving benefits the parent corporation.

- **USE OF ESTIMATES**

The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions which have an impact on the value of assets and liabilities on the balance sheet, any assets and liabilities referred to in the notes to the financial statements, and revenue and expenses reported in the income statement. Actual amounts may differ from these estimates and assumptions.

## 3. PRO FORMA FINANCIAL RESULTS REFLECTING THE CHANGE IN FISCAL YEAR-END DATE

Because the fiscal year-end date was moved to March 31, 2005 and in order to provide comparable financial information for nine months, the table below includes:

- The income statement for the period of April 1, 2005 to March 31, 2006;
- The unaudited pro-forma income statement for the period of April 1, 2004 to March 31, 2005.

| **(€ 000)** | **3/31-2006 (12 months)** | **3/31-2005 (12 months) pro forma** |
|---|---|---|
| Sales | 12,694 | 11,922 |
| Other revenue | 4,247 | 2,840 |
| Operating revenue | 16,941 | **14,762** |
| Other purchases and expenses | (17,629) | (16,435) |
| Taxes | (368) | (509) |
| Personnel expenses | (2,618) | (2,154) |
| Depreciation and provision allowances | (169) | (1,029) |
| Operating expenses | (20,784) | (20,127) |
| **Operating income (loss)** | (3,843) | **(5,365)** |
| Financial revenue | 11,422 | 39,122 |

| | | |
|---|---:|---:|
| Financial expenses | (250,838) | (79,243) |
| **Financial income** | **(239,416)** | **(40,121)** |
| **Earnings before taxes** | **(243,259)** | **(45,486)** |
| Extraordinary gains | 93,736 | 46,413 |
| Extraordinary losses | (43,943) | (27,815) |
| **Extraordinary items** | **49,793** | **18,598** |
| Company income tax / Employees' share of profit | 939 | 1,538 |
| **Income for the year** | **(192,527)** | **(25,350)** |

# 4. PROPERTY, PLANT AND EQUIPMENT

The table below shows changes in property, plant and equipment for the period:

| € 0 | 3/31/2005 | Acquisitions / allowances | Disposals / revaluations | Other changes | 3/31/2006 |
|---|---:|---:|---:|---:|---:|
| Tools and equipment | 74 | | | | 74 |
| General facilities | 1,573 | | | | 1,573 |
| Office material and computers | 194 | | | | 194 |
| **Gross value** | **1,841** | **0** | **0** | **0** | **1,841** |
| **Depreciation and impairment allowances** | **(780)** | **(169)** | | **0** | **(949)** |
| **Net value** | **1,061** | **(169)** | **0** | **0** | **892** |

# 5. LOANS AND INVESTMENTS

## 5.1. CHANGES FOR THE PERIOD

| € 000 | 3/31/2005 | Additions | Disposals | Other changes | 3/31/2006 |
|---|---:|---:|---:|---:|---:|
| Interests in subsidiaries | 897,197 | 16,038 | 38,124 | 4,453 | 879,564 |
| Receivables from subsidiaries | 91,113 | 45,957 | 32,622 | | 104,448 |
| Accrued interest on receivables from subsidiaries | 1,226 | 7,097 | 5,324 | | 2,999 |
| Long-term investment holdings | 4,453 | | | (4,453) | |
| Loans and other financial assets | 1,833 | 25 | 95 | | 1,763 |
| **Gross value** | **995,822** | **69,117** | **69,117** | | **988,774** |
| **Provisions** | **(443,129)** | **(237,541)** | **(237,541)** | | **(650,985)** |
| **Net value** | **552,693** | | | | **337,789** |

Changes in investment holdings are accounted for primarily by:

- in the case of additions:
  - the acquisition of Humongous from Atari Inc. and Atari Interactive Inc. subsidiaries for € 9.0 million;
  - the purchase by the Company of additional shares of Atari Inc. for € 6.5 million;
  - the purchase by the Company of additional shares of Game One for € 0.5 million;
  - the reclassification of € 4.4 million in Game One shares from investment holdings to interests in subsidiaries following the above share purchase.
- in the case of reductions:
  - the sale of Humongous to CUSH for € 9.1 million;

- the transfer of all of the assets and liabilities of Infogrames Interactive SA held by the Company to Atari Europe SASU, another Group subsidiary, for € 29.1 million.

Transactions during the fiscal year pertaining to receivables from subsidiaries concern mainly an increase of € 15.6 million in receivables from Atari Interactive Inc.

Other changes in receivables from subsidiaries were mainly related to the financing of Group subsidiaries by means of shareholder loans. Receivables from subsidiaries on March 31, 2006 include, inter alia, shareholder loans to Atari Interactive, Inc. (US$ 99.6 million or € 82.3 million) and Ocean International Ltd (GBP 5 million or € 7.2 million).

Receivables from subsidiaries have maturities of more than one year.

As of March 31, 2006, 250,000 treasury shares had been loaned to a financial institution.

Changes in provisions reflect primarily changes in the value of subsidiaries and related receivables.

## 5.2. PROVISIONS FOR THE IMPAIRMENT OF FINANCIAL ASSETS

| (€ 000) | 3/31-2005 | Allowances | Cancellations | 3/31-2006 |
|---|---|---|---|---|
| Shares in subsidiaries and investment holdings | 423,801 | 197,012 | 29,091 | 591,722 |
| Receivables from subsidiaries | 18,479 | 40,309 | 594 | 58,194 |
| Loans | 849 | 220 | 0 | 1,069 |
| Total | 443,129 | 237,541 | 29,685 | 650,985 |

Changes in provisions for losses on shares of subsidiaries reflect primarily:

- in the case of additions:
  - an impairment provision of € 97.0 million on the shares of California US Holding, Inc.
  - an impairment provision of € 43.6 million on the shares of Atari Interactive Inc.
  - an impairment provision of € 16.3 million on the shares of Ocean International Limited
  - an impairment provision of € 14.5 million on the shares of Atari Europe
  - an impairment provision of € 13.7 million on the shares of Atari Asia Holding Pty Ltd
  - an impairment provision of € 7.0 million on the shares of Paradigm Entertainment Inc.
  - an impairment provision of € 4.7 million on the shares of Atari Inc.
- in the case of reductions:
  - the reversal of a provision of € 29.1 million on the shares of Infogrames Interactive SA

Changes in Provisions for losses on receivables from subsidiaries represent mainly an increase of € 37.4 million in the provision on advances to Atari Interactive, Inc.

The method used to calculate the going-concern value of subsidiaries uses several criteria, depending on the nature of the concerned entities' operations:

- in the case of publishing and distribution entities: multiples are applied, such as enterprise value to revenue and enterprise value to EBIT, to reported fiscal 2005-2006 results and estimated 2006-2007 results;
- in the case of development studios: a multiple is applied to the studios' workforce that reflects enterprise value per developer, whenever that the studio is assigned development projects and can provide regular employment to its workforce.

More detailed valuations were made of the following four subsidiaries, in light of their relative size.

- California US Holding, Inc., a holding entity through which the Company owns 44.7% of Atari, Inc., previously reported in the books for € 79 million; the value of this investment was calculated primarily on the basis of a valuation of Atari, Inc.; this caused the recognition of an additional impairment allowance of € 97 million at the end of the period;

- Atari Interactive, Inc.: this company's assets include rights to the Atari trademark, the Hasbro license and agreements with third-party studios for the development of games. After revising its valuation criteria, the Company decided to recognize additional impairment provisions of € 43.6 million.
- Atari Europe oversees and coordinates the European and Asian distribution of Atari products; as such, it holds ownership interests in the Group's main distribution subsidiaries in Europe, with the exception of those located in Germany and the United Kingdom. After revising its valuation criteria, the Company decided to recognize additional impairment provisions of € 14.5 million.
- Ocean International Limited and Atari Asia Holding Pty Ltd: further to the transfers referred to in note 28 on events subsequent to the end of the period, the Company decided to reflect the valuation of the shares in its books by recognizing additional provisions of € 16.3 million for the impairment of the Ocean International Limited shares and of € 13.7 million on those of Atari Asia Holding Pty Ltd.

## 6. TRADE RECEIVABLES

| € 000 | 3/31/2006 | | | 3/31/2005 |
|---|---|---|---|---|
| | Gross value | Impairment | Net value | Net value |
| *Trade receivables* | | | | |
| - third parties | 66 | 42 | 24 | 23 |
| - intragroup | 1,534 | | 1,534 | 171 |
| - accrued | 1,572 | | 1,572 | 683 |
| **Total** | **3,172** | **42** | **3,130** | **877** |

All of the above receivables are due in less than one year

## 7. OTHER RECEIVABLES FROM OPERATIONS

| (€ 000) | 3/31-2006 | 3/31-2005 |
|---|---|---|
| | Gross | Gross |
| Prepaid royalties | 0 | 2,219 |
| Down payments to suppliers | 11 | 19 |
| Advances to employees | 1 | 4 |
| Sales taxes | 689 | 721 |
| Income taxes | 458 | 559 |
| Total | 1,159 | 3,522 |

All of the above receivables are due in less than one year

## 8. OTHER RECEIVABLES

| (€ 000) | 3/31-2006 | 3/31-2005 |
|---|---|---|
| Loans to affiliates | 712 | 868 |
| Other receivables | 222 | 32 |
| Total | 934 | 900 |

All of the above receivables are due in less than one year

## 9. CASH AND CASH EQUIVALENTS

| (€ 000) | 3/31-2006 | 3/31-2005 |
|---|---|---|
| Marketable securities | 45 | |
| Cash and cash equivalents | 27 | 8,707 |
| Total | 72 | 8,707 |

On March 31, 2005, balances in accounts with the same bank had been netted and were recognized as cash whenever the balance was positive due to the existence of a cash pooling system.

## 10. ADJUSTMENT ACCOUNTS

| (€ 000) | 3/31-2006 | 3/31-2005 |
|---|---|---|
| Prepaid expenses | 793 | 858 |
| Bond discounts | 5,062 | 6,745 |
| Unrealized foreign-exchange losses on receivables | 16,771 | 20,738 |
| Total | 22,626 | 28,341 |

Prepaid expenses are operating expenses (insurance, rent, subscriptions).

The € 1.7-million decline in "Bond discounts" reflects redemptions during the period.

# 11. SHAREHOLDERS' EQUITY

| (€ 000) | 3/31/2005 | Exercise of warrants | Humongous transfer | Appropriated income or loss | Income (loss) | 3/31/2006 |
|---|---|---|---|---|---|---|
| *Shares issued* | *183,496,508* | *145* | *6,229,505* | | | *189,726,158* |
| Capital stock | 111,895 | 0 | 3,799 | | | 115,694 |
| Other paid in capital: from issues | 496,034 | 1 | 0 | | | 496,035 |
| from mergers | 66,797 | | | | | 66,797 |
| from contributions | 73,089 | | 5,208 | | | 78,297 |
| from conversions | 108,367 | | | | | 108,367 |
| Stock warrants | 1,170 | | | | | 1,170 |
| Legal reserve | 946 | | | | | 946 |
| Other reserves | (23,369) | | | | | (23,369) |
| Retained earnings (losses) | (540,201) | | | (16,088) | | (556,289) |
| Income (loss) | (16,088) | | | 16,088 | (192,527) | (192,527) |
| **Total stockholders' equity** | **278,640** | **1** | **9,007** | | **(192,527)** | **95,121** |

The principal changes for the period resulted from the issuance by Infogrames Entertainment of 6,229,505 shares on August 22, 2005 as consideration for the transfer of Humongous shares.

## 11.1. COMMON STOCK

As of March 31, 2006, 189,726,158 shares had been issued and fully paid up, in comparison with 183,496,508 shares as of March 31, 2005.

Each share entitles its holder to one vote on matters submitted to a vote of the shareholders. All paid-up shares held in registered form by the same shareholder for two years or more are entitled to double voting rights, as are additional shares acquired pursuant to rights attached to registered shares entitled to double voting rights.

## 11.2. DIVIDENDS

The Board of Directors may propose to the Company's shareholders that dividends be distributed for up to the amount of the Company's distributable earnings. Decisions regarding dividends are made by the shareholders at their Annual Meeting.
The Group did not pay out a dividend for the past three fiscal years and does not intend to distribute one for fiscal 2005-2006.

## 11.3. AUTHORIZED CAPITAL

The shareholders' meeting of January 19, 2005 granted authority to the board of directors, for a period of 26 months, to increase capital stock by:

- issuing shares with preemptive rights to shareholders, for up to € 100 million in par value, and convertible debt instruments for up to an additional € 500 million in nominal value;
- issuing shares without preemptive rights to shareholders, for up to € 120 million in par value (counting against the ceiling of € 100 million above), and convertible debt instruments for up to an additional € 500 million in nominal value;
- capitalizing reserves, earnings or other paid-in capital of up to € 75 million (counting against the ceiling of € 100 million above).

The same shareholders' meeting also granted authority to the board of directors, for a period of 26 months, to issue up to € 120 million in shares and other equity securities for exchanging for securities tendered to the Company under offers initiated by it.
Further, that same shareholders' meeting renewed the authorizations granted to the board of directors to use its authority to issue stock in the event of a tender offer.

## 11.4. INFOGRAMES ENTERTAINMENT SA STOCK OPTION PLAN

Authority has been granted to the Board of Directors, until January 18, 2008, to grant options for new or existing shares of Infogrames Entertainment SA to officers, directors and certain employees of the Group, up to the maximum amount set by article L 225-182 of the Commercial Code. The exercise price of these options may not be less than 95% of the average trading price of Infogrames Entertainment SA common stock over the twenty trading days immediately preceding the date on which the respective options are granted. Options generally vest ratably over a four- or five-year period from their date of grant under certain conditions and are generally exercisable over periods of up to eight years. No options may be granted to Group officers, directors, or employees who already own more than 10% of Infogrames Entertainment SA common stock.

As of March 31, 2006, there were 7,611,255 unexercised stock options outstanding, entitling their holders to purchase the same number of Infogrames Entertainment SA shares.

## 11.5. EMPLOYEE SAVINGS PLAN

The shareholders' meeting of January 19, 2005 has authorized the board of directors, for a period of 26 months, to issue shares for offering to employees under an employee savings plan.
No new employee savings plan was started during the periods.

## 11.6. WARRANTS ATTACHED TO THE OCEANE 2003-2009 BONDS

At the time of the 2003 exchange tender offer for bonds, stock warrants were issued entitling their holders to subscribe for new Infogrames Entertainment shares at a price of € 6 each. The original ratio of 5 warrants for one share was increased to 5 warrants for 1.02 shares to reflect the distribution of bonus warrants in December 2004.
The above warrants expired on June 30, 2005 and have thus lost all value.

# 12. CONTINGENCY AND LOSS ALLOWANCES

| (€ 000) | 3/31/2005 | Allowances | Cancellations | | 3/31/2006 |
|---|---|---|---|---|---|
| | | | used | not used | |
| Provisions for: litigation | | 11 | | | 11 |
| future commitments | 4,092 | 1,524 | 4,104 | | 1,512 |
| restructuring charges | 35 | | 35 | | |
| contingencies and losses | 20,738 | | 1,352 | 2,615 | 16,771 |
| investment losses | 6,667 | | | 245 | 6,422 |
| taxes | 261 | | 101 | | 160 |
| **Total** | **31,793** | **1,535** | **5,592** | **2,860** | **24,876** |

Allowances for the year were charged to investment income (€ 1.5 million); reversals were recognized in investment income (€ 4.2 million), extraordinary gains (€ 2 million) and operating income (€ 2.2 million).

The balance of the provisions for investment losses concerns a subsidiary with a negative net worth; the change for the fiscal period amounts to an adjustment of that net worth to reflect a change in the GBP exchange rate.

The addition to provisions for future commitments reflects a provision recognized on March 31, 2006 to cover future rent expenses of € 1.5 million on unused premises.

Cancellations of provisions for future commitments concern:

- the reversal of a provision of € 2.2 million for loss on the Hasbro agreement;
- the reversal of a provision of € 1.9 million to cover future rent on unused premises.

# 13. Bond debt

As of March 31, 2006, the bond debt consisted of the OCEANE 2000-2011 and OCEANE 2003-2009 convertible bonds and the 2005-2008 Notes.

## 13.1. OCEANE 2000-2011 bonds (formerly 2000-2005)

On May 18, 2000, the Company issued 8,941,517 bonds (the "OCEANE 2000-2005") with a face value of € 39.0 convertible into or exchangeable for new or existing common stock, for an aggregate of € 412.3 million (inclusive of aggregate premiums of approximately € 63.6 million). The bonds, which originally matured on July 1, 2005, carry interest at 1.5% (for a yield to maturity of 4.75%, including premiums). Each could initially be converted immediately into one Infogrames Entertainment share; that conversion ratio was increased to 1.05 common shares in January 2002 to take into account the distribution of bonus shares on that date. The Company has the option of calling the bonds if, prior to their maturity date, the price of Infogrames Entertainment SA common shares rises above a pre-defined level. A prospectus was published in connection with the bond issue and approved by the COB on May 18, 2000 under No. 00-823.

The Company issued a simplified tender offer, which was in effect from November 11 to December 1, 2003, to buy back the OCEANE 2000-2005 in exchange for 1.05 new Company shares and 5 bonds convertible into new shares or exchangeable for existing shares of Infogrames Entertainment (the OCEANE 2003-2009) with an attached warrant for new Company shares. On December 19, 2003, the AMF issued notice 203C2191 stating that 2,191,180 OCEANE 2000-2005 had been tendered under the offer.

On March 4, 2005, the meeting of OCEANE 2000-2005 bondholders approved the following amendments to the bonds' indenture:

- deferral of the maturity to July 1, 2011;
- cancellation of the redemption premium and redemption at par (of € 39 per bond);
- the conversion ratio of the bonds was increased to 10.5 common Infogrames Entertainment shares for 1 OCEANE.

The Company issued a simplified tender offer, which was in effect from March 9 to 31, 2005, to buy back the OCEANE 2000-2005 in exchange for € 11.20 in cash, 10 new Company shares and 1 Company note (the 2005-2008 Notes). On April 7, 2005, the AMF issued notice 205C0605 indicating that a total of 2,403,772 OCEANE 2000-2005 had been tendered under the Offer.
As of March 31, 2006, there were a total of 135,031 OCEANE 2000-2011 still outstanding, which could be converted into or exchanged for 1,417,825 Infogrames Entertainment shares; the Company did not hold any of its own OCEANE 2000-2011 bonds on March 31, 2006. On March 31, 2005, a total of 135,031 OCEANE bonds were still outstanding.

## 13.2. OCEANE 2003-2009 bonds

On December 23, 2003, the Company issued 16,487,489 convertible bonds (the "OCEANE 2003-2009") with a face value of € 7, exchangeable for new or existing common stock, for an aggregate of € 124.30 million (inclusive of aggregate premiums of approximately € 8.89 million). The bonds mature on April 1, 2009 and carry interest at 4% (for a yield to maturity of 5.31%, including premiums). They were originally convertible immediately by their holders into 1 Infogrames Entertainment share; that conversion ratio was increased to 1.02 common shares in December 2004 to take into account the distribution of bonus stock warrants on that date. The Company has the option of calling the bonds if, prior to their maturity date, the price of Infogrames Entertainment SA common shares rises above a pre-defined level. A prospectus was published in connection with the bond issue and approved by the COB on November 6, 2003 under No. 03-971.

As of March 31, 2006, there were a total of 16,487,489 OCEANE 2003-2009 bonds outstanding redeemable or exchangeable for 16,817,239 Infogrames Entertainment shares, none of which were held by the Company.

## 13.3. 2005-2008 NOTES

As part of the previously mentioned Offer, the Company has issued 2,403,772 notes (the " 2005-2008 Notes") with a face value of € 14 each, for a total of € 33.7 million in principal. The notes, which bear interest at 6% per annum (for a yield to maturity of 6.52%), are redeemable in three fractions of their face value as follows: € 4.66 on March 15, 2006; € 4,67 on March 15, 2007 and € 4,67 on March 15, 2008. The Notes are secured by a senior pledge of Atari, Inc. shares (see above).

The Company may, at any time, prepay the portion still outstanding of the Notes in principal and accrued interest.

A prospectus was issued in connection with this Note issue and approved by the AMF on March 4, 2005, under number 05-130.

The general meeting of note holders of March 28, 2006 (see note 1.5.) resolved, *inter alia*, to reschedule the payment date of the first € 13.4 million owed on the Notes to June 15, 2006.

## 13.4. CHARACTERISTICS OF THE OCEANE 2000-2011 AND OCEANE 2003-2009 BONDS AND THE 2005-2008 NOTES

The table below lists the main features of the bonds and notes issued by the Company.

| | OCEANE 2000-2011 | OCEANE 2003-2009 | 2005-2008 Notes |
|---|---|---|---|
| Issue date | May 18, 2000 | December 23, 2003 | April 11, 2005 |
| Nominal value | € 348,719,000 | € 115,412,000 | € 33,653,000 |
| Number issued | 8,941,517 | 16,487,489 | 2,403,772 |
| Aggregate premiums | € 0 | € 8,887,000 | € 0 |
| Face value | € 39.0 | € 7,539 | € 14.0 |
| Conversion ratio | 1 bond for 10.5 shares | 1 bond for 1.02 shares | not applicable |
| Period | 11 years and 44 days | 5 years and 100 days | 2 years and 338 days |
| Annual interest rate | 1.5% | 4% | 6%* |

* It should be noted that, following the March 28, 2006 meeting of 2005-2008 note holders, the first portion of the principal and interest on the notes due March 15, 2006 has been capitalized and carries interest at 9% per annum from March 15 to June 15, 2006.

The annual interest rate on the principal due on March 15, 2007 and March 15, 2008 was left unchanged at 6%.

## 13.5 POSITION AS OF MARCH 31, 2006

| (€ 000) | OCEANE 2000-2011 | OCEANE 2003-2009 | 2005-2008 Notes | TOTAL |
|---|---|---|---|---|
| % converted / exchanged | 98.49% | 0.00% | N/A | |
| Number outstanding | 135,031 | 16,487,489 | 2,403,772 | |
| Nominal value | 5,266 | 115,412 | 33,653 | 154,331 |
| Premium | | 8,887 | N/A | 8,887 |
| **TOTAL** | **5,266** | **124,299** | **33,653** | **163,218** |
| of which, maturing in less than one year | | | 22,435 | |
| of which, maturing in more than one year | 5,266 | 124,299 | 11,218 | |

# 14. OTHER DEBT

| € 000 | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Accrued interest on bond debt | 6,975 | 4,676 |
| Bank borrowings | 23,436 | 36,793 |
| Bank overdrafts | 443 | 36 |
| Accrued interest on bank borrowings and overdrafts | 656 | 268 |
| Sums owed to subsidiaries | 44,828 | 69,901 |
| Others | 53 | 72 |
| **Total other debt** | **76,391** | **111,746** |
| of which, maturing in less than one year | 23,436 | 3,857 |
| of which, maturing in more than one year | 52,955 | 107,889 |

On March 31, 2005, balances in accounts with the same bank had been netted and were recognized as “bank overdrafts” whenever the balance was negative due to the existence of a cash pooling system.

Bank borrowings" consisted originally of medium-term loans extended by French banks.
The Company is negotiating with its banks. The rescheduling of the bank debt’s maturity was agreed upon on March 28, 2006 and formally approved on April 13, 2006, as reported in note 28 below.

## 15. TRADE PAYABLES

| (€ 000) | 3/31/2006 | 3/31/2005 |
|---|---|---|
| Trade payables | 5,347 | 8,038 |
| Employees | 477 | 413 |
| Social security, etc. | 506 | 321 |
| Taxes and levies | 24 | 16 |
| Other taxes and contributions payable | 139 | 48 |
| Intra-group loans and advances | 0 | 267 |
| Other liabilities | 278 | 985 |
| Total | 6,771 | 10,088 |

All operating liabilities are due in less than one year.

## 16. OPERATING REVENUE

Operating revenue comprises the following:

| (€ 000) | 3/31/2006 (12 months) | 3/31/2005 (9 months) |
|---|---|---|
| Sales | 12,694 | 8,295 |
| Other revenue from operations | 4,247 | 1,519 |
| **Total** | **16,941** | **9,814** |

Sales consist primarily of services provided and rebilled to Group entities.

Transferred expenses account for € 2 million of other revenue (including € 1.7 million in rent and building charges and € 0.3 million in payroll costs). The balance of € 2.2 million corresponds to the reversal of the provision on the Hasbro prepaid fees (see note 19).

## 17. OTHER PURCHASES AND EXPENSES

Other purchases and expenses consisted of the following:

| (€ 000) | 3/31/2006 ( 12 months) | 3/31/2005 ( 9 months ) |
|---|---|---|
| Purchases not recorded in inventories | 3 | 42 |
| Subcontracting | 2,999 | 3,109 |
| Rent on premises (including building charges) | 2,888 | 2,142 |
| Rent on personal property (including leases with options | 435 | 411 |
| Cleaning, repairs and maintenance | 16 | 43 |
| Insurance | 1,000 | 947 |
| Fees | 1,932 | 1,182 |
| Advertising, publications and public relations | 196 | 140 |
| Travel and representation | 637 | 324 |
| Mail and telecommunications | 71 | 33 |
| Bank charges | 498 | 411 |
| Royalties | 6,455 | 1,902 |
| Other expenses | 499 | 1,109 |
| **Total** | ***17,629*** | ***11,795*** |

On March 31, 2006, royalty fees consisted of the following:

- royalties of € 2.7 million payable at the end of original licensing agreements (see note 1.1)
- royalties of € 3.7 million payable on two new licenses.

## 18. EMPLOYEES AND PAYROLL

The table below shows the average size of the company's work force for the past two fiscal years.

| | Supervisory | Non-supervisory | Total |
|---|---|---|---|
| March 31, 2005 | 8 | 2 | 10 |
| March 31, 2006 | 12 | 4 | 16 |

The increase in the size of the Company's workforce resulted from the February 2006 reallocation of resources among French Group entities.

Fees paid to members of the Company's board for the period ended March 31, 2006 (12 months) amounted to € 1,399,000, compared with € 578,000 for the year ended March 31, 2005 (9 months).

Other changes include a sum of € 93,000 in directors' fees paid or to be paid to members of the board of directors for the period ended March 31, 2006 (12 months), compared with € 73,000 for the year ended March 31, 2005 (9 months).

French Act no. 2004-391 of May 4, 2004 on lifetime occupational training and labor relations amends articles L933-1 and L933-6 of the Labor Code by providing that the permanent employees of private employers are entitled to individualized occupational training of at least 20 hours per year, which may accumulate over a period of up to six years (to a maximum of 120 hours).

The Company’s employees did not make use of the above right during 2005 fiscal year.
The Company had obligations totaling 385 hours under the Training Act as of March 31, 2006.

## 19. DEPRECIATION AND IMPAIRMENT ALLOWANCES AND CANCELLATIONS

| (€ 000) | 3/31-2006 (12mois) | 3/31-2005 (9mois) |
|---|---|---|

| | | |
|---|---|---|
| Contingency and loss allowances | 2,189 | 47 |
| Impairment allowances on current assets | 9 | 319 |
| *Total cancellations* | *2,198* | *366* |
| Depreciation and amortization allowances: | | |
| - intangible assets | 0 | 2 |
| - property, plant and equipment | 169 | 138 |
| Contingency and loss allowances | 0 | 0 |
| Impairment allowances on current assets | 0 | 2 |
| *Total allowances* | 169 | 142 |

## 20. FINANCIAL INCOME

| € 000 | 3/31/2006 12 months) | 3/31/2005 (9 months) |
|---|---|---|
| ***Financial revenue*** | | |
| - Foreign-exchange gains | 1,104 | 790 |
| - Interest income | 5,785 | 3,504 |
| - Cancelled provisions and transfer of expenses | 4,327 | 40,016 |
| - Other financial revenue | 205 | 50 |
| ***Financial expenses*** | | |
| - Foreign-exchange losses | 1,352 | 2,263 |
| - Interest expense | 10,235 | 6,544 |
| - Impairment allowances | 239,225 | 18,727 |
| - Other financial expenses | 25 | 39,849 |
| ***Net financial income*** | ***(239,416)*** | ***(23,023)*** |

Financial income for the year to March 31, 2006 reflects:

- interest income of 5.8 million, consisting mainly of interest on loans extended by the Group (€ 5.3 million);
- reversals of provisions and transfers of expenses of € 4 million, including the reversal of a contingency and loss provision of € 4 million on currency risks;

At the end of the nine-month period to March 31, 2005, reversals of provisions included cancellations of € 40 million recognized earlier on loans and advances to subsidiaries, including € 38.7 million resulting from waivers of debt by the Company in favor of its three subsidiaries IDRS SA, Atari Interactive SA and Atari Interactive Inc. The reversals covered up to the expense recognized in other financial expenses,

Financial expenses for the year ended March 31, 2006 include:

- Interest expense, including debt servicing costs (bonds, bank loans) of € 8.4 million, representing the excess over interest income on intra-Group loans and advances.
- Impairment allowances include provisions of € 197 million on investments in subsidiaries (see note 5.2), provisions of € 40 million on receivables from affiliates and the amortization of bond discounts (€ 1.7 million).

For the period ended March 31, 2005 (9 months), impairment allowances and provisions pertained mainly to an impairment of € 11 million on the shares of California US Holding, Inc. Other financial expenses included waivers of subsidiaries' debt totaling € 38.7 million.

## 21 NON-RECURRING ITEMS

| (€ 000) | Gains | Losses | Net |
|---|---|---|---|
| **Period ended 3/31/2006 (12 months)** | | | |
| - On operations | 277 | 6 | *271* |
| - On investments | 9115 | 38,561 | *(29,446)* |
| - Impairment and provision allowances | 31,621 | 1,535 | *30,086* |
| - Other items | 52,722 | 3,841 | *48,881* |
| **Total** | **93,735** | **43,943** | **49,792** |
| **Period ended 3/31/2005 (9 months)** | | | |
| - On operations | 339 | 688 | *(349)* |
| - On investments | 105 | 13,251 | *(13,146)* |
| - Impairment and provision allowances | 13,777 | 1,903 | *11,874* |
| - Other items | 13,778 | 1,343 | *12,435* |
| **Total** | **27,999** | **17,185** | **10,814** |

Proceeds from investment transactions are accounted by the sale of Humongous shares (see note 1.2).

Losses on investment transactions reflected chiefly:

- the sale of Infogrames Interactive SA shares (€ 29 million) during the period; the loss on that sale was offset by the reversal of a provision of the same amount, reported as extraordinary gain;
- the sale of Humongous shares (see note 1.2).

Other non-recurring gains consisted exclusively of gains generated by the sale of Hasbro rights (€ 52.7 million).

Other non-recurring charges are accounted for by additional restructuring expenses incurred during the year.
For the period ended March 31, 2005, other non-recurring charges corresponded to a provision recognized for rent on unused premises.

# 22. COMPANY INCOME TAX

| (€ 000) | 3/31-2006 (12 months) | 3/31-2005 (9 months) |
|---|---|---|
| Company income tax | 943 | 185 |
| Profit-sharing allowance | (4) | 0 |

The distinction between company income tax on recurrent and non-recurrent income is not relevant, since the Company has significant accumulated tax losses.

The Company heads a group of companies consolidated for tax purposes (art. 223 A et seq. of the French General Tax Code), which includes Atari Europe, Atari France, I Music, Eden Games and IDRS.
For the period ended March 31, 2006, tax consolidation resulted in deferred tax assets of € 943,000 (over 12 months).

## 22.1. IMPACT OF VALUATION ALLOWANCES

| (€ 000) | 3/31/2006 (12 months) |
|---|---|
| Net income for the year | (192,527) |
| Corporate income tax | 939 |
| Pre-tax income | (193,466) |
| Changes in accelerated depreciation | |
| Income (loss) before valuation allowances | (193,466) |

## 22.2. INCREASE OR DECREASE IN DEFERRED TAX LIABILITIES

- Factors giving rise to a deferred tax liability: none

- Factors causing a reduction in deferred tax liabilities:

| Factors | Tax base (€ 000) |
|---|---|
| Decrease in convertible bond redemption premiums | 3,825 |
| Provisions not deducted | 1,565 |
| Ordinary loss carry-over (including accelerated depreciation) | 205,943 |
| Long-term capital losses | 445,703 |

# 23 PAYABLES TO SUPPLIERS - ACCRUED INVOICES

| **Accrued expenses**<br>(€ 000) | **3/31/2006** | **3/31/2005** |
|---|---|---|
| Payables to suppliers - Accrued invoices | 2,150 | 3,892 |
| Tax, employee benefits and social security payable | | |
| - Provision for bonuses, paid vacation and leaves | 546 | 587 |
| - Other fringe benefits payable | 28 | 55 |
| - Taxes payable | 139 | 168 |
| Other expenses payable | | |
| **Total accrued expenses** | **2,863** | **4,702** |

| **Accrued revenue**<br>€ 000 | **3/31/2006** | **3/31/2005** |
|---|---|---|
| Accrued trade receivables to be billed | 1,572 | 683 |
| Refund of Euria security deposit | 15 | 14 |
| **Total accrued revenue** | **1,587** | **697** |

# 24 OFF BALANCE-SHEET COMMITMENTS

## 24.1. COMMITMENTS MADE

- **SURETIES**

In the ordinary course of its business, the Corporation has agreed to stand surety for the following credit facilities extended to Group entities by banks:

- Atari Australia: AUD 8.5 million (€ 5.0 million)

- **GUARANTEE PROVIDED IN CONNECTION WITH STANDBY LETTERS OF CREDIT**

The Company has provided guarantees in connection with letters of credit; these guarantees are provided to the principal trade suppliers of the Company and its Atari Europe subsidiary.

As of March 31, 2006, the following guarantees were in effect:

| Supplier | Sum guaranteed | Expiration date |
|---|---|---|
| Letters of credit | € 97,000 | April 18, 2006 |

- **OTHER GUARANTEES**

The Company has guaranteed payments of € 31.0 million to production funds that made funding available to certain subsidiaries (in addition to any royalties payable to the funds).

The Company has also guaranteed the payment of a minimum of USD 26.6 million (€ 22.0 million) to Hasbro Inc over the term of the licensing agreement. Payment is to be made as follows:

| Maturity | Amount |
|---|---|
| < 1 year | USD 1.9 million |
| 1 to 5 years | USD 14.2 million |
| > 5 years | USD 10.5 million |
| **Total** | **USD 26.6 million** |

## ▪ PLEDGED ASSETS

The Company has agreed to pledge all the shares of its Atari Europe SASU and Atari Asia Holding Ltd Pty to banks:

| Pledged assets | Effective date of pledge | Expiration date | Value of pledged shares (a) | Total interest held (b) | % (a) / (b) |
|---|---|---|---|---|---|
| On shares of subsidiaries (1) | April 16, 2003 | Extinguishment of the Company's obligations to pledgees | € 153.8 million | € 287.8 million | 53% |

(1) - The sums above are net book values taken from the Company's financial statements for the period ended March 31, 2006.

The Group has also pledged to these same creditor banks all of the shares of Atari France SAS, Atari United Kingdom Ltd and Atari Deutschland GmbH, Atari Australia Pty Ltd and Infogrames Studios Ltd indirectly held by the Company, as well as certain trademarks and copyrights.

The Group has also given guarantees to holders of its 2005-2008 Notes; the servicing of the Notes in principal repayment, costs and ancillary expenses is guaranteed by California US Holding, Inc., a wholly-owed subsidiary of the Company, by means of a senior pledge of 16,685 Atari shares per Note, or a total of 40.1 million Atari Inc. shares.

## ▪ UNDERTAKING TO PLEDGE OR TO KEEP CERTAIN ASSETS FREE OF LIENS AND ENCUMBRANCES

The Group has undertaken to pledge to creditor banks a number of California US Holding, Inc. shares with a current value of between USD 100 million and USD 150 million, the number pledged diminishing thereafter as medium-term loans are repaid by the Group.

The Group has guaranteed that California US Holding, Inc. shall keep Atari shares with a market value of € 14 million free of liens and encumbrances, for as long as the Group has not fulfilled all of its obligations to the aforementioned production fund (see "Other guarantees" above).

## ▪ GUARANTEES GIVEN BY THE COMPANY AND ATARI EUROPE SAS

In connection with the financing of its operations, the Company has given parent-company guarantees to Group subsidiaries during the year ended March 31, 2006 for a total of € 46.3 million, of which € 27.6 million for overdraft facilities and cash loans extended to Atari Deutschland (€ 12.5 million), Atari UK (€ 11.5 million), Atari Italia (€ 2.3 million) and Atari Espana (€ 1.3 million), and € 18.7 million for letters of credit and other guarantees provided by banks to Atari Europe's principal suppliers to finance its purchasing of supplies. The Company is also a guarantor of financial obligations of AUS 8.5 million (€ 5 million) by its Atari Australia subsidiary.

## ▪ CONTINGENT LIABILITY

The Company has a potential obligation to its executive vice president, Mr. Coppée, calling for the payment of a severance indemnity of 1.5 times his annual compensation (currently € 300,000), with a minimum of € 337,000, if he leaves his job for any reason. The minimum indemnity would be increased to € 675,000 if Mr. Coppée's departure (resignation or termination) occurs within six months after control of the Company changes hands.

## 24.2. COMMITMENTS RECEIVED

In February 2002, the Company waived a shareholder loan of € 11.4 million to Infogrames Entertainment GmbH, until that company regains its financial health. No payment was received from that subsidiary in the period ended March 31, 2006 under that "return-to-profitability" clause (compared to a one-time payment of € 0.7 million in the fiscal year ended June 30, 2003).

## 24.3. RENTAL AGREEMENT

The Company has entered into a nine-year lease for its principal office starting in June 2001.

The lease cannot be cancelled and schedule of the minimum future rents is as follows:

| **Year** | **March 31, 2006 (€ 000)** | **March 31, 2005 (€ 000)** |
|---|---|---|
| N+1 | 1,356 | 3,034 |
| N+2 | 2,663 | 3,034 |
| N+3 | 2,663 | 3,034 |
| N+4 | 2,663 | 3,034 |
| N+5 | 511 | 3,034 |
| Beyond | 0 | 582 |
| **Aggregate of future rents** | **9,856** | **15,751** |

## 24.4. CAPITAL LEASES

The sums below are in thousands of euros.

| Leased fixed assets | | | | |
|---|---|---|---|---|
| Item | Initial cost | Depreciation | | Net value |
| | | for the period | accumulated | |
| Fixtures and improvements | 1,882 | 499 | 1,525 | 357 |
| Total | 1,882 | 499 | 1,525 | 357 |

| Lease commitments | | | | | | | |
|---|---|---|---|---|---|---|---|
| Item | Payments made | | Remaining payments | | | | Residual price |
| | for the period | accumulated | < 1 year | 1 to 5 years | > 5 years | total | |
| Fixtures and improvements | 372 | 1,838 | 117 | 343 | 0 | 460 | 9 |
| Total | 372 | 1,838 | 117 | 343 | 0 | 460 | 9 |

## 24.5. PENSION COMMITMENTS

In light of the small size of the Company's staff, commitments concerning pension benefits are not material.

# 25. DISPUTES

The Company is involved in litigation and claims in the ordinary course of their business. None of the litigation is considered likely to have any impact on the Company's financial statements.

However, during the fiscal year ended March 31, 2006, a significant case arose in which the Company is being sued by a former employee who claims that he co-authored one of the Group's best-selling franchises. The plaintiff is seeking damages for moral prejudice and financial loss suffered as a result of the allegedly unlawful distribution by the Group of games based on that universe. Damages claimed are in excess of € 17.0 million. At this preliminary stage of the proceeding, the Company is categorically rejecting the plaintiff's claim of authorship and considers the grounds and amount of his claim to be unfounded. Management accordingly considers that no provision needs to be recognized for this dispute.

# 26. CONSOLIDATING ENTITY

The Company is the consolidating entity for its group.

# 27. AFFILIATES

| (€ 000) | Entities | | | |
|---|---|---|---|---|
| | Subsidiaries | | Holdings | |
| | Gross | Net | Gross | Net |
| **ASSETS** | | | | |
| Shares in subsidiaries and investment holdings | 879,538 | 287,842 | 225 | 200 |
| Receivables from subsidiaries | 107,442 | 49,248 | | |
| Other financial assets | | | | |
| Current receivables | 3,107 | 3,107 | | |
| **LIABILITIES** | | | | |
| Convertible bond debt | | - | | - |
| Other debt | | 44,828 | | - |
| Trade payables | | 793 | | - |
| **FINANCIAL INCOME AND EXPENSES** | | | | |
| Interest income | | 5,519 | | |
| Interest expense | | 1,907 | | - |

The Company is the umbrella entity for the Infogrames/Atari Group, which it heads. Its principal revenue comes from services performed on behalf of group entities. It lends funds to and borrows funds from its subsidiaries, on which interest is charged or paid.

In terms of financing, the Company is responsible for most of the Group's debt, including its 2005-2008 Notes and 2000-2011 and 2003-2009 convertible bonds, as well as its bank debt on March 31, 2006.

Subsidiaries and investments (in millions of euros)

| Subsidiaries and investments on March 31, 2006 | Capital stock | Equity in excess of capital stock | Percentage of shares held on 3/31/06 | Book value of investment: Gross | Net | Uncollected loans and advances | Loans and advances outstanding | Revenue for the last fiscal year | Revenue for the last fiscal year | Observations |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Detailed information concerning interests in subsidiaries and other holdings with a value in excess of 1% of the Corporation's capital** | | | | | | | | | | |
| 1.1. Subsidiaries (ownership interest in excess of 50%) | | | | | | | | | | |
| Atari Europe SAS | 2.0 | 5.6 | 100% | 183.3 | 127.5 | 0.0 | - | 109.6 | 0,8 | |
| Infogrames Entertainment GmbH | 2.7 | (1.4) | 100% | 8.4 | 8.4 | 3.6 | - | 0.0 | 0.1 | |
| Infogrames Interactive Ltd | 0.0 | (7.5) | 100% | 14.1 | 0.0 | 0.0 | - | 0.0 | 0.1 | |
| Ocean International Ltd | 57.4 | (17.5) | 100% | 113.1 | 23.5 | 7.2 | - | 0.0 | 0.1 | |
| Atari Do Brasil Ltda | 0.8 | (2.3) | 100% | 1.4 | 0.0 | 1.2 | - | 0.3 | 0.0 | (1) |
| Atari Asia Holding Pty | 40.5 | (0.2) | 100% | 40.0 | 26.3 | 0.0 | - | 0.0 | 0.0 | |
| California US Holdings Inc | 0.0 | 160.5 | 100% | 429.4 | 79.0 | 0.0 | - | 0.0 | 0.3 | |
| Paradigm Entertainment Inc | 0.0 | 10.3 | 100% | 18.0 | 5.5 | 0.0 | - | 6.6 | 0.3 | |
| Atari Interactive Inc. | 0.0 | (47.9) | 100% | 43.6 | 0.0 | 82.3 | - | 15.4 | (20.2) | (2) |
| Microprose Ltd | 6.4 | (2.9) | 100% | 2.8 | 2.8 | 0.0 | - | 0.0 | 0.0 | |
| Eden Games SAS | 0.3 | 1.9 | 100% | 10.1 | 10.1 | 0.0 | - | 9.3 | 0.5 | |
| All subsidiaries (more than 50% interest) | | | | 864.2 | 283.1 | 94.3 | | | | |
| 1.2. Other holdings (ownership interest of 10% to 50%) | | | | | | | | | | |
| Game One SAS | 0.1 | (1.7) | 45% | 4.9 | 0.6 | 0.5 | - | 4.4 | (0.5) | Year ending 12/31/05 |
| 1.3. Other holdings (ownership interest of less than 10%) | | | | | | | | | | |
| Atari Inc | 1,114 | 59,372 | 5% | 9.8 | 3.7 | 0.0 | - | 179.6 | (56.7) | |
| | | | | | | | | | | |
| **2 Aggregate information concerning investments with a gross value of less than 1% of the Corporation's capital** | | | | | | | | | | |
| 2.1. French subsidiaries and investments | | | | 0.0 | 0,0 | 0,0 | - | | | |
| 2.2. Foreign subsidiaries and investments | | | | 0.7 | 0,4 | 1,3 | - | | | (3) |
| **GRAND TOTAL** | | | | **879.6** | **287.8** | **96.1** | | | | |

An impairment provision of € 0.5 million on loans and advances outstanding to Atari Do Brasil Ltda was recognized in the Company financial statements for the fiscal year ended March 31, 2006.

An impairment provision of € 37.4 million on loans and advances outstanding to Infogrames Interactive Inc. was recognized in the Company financial statements for the fiscal year ended March 31, 2006.
An impairment provision of € 1.3 million on loans and advances outstanding to Atari Japan was recognized in the Company financial statements for the fiscal year ended March 31, 2006.

### Remarks:

In the case of subsidiaries and holdings whose financial statements are in a currency other than the euro, the sums in the table above have been calculated as follows:

- the exchange rate in effect on the last day of the fiscal year was used to translate the value of their capital stock and equity;
- the average exchange rate for the relevant fiscal year was used to translate revenue and income.

## 28. DEVELOPMENTS SUBSEQUENT TO THE END OF THE FISCAL PERIOD

### ▪ NEW AGREEMENT WITH BANKS

Infogrames Entertainment announced on April 24, 2006 that on March 28, 2006 it concluded a new agreement with banks, as part of its debt refinancing plan and the optimization of its operating resources. The principal features of the new agreement include:

- deferral to March 31, 2008 of the maturity of medium-term bank loans of € 25.6 million (of which € 23.4 million owed by IESA and € 2.2 million by Atari Europe)
- extension of short-term operating credit facilities of € 20 million for one year;
- possible access to up to € 30 million in local credit facilities in Europe, backed by trade receivables.

The new agreement replaces and supersedes an earlier agreement that deferred repayment of medium-term bank loans to June 15, 2006.

In addition to the guarantees previously given to the original lending banks, the new bank has been given new guarantees covering the existing financing and the new short-term credit facilities.

I) New pledges of assets by the Company and some of its subsidiaries in favor of the lending bank, under the new credit facility agreement.

There are three kinds of new security interests:

- Pledges of securities: Pledge of all of the shares of the US company Atari Interactive, Inc., the French development studio Eden Games SAS, and the shares of Atari Italia Spa, Atari Iberica SA, Atari Benelux BV and Atari Nordic Ab held by Atari Europe SAS.
- Pledges of shareholder receivables: i) IESA's receivables from Atari Interactive, Inc. Ocean (UK), Atari Studio Asia, Infogrames Entertainment GmbH and Atari Melbourne House; ii) Atari Europe's receivables from its subsidiaries.
- Pledge of rights to certain games (Act of May 10, 1994 and article 132-34 of the Intellectual Property Code) and trademarks.

Infogrames Entertainment continues to seek additional refinancing sources for its debt, including by trading debt for equity, additional stock offerings and the sale of assets.

The table below shows the book value of the assets pledged by the Group (other than Atari Inc.) on June 30, 2006 (in millions of euros):

| Pledged assets | Effective date | Expiration date | Value of pledged assets (a) | Balance-sheet total (b) | % (a) / (b) |
|---|---|---|---|---|---|
| Investment holdings (1) | April 16, 2003 (extended April 13 2006) | March 31, 2008 | 195.8 | 287.8 | 68.0% |

*The book value of those shares is shown in the company financial statements on March 31, 2006 and is the only relevant value, as the subsidiaries concerned are consolidated. The balance sheet amount is the amount shown in the company financial statements (interest in subsidiaries). The totals were unchanged on June 30, 2006.*

Subsequent to the closing, the Company and Atari Europe provided joint and several guarantees to their subsidiaries in connection with the bank debt refinancing of April 13, 2006 with the Group's new lending bank covering the following:

| Debt guaranteed | Guaranteed principal (not incl. interest and fees) | Maturity date |
|---|---|---|
| Short-term credit facility | € 20 million | 4/1//07 |
| Medium-term loan | € 25.6 million | 3/31/08 |
| Other local facilities (Italy, Spain, Australia) | € 8.6 million | – |

## ▪ TRANSFER OF SHARES TO ATARI EUROPE

On June 1, 2006, it was agreed that the Company would transfer to Atari Europe all of its shares of three subsidiaries: Ocean International Limited, Infogrames Entertainment GmbH and Atari Asia Holding Pty Ltd.

The transaction is a transfer of equity interests and is part of an internal restructuring operation by the Group, intended to streamline its distribution business.

The ownership transfer will help reorganize the Group's structure by putting most of the distribution entities under the umbrella of Atari Europe SAS, which already distributes the Group's products, either directly or indirectly, including in the European Union.

The following consideration was paid for the transfer of shares valued at € 58.1 million:

- € 23.4 million by means of the assumption by Atari Europe of the loan extended to Infogrames Entertainment by the new lending bank;
- € 17.7 million by the assumption of the Company's debt to Atari Europe;
- € 17 million by means of a payment to Infogrames Entertainment in new shares of Atari Europe.

## ▪ RESCHEDULING OF NOTES' MATURITY

On June 15, 2006, a general meeting of the note holders resolved to amend their indenture and to postpone to September 15, 2006 the repayment date of the first € 11.2-million fraction of the notes' principal (before interest).

## ▪ TRANSFER OF ATARI INC SHARES TO CALIFORNIA US HOLDING, INC

As part of measures taken to bring all of the Company's US assets under a single entity, 2,000,000 Atari Inc. shares were purchased from Atari Interactive Inc. on April 5, 2006 for USD 1.28 million (€ 1.04 million) and Infogrames Entertainment then transferred all 9,010,663 Atari Inc. share it held to California US Holding Inc. for USD 5.8 million (€ 4.7 million). As a result, all of the Group's shares of Atari Inc. are now held by California US Holding, Inc.

## ▪ FINAL STEP IN THE RESTRUCTURING OF THE DEBT AND RESTORATION OF THE GROUP'S CAPITAL EXPENDITURE CAPACITY

On September 8, 2006 the Company signed an agreement with the principal holders of its bond and bank debt, providing for the implementation of a financial restructuring plan (the "Plan") aimed at significantly reducing company debt, restoring its net worth and ensuring that it has sufficient cash to meet its operating expenses.

The agreement is part of a general plan announced by the Company on February 9, 2006, which has already led to a series of disposals of assets and a renegotiation of its bank debt, under an agreement made public on April 21, 2006.

The Company has asked an independent expert, Associés en Finances (223 Rue Saint Honoré, 75001 Paris), to ascertain that the plan was fair to all parties concerned. The expert's report will be issued prior to the shareholders' meeting.

The plan is in five steps:

## Step 1: Increase of the short-term facility by € 25 million and rescheduling of its maturity

Under an amendment to existing agreements with banks, the new lender has agreed to:

- increase the short-term facility by € 25 million from € 20 million to € 45 million, and
- reschedule its maturity from March 31, 2007 to December 31, 2008.

A € 10-million portion of the loan will be repayable following the equity issue referred to in Step 4 below, and the balance on December 31, 2008.

## Step 2: Amending of certain terms of the 2005-2008 Notes

The Company has convened a meeting of the holders of its 6% Notes for September 29, 2006. The Notes have a face value of € 14 each and mature on March 15, 2008. There is a total of € 33.7 million in 2005-2008 Notes outstanding. The purpose of the meeting is to approve the rescheduling of the repayment of the first portion of the Notes' principal to February 15, 2007 and to amend some of the prepayment clauses.

The principal holder of 2005-2008 Notes, a fund managed by Boussard et Gavaudan Asset Management LP, owns 75.8% of the 2,403,772 Notes outstanding and has agreed to vote in favor of the changes.

## Step 3: Amending of certain terms of the OCEANE 2003-2009 bonds

A meeting of holders of the Company's bonds convertible or exchangeable for new or existing shares (OCEANE) maturing on April 1, 2009, with a value outstanding of € 124.3 million, has also been called for September 29, for the purpose of approving:

- an extension of the bond's maturity from April 1, 2009 to April 1, 2020, as the OCEANE 2003-2009 bonds' convertibility ends on April 1, 2009;
- a reduction of the bonds' interest rate from 4% to 0.01%,
- the elimination of an event-of-default clause.

Funds managed by GLG Partners and Bluebay Asset High Yield (Master Fund) (referred to as the "Investors"), which own 67.8% of the 16,487,489 OCEANE 2003-2009 in circulation, have agreed to vote in favor of the changes.

## Step 4: Shareholders' Meeting / Capital increase / Prepayment of 2005-2008 Notes / Restricted distribution of free warrants

The Company plans to increase its capital by € 74 million (including premiums over par), by means of a rights issue priced at € 0.15 per share, of which € 33.7 million will be used to redeem all of the 2005-2008 Notes, € 10 million will serve to repay part of the short-term loan and € 30 million will finance the Company's operations.

The principal holder of 2005-2008 Notes and the Investors are already irrevocably committed to purchasing shares not subscribed for during the offering period, for € 33.7 million and € 40 million, respectively. The foregoing commitments are subject to the customary conditions for this type of transaction and to the securing of an exemption to the tender offer requirement.

In consideration for their contribution to the financial restructuring and implementation of the plan, the Investors and the principal holder of 2005-2008 Notes will receive share warrants subsequent to the share issue, exercisable over a period of three years for new Company shares at a price of € 0.15 each for up to, respectively 15% and 3% of shares outstanding[5] after the capital increase and the exchange tender offer called for by Step 5 below.

In this connection, the board of directors will ask the shareholders' meeting called to approve the financial statements, which is to convene on first notice on September 29, 2006, to vote on the following resolutions:

- a reduction of the shares' par value to one cent (€ 0.01);
- a reverse split of the Company's shares through the exchange of one new share with a par value of one euro (€ 1) for one hundred (100) shares with a par value of one cent (€ 0.01);
- the renewal of authority for financing transactions, including to issue shares as set forth above and for the purpose of the exchange tender offer for OCEANE 2003-2009 bonds under Step 5 below;
- restricted grants of free warrants to Boussard Gavaudan Asset Management LP and The BlueBay High Yield (Master Fund);
- the appointment of two additional directors nominated by Bluebay Asset Management Limited.

## Step 5: Exchange tender offer for the OCEANE 2003-2009 bonds

Provided that the resolutions relating to steps 2 to 4 are approved by the shareholders' meetings, subsequent to the equity issue of Step 4, the Company will make a simplified exchange tender offer for its OCEANE 2003-2009 bonds, each of which would be exchangeable for 32 new Company shares. On the basis of a price per share of € 0.15 (the offering price at the time of issue), the value of each OCEANE would come to € 4.80, a discount of approximately 37.5%, including accrued interest.

The Investors have agreed to tender the 11,185,658 OCEANE 2003-2009 bonds held by them, which represent 67.8% of those outstanding.

## Conditions precedent

In order to be carried out beyond its first step, the plan must be approved by the holders of 2005-2008 Notes and of OCEANE 2003-2009 bonds, as well as by a special shareholders' meeting. It must also be granted the necessary authorizations and exemptions by the financial market authorities.

The plan calls for the capital increase to be completed prior to December 30, 2006 or, if a shareholders' meeting must be reconvened due to a lack of quorum, before February 15, 2007. Finally, the exchange tender offer must take place no later than April 30, 2007.

## Impact of the plan on Infogrames Entertainment's current shareholders

As an indication, if all OCEANE 2003-2009 bonds are tendered under the exchange offer and are converted into Company shares, the impact of this conversion on the equity held by a shareholder with one percent of the Company's shares who does not exercise his rights to purchase new shares would be as follows:

| | **Equity ownership** |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 0.28% |
| After increase in capital and conversion of OCEANE bonds | 0.16% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.13% |

The dilutive impact for a shareholder with 1 percent of the Company's shares on June 30, 2006, who exercises his right to subscribe for new shares would be as follows:

| | Equity ownership |
|---|---|
| Before increase in capital | 1% |
| After increase in capital and before conversion of OCEANE bonds | 1% |
| After increase in capital and conversion of OCEANE bonds | 0.56% |
| After increase in capital and conversion of OCEANE bonds and exercise of warrants | 0.48% |

# AUDITORS' GENERAL REPORT

Period ended March 31, 2006

In accordance with the terms of our appointment by your Shareholders' Meeting, we hereby submit our report for the year ending March 31, 2006, on:

- the audit of the annual financial statements of Infogrames Entertainment, as attached to this report,
- the grounds for our opinion,
- the specific tests and procedures called for by law.

The financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

## I. OPINION ON THE ANNUAL FINANCIAL STATEMENTS

We have conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform examinations to obtain a reasonable assurance that the financial statements are free from material misstatements. An audit includes an examination, on a test basis, of evidence supporting the transactions reflected in the accounts. It also requires assessing the accounting principles used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the opinion hereunder.

In our opinion, the annual financial statements present fairly, in all material respects, the results of the year's transactions and the financial position and assets of the Company at the end of the fiscal year, in conformity with generally accepted accounting principles in France.

Without qualifying the above opinion, we wish to call to your attention the significant uncertainty regarding the continued operation of the company, referred to in note 2.1 to the financial statements, which:

- describes the Company's financial position, the terms of the financial restructuring plan agreed upon on September 8, 2006 with the principal holders of the bank and bond debt, as well as current measures taken to finance operations until the share issue called for by the financial restructuring plan,
- indicates that the annual financial statements have been prepared under the going-concern assumption, on the expectation that the plan and the measures would be successful,
- and explains that this success is contingent on the extension of operational financing currently being negotiated and the approval of the financial restructuring plan by the Company's shareholders

## II. GROUNDS FOR OUR OPINION

In accordance with the provisions of article L.823-9 of the Commercial Code on the justification of our opinion, we hereby report to you the following:

- Going concern

Note 2.1 to the consolidated financial statements, referred to in the first part of this report, explains the Company's position and recent changes, as well as the significant uncertainty concerning its continued operation.

Based on our audit and the information that we have received to date and as part of our assessment of the accounting rules and principles applied by your Company, we have ascertained that the notes provide proper information regarding the position of the Company and its recent development, as well as the significant uncertainty concerning its continued operation.

- Valuation of investment in and receivables from subsidiaries

Note 2.2 to the financial statements describes the accounting principles and methods pertaining to the valuation and write-down of financial assets. We have verified the appropriateness of the methods employed, examined the data and assumptions on which valuations are based on verified the calculations made. We have also ascertained that note 5.2 to the financial statements provides appropriate information.

The above procedures form part of our audit of the full annual financial statements and contributed to our opinion stated in the first part of our report.

## III. SPECIFIC TESTS AND PROCEDURES

We have also performed the specific tests and procedures called for by law, in conformity with professional standards applicable in France.

We have no observations to make regarding the fairness and consistency with the financial statements of the information contained in the board of directors' report and the documents provided to the shareholder concerning the Company's financial position and financial results.

As required by law, we have ascertained that the information regarding acquisitions of equity interests and voting rights and the ownership of the Company had been included in the annual report.

Lyon and Villeurbanne, September 14, 2006

The Auditors

| Pin Associes | Deloitte & Associes |
|---|---|
| Jean-François Pin | Alain Descoins |

# GENERAL INFORMATION CONCERNING THE COMPANY AND ITS CAPITAL

## GENERAL INFORMATION CONCERNING THE COMPANY

### ▪ NAME AND PRINCIPAL OFFICE (ARTICLE 3 OF THE ARTICLES OF INCORPORATION)

INFOGRAMES ENTERTAINMENT S.A.

Principal Office

1 Place Verrazzano

69252 Lyon Cedex 09, France

Telephone: + 33 4 37 64 37 64

### ▪ FORM OF BUSINESS ORGANIZATION AND GOVERNING LAW

French Company (*société anonyme*) with a board of directors, governed by Articles L. 210-1 *et seq*. of the Commercial Code (*Code de Commerce*). The Company is governed by French law.

### ▪ DATE OF INCORPORATION AND LIFE

The Company was formed for a term of 99 years commencing on July 15, 1987 with its registration in the Trade and Company Register and ending July 15, 2086, absent early dissolution or extension.

### ▪ CORPORATE PURPOSE (ARTICLE 2 OF THE ARTICLES OF INCORPORATION)

The corporate purpose consists of:

▪ designing, producing, publishing and distributing all multimedia and audiovisual products and works, including those in the nature of entertainment, in any form, including software, data processing and content (either interactive or otherwise) for all media and by means of all present and future means of communication;

▪ purchasing, selling, supplying and as a general matter distributing all products and services related to the foregoing;

▪ creating, acquiring, using and managing intellectual and industrial property rights or other rights in rem or in personam, including by means of assignment, licensing, patents, trademarks and other copyrights;

▪ acquiring interests in other firms, through joint ventures or by any other means, including the formation of new entities and the issuance, subscription or transfer of securities in any business directly or indirectly related to the foregoing or to the products and ideas developed by the Company;

and, as a general matter, any transactions with a purpose similar or related to the foregoing, or otherwise likely to benefit the Company in France and elsewhere.

- **TRADE AND COMPANY REGISTRY**

Lyon B 341 699 106, APE Code: 8907, NAF Code: 652 E.

- **PLACE WHERE LEGAL DOCUMENTS MAY BE EXAMINED**

Company's principal office.

- **FISCAL YEAR (ARTICLE 6 OF THE ARTICLES OF INCORPORATION)**

The fiscal year of the Company commences on April 1st and ends on March 31st of each year.

- **APPROPRIATION OF EARNINGS (ARTICLE 24 OF THE ARTICLES OF INCORPORATION)**

The income or loss for each fiscal year is calculated by deducting from net revenue all overhead and other business expenses, including allowances for depreciation and provisions.

At least 5 percent of the net profit, minus previous losses, if any, is set aside as a legal reserve. This allowance ceases to be mandatory when the legal reserve is equal to one-tenth of capital stock. It resumes when, for any reason whatsoever, this ratio is no longer obtained. Earnings available for distribution to shareholders as a dividend consist of the year's income, less accumulated losses and the above reserve allowance, plus any retained earnings from previous years.

The Shareholders' Meeting to which the financial statements for the year are submitted may elect to pay out some or all of the dividends in either stock or cash.

- **SHAREHOLDERS' MEETINGS (ARTICLE 19 OF THE ARTICLES OF INCORPORATION)**

**Notice of Meetings and Attendance**

Annual Shareholders' Meetings are called in accordance with the law for the holders of fully paid-up stock, regardless of the number of shares they own on the date of the meeting. Each share entitles its owner to one vote. No provision exists which restricts the participation of shareholders at Shareholders' Meetings. To be of record, holders of registered shares must have had their shares registered on the Company's books for more than 2 days and, in the case of bearer shares, shareholders must produce a certificate stating that said shares are held in escrow by an authorized intermediary at least 2 days prior to the date of the meeting.

Shareholders may elect to be represented by another shareholder or by their spouse only. Proxies, granted in accordance with applicable regulations, must be deposited at the Company's principal office no later than five days prior to the Meeting. Shareholders may elect to vote by mail using a ballot form which will be sent to them free of charge on request, by the Company's transfer agent. Applications to the Company for mail ballot forms must be mailed by registered letter, return receipt requested, no later than five days prior to the date of the shareholders' meeting. Mail ballot forms can be used by shareholders to vote on each resolution in the order in which they are submitted to the meeting. They include all information and attachments required by law. Forms must be returned to the Company's paying agent no later than three days prior to the meeting, failing which they will not be recorded. They shall also be disregarded unless they include the shareholder's last name, first name, address and signature, or the signature of the shareholder's legal representative or guardian. The Board of Directors may refuse to allow shareholders or their proxies to vote by mail or attend shareholders' meetings if they fail to comply with the articles of incorporation, bylaws and applicable regulations. Shareholders may participate in meetings by means of videoconferencing or other electronic telecommunications technology, as provided for by decree.

- **QUORUM AND MAJORITY VOTING RULES (ARTICLES 20 AND 21 OF THE ARTICLES OF INCORPORATION - REVISION OF ARTICLE 6 OF ACT 2005-842 OF JULY 26, 2005 ON INVESTOR CONFIDENCE AND THE MODERNIZATION OF THE economy)**

The annual shareholders' meeting may transact business and vote whenever one-fifth or more of the voting shares are represented. If that quorum is not present, a new meeting must be convened no sooner than six days after the original meeting. Business may be transacted at that second meeting regardless of the portion of shares represented but only to the extent that it was included in the order of business of the first meeting.

Votes at annual shareholders' meetings are by a majority of the voting rights of shareholders present, voting by mail or represented by proxies.

Special shareholders' meetings may transact business and vote provided that the shareholders present or represented by proxies hold at least one-fourth of voting rights when the meeting is convened the first time and one-fifth of the voting rights when convened the second time; if the latter quorum is not present, the second meeting may be rescheduled no more than two months thereafter, subject to exceptions provided by law.

Votes at special shareholders' meetings are by a two-thirds majority of the voting rights of shareholders present, voting by mail or represented by proxies.

## ▪ DOUBLE VOTING RIGHTS (ARTICLE 11 OF THE ARTICLES OF INCORPORATION)

Each share is entitled to a ratable portion of earnings corresponding to the amount of equity that it represents, in addition to the voting right to which it is entitled by law.

Pursuant to article L. 225-123 of the Commercial Code (formerly Article 175 of the Act of July 24, 1966), the Shareholders' Meeting of October 26, 1993 resolved to grant double voting rights to all existing paid-up shares held in registered form by the same shareholder for two years or more, as well as to all shares acquired further to the exercise of rights attached to such registered shares, based on the portion of equity which such shares represent.

Said two-year period runs from the date of registration of the shares, regardless of the date on which they were acquired.

In the event of a capital increase by the capitalization of reserves, retained earnings or premiums, registered bonus shares distributed to shareholders are entitled to double voting rights from their issue date. The Articles of Incorporation and Bylaws do not contain any provisions making such double voting rights contingent on a shareholder's nationality.

Shares converted into bearer form or which change hands lose their double voting rights. However, transfers of ownership by inheritance, liquidation, marital community of property or inter vivos gift to a spouse or a relative that can take by intestacy do not result in the loss of vested rights or toll the time periods specified in the above-cited article L. 225-123. of the Commercial Code.

Should the Company be merged into another company, the double voting rights will not be affected and can be exercised by the acquiring company, provided its articles of incorporation and bylaws so provide.

All current and future shares outstanding shall be treated equally insofar as the effect of taxation is concerned.

Whenever shareholders are required to own several old shares in order to exercise any right, in the event of an exchange or allocation procedure whereby new shares are exchanged for several old ones, holders of odd shares or shares in less than the necessary number shall not be entitled to any claim on the Company and shall be responsible for combining their holdings to reach the number of shares required.

## ▪ REPORTING THRESHOLDS (ARTICLE 10 OF THE ARTICLES OF INCORPORATION)

Pursuant to resolution seventeen of the shareholders' meeting of December 16, 1999, section 10 of the Company's articles of incorporation and bylaws provides that individuals or legal entities, acting alone or in association with others, must report any increase or decrease in the number of shares that they hold, either directly or indirectly, which causes their equity interest or voting rights to rise above or to fall below, as the case may be, two percent or any multiple thereof. Reports must be sent to the Company's principal office by registered letter, return receipt requested, no later than five trading days after any of the limits has been exceeded and must state the number of securities held with a present or future right to equity and the number of attached voting rights. Mutual fund management companies must report this information for the aggregate number of the Company's shares held by the funds which they manage. Failure to comply with the foregoing obligation may, at the request of one or more shareholders owning five percent or more of the shares outstanding or voting rights, which request shall be recorded in the minutes of the shareholders' meeting, cause the portion of shares in excess of the number that should have been reported to be barred from voting at said meeting and at any subsequent meeting held within two years of the date on which they were properly reported.

## ▪ IDENTIFICATION OF SHAREHOLDERS (ARTICLE 10 OF THE ARTICLES OF INCORPORATION)

The Annual Shareholders' Meeting of December 17, 2001 voted to amend its articles of incorporation and bylaws in order to take into account the provisions of article L. 228-3-3 of the Commercial Code, which provides that shareholders who fail to comply with provisions designed to identify the owners of shares may be disqualified from voting, failing which, the dividends on their shares may be suspended or cancelled.

## ▪ COMPOSITION AND OPERATION OF THE BOARD OF DIRECTORS (ARTICLES 14 AND 15 OF THE

ARTICLES OF INCORPORATION)

The Company is governed by a board of directors with a minimum of three members and a maximum of 18 members, subject to the exemption allowed by the Commercial Code in the event of mergers.

The directors are elected or reelected by the annual shareholders' meeting for six-year terms.

The board of directors chooses a chairman from among its individual members. The chairman represents the board of directors and chairs its meetings. The Chairman organizes and oversees the work of the board and reports thereon to the shareholders' meeting. The chairman sees to it that the Company's governing bodies operate properly and ascertains, in particular, that the directors are able to fulfill their duties.

The board of directors meets as frequently as the interests of the Company require. Its meetings are convened by its chairman. Whenever the board has not met over a period of two months, one-third or more of its members may demand that the chairman convene a meeting, provided that they also propose an order of business. If necessary, the chief executive officer may ask the chairman to convene a meeting of the board to consider a specific order of business.

Decisions by the board are by a majority of the members present or represented by proxies, each director having one vote. In the event of a tied vote, the chairman has the casting vote.

### ▪ MANAGEMENT AUTHORITY (ARTICLE 16 OF THE ARTICLES OF INCORPORATION)

The Annual Shareholders' Meeting of December 17, 2001 voted to amend article 16 of the Company's Articles of Incorporation to bring it into compliance with article L. 225-51-1 of the Commercial Code, which offers a choice of two forms of corporate management authority.

## GENERAL INFORMATION CONCERNING THE COMPANY'S CAPITAL

### ▪ CHANGES IN STOCK AND RIGHTS

Changes in stock and the rights attached to shares outstanding are governed solely by the applicable laws, as the articles of incorporation and bylaws do not contain specific provisions on such changes.

### ▪ LEGAL CAPITAL

As of March 31 and June 30, 2006, the Company had 189,726,158 shares issued and outstanding, fully paid up, with a nominal value of € 115,694,265.30.

### ▪ AUTHORIZED CAPITAL

#### Authorization to increase capital

The Shareholders' Meeting of January 19, 2005 granted authority to the Board of Directors for a period of 26 months to increase stated capital by issuing stock or securities with rights to equity, with or without shareholders' preemptive rights, and by capitalizing reserves, earnings or premiums, by up to € 120 million in nominal value without subscription rights, or € 100 million with subscription rights.

Another ceiling of € 500 million applies to the nominal value of debt instruments convertible or exchangeable for shares.

The shareholders' meeting also granted authority to the board of directors, for a period of 26 months, to increase capital by issuing shares and securities with a right to equity, without subscription rights, to be exchanged for securities tendered in response to an offer for the shares of the Company or another company. The same Shareholders' Meeting also granted authority to the Board of Directors for a period of 26 months to increase stated capital by capitalizing reserves, earnings or premiums, for up to € 75 million.

The meeting also resolved that the authority granted could be used in periods of tender offer for the shares of the Company in exchange for either securities or cash, provided that the capital increases took place in the ordinary course of the Company's business and that they were not liable to cause a tender offer to fail. This grant of authority remains in effect until the close of the shareholders' meeting called to approve the financial statements for the fiscal year ended in 2005.

Finally, the shareholders' meeting also granted authority to the board of directors to issue shares for offerings to employees in connection with an employee savings plan or stock option plan, for respective periods of 26 and 38 months.

The Shareholders' Meeting will be asked to approve the financial statements for the year ended March 31, 2006 and to extend some of the above grants of authority.

## Authorization for the Company to buy back its own shares

The Shareholders' Meeting of October 20, 2005 granted authority to the Board of Directors for a period of 18 months, along with the power to delegate such authority, to buy back up to 10% of the Company's shares outstanding on the date on which such authority is used. The Company does not plan to start a share buyback program in the foreseeable future.

As of June 30, 2006, the Board of Directors was no longer authorized by the shareholders' meeting to retire shares bought back by the Company.

The Shareholders' Meeting called to approve the financial statements for the year ended March 31, 2006 will be asked to renew these grants of authority.

## Stock option plans:

Pursuant to the authority granted to it by the Special Shareholders' Meeting of January 19, 2005 (resolution 15), the Company's Board of Directors granted 2,150,000 stock options to certain employees and officers of the Group on September 7, 2005, exercisable for a price of € 1.38 per share.

Rights to these options vest in 25-percent annual increments starting September 7, 2005 and the options will then be exercisable over a period of 8 years expiring on September 7, 2013.

As of March 31 and June 30, 2006, there were 7,611,255 options outstanding, which had a dilutive potential of 4.01%; if all were exercised, the shares issued would amount to 3.53% of the Company's fully-diluted stock.

- **SECURITIES WITH RIGHTS TO EQUITY**

## Stock option plans (1):

Pursuant to the authority granted to it by the Special Shareholders' Meetings, the Board of Directors has granted stock options as shown below:

| | Plan 1 | Plan 2 | Plan 3 | Plan 4 | Plan 5 | Plan 6 |
|---|---|---|---|---|---|---|
| Date of Shareholders' Meeting | 5/18/1994 | 12/15/1997 | 12/15/1997 | 12/15/1997 | 12/15/1997 | 12/16/1999 |
| Date of Board meeting | 10/7/1997 | 2/3/1998 | 10/16/1998 | 3/15/1999 | 10/1/1999 | 10/30/2000 |
| **Stock options granted as of March 31, 2006** | | | | | | |
| Number of stock options of which: | 299,250 | 1,050,000 | 315,000 | 157,500 | 1,995,000 | 213,937 |
| Number of new or existing shares for which options may be exercised by members of the executive board (in its current make-up) | 116,812 | 539,437 | 0 | 0 | 99,750 | 0 |
| Starting date of the stock option exercise period | 10/7/1997 | 2/3/1998 | 10/16/1998 | 3/15/1999 | 10/1/1999 | 10/30/2000 |
| Expiration date of stock options | 10/7/2005 | 2/3/2006 | 10/16/2006 | 3/15/2007 | 10/1/2007 | 10/30/2008 |
| Exercise price of stock options (€) | 4.14 | 5.52 | 7.65 | 10.84 | 13.25 | 20.50 |
| Vesting of stock options granted | 20% per annum | 20% per annum | 20% per annum | 20% per annum | 20% per annum | 20% per annum |
| **Stock options exercised between April 1, 2005 and March 31, 2006** | | | | | | |
| Number of stock options exercised between April 1, 2005 and March 31, 2006 | – | – | – | – | – | – |
| **Stock options cancelled between April 1, 2005 and March 31, 2006** | | | | | | |
| Number of stock options cancelled | 265,073 | 886,788 | – | – | – | – |
| **Stock options outstanding** | | | | | | |
| Number of stock options outstanding | – | – | 277,390 | 63,189 | 1,176,226 | 21,420 |

*(1) All figures have been adjusted as required by law to reflect the following events: (i) stock splits approved by the Shareholders' Meetings of December 15, 1997 and December 16, 1999, (ii) a five-percent stock dividend on January 15, 2002 and (iii) the issuance of stock warrants on January 4, 2005.*

## Stock option plans (cont'd.) (1):

| | Plan 7 | Plan 8 | Plan 9 | Plan 10 | Plan 11 | Plan 12 | Plan 13 | Plan 14 |
|---|---|---|---|---|---|---|---|---|
| Date of Shareholders' Meeting | 12/15/2000 | 12/15/2000 | 12/17/2001 | 12/17/2001 | 5/29/2002 | 5/29/2002 | 5/29/2002 | 1/19/2005 |
| Date of Board meeting | 10/24/2001 | 10/24/2001 | 3/15/2002 | 11/7/2002 | 9/16/2003 | 3/3/2004 | 7/27/2004 | 9/7/2005 |
| **Stock options granted as of March 31, 2006** | | | | | | | | |
| Number of stock options of which: | 892,500 | 135,188 | 120,000 | 1,643,875 | 1,100,000 | 150,000 | 561,000 | 2,150,000 |
| Number of new or existing shares for which options may be exercised by members of the executive board (in its current make-up) | 315,000 | 0 | 0 | 1,050,625 | 550,000 | 150,000 | 76,500 | 650,000 |
| Starting date of the stock option exercise period | 10/24/2001 | 10/24/2001 | 3/15/2002 | 11/7/2002 | 9/16/2003 | 3/3/2004 | 7/27/2004 | 9/7/2005 |
| Expiration date of stock options | 10/24/2009 | 10/24/2009 | 3/15/2010 | 11/7/2010 | 9/16/2011 | 3/3/2012 | 7/27/2012 | 9/7/2013 |
| Exercise price of stock options (€)<br>Vesting of stock options granted | 7.45<br>25% per annum | 13.26<br>25% per annum | 10.88<br>25% per annum | 2.51 (2)<br>25% per annum | 4.58<br>25 % per annum | 3.45<br>25 % per annum | 1.90<br>25 % per annum | 1.38<br>25% per annum |
| **Stock options exercised between April 1, 2005 and March 31, 2006** | | | | | | | | |
| Number of stock options exercised between April 1, 2005 and March 31, 2006 | – | – | – | – | – | – | – | – |
| **Stock options cancelled between April 1, 2005 and March 31, 2006** | | | | | | | | |
| Number of stock options cancelled | 5,355 | – | 1,275 | 92,636 | 19,124 | – | 40,800 | 30,000 |
| **Stock options outstanding** | | | | | | | | |
| Number of stock options outstanding | 684,505 | 105,094 | 96,645 | 1,395,132 | 998,454, | 153,000 | 520,200 | 2,120,000 |

*(1) All figures have been adjusted as required by law to reflect the following events: (i) stock splits approved by the Shareholders' Meetings of December 15, 1997 and December 16, 1999, (ii) a five-percent stock dividend on January 15, 2002 and (iii) the issuance of stock warrants on January 4, 2005.*

*(2) € 2.64 for holders in the United States.*

## 2000-2005 Bonds convertible into or exchangeable for new or existing shares (OCEANE 2000-2005)

On May 18, 2000, the Company issued convertible bonds in the form of 8,941,517 "OCEANE" bonds with a face value of € 39 each, for a total of € 348,719,163, with a redemption premium of € 63.57 million. The bonds mature 5 years and 32 days from their issue date and carry interest at 1.5 percent. Their redemption date is July 1, 2005. A final prospectus was filed in connection with this issue and approved on May 18, 2000 by the *Commission des Opérations de Bourse* (visa number 00-823). Following the five-percent stock dividend of January 15, 2002, each OCEANE 2002/2005 bond is now convertible into 1.05 shares of the Company.

In November 2003, the Company issued a simplified tender offer to exchange the OCEANE 2000-2005 bonds, under which holders would be entitled to 1.05 new shares of the Company and 5 bonds convertible into new shares or exchangeable for existing shares of the Company (OCEANE 2003-2009) with an attached Company share warrant to be issued, for each OCEANE 2000-2005 bond tendered. On December 19, 2003, the AMF issued notice no. 203C2191 in which it stated that 2,191,180 OCEANE 2000-2005 bonds had been tendered under the offer, bringing the number of OCEANE 2000-2005 outstanding to 2,538,803.

In order to be able to meet its commitments deriving from OCEANE bonds maturing July 1, 2005, the Company implemented a plan during the fiscal year to restructure this bond debt.

The plan included the following three measures:

- amending certain terms of the OCEANE 2000-2005 indenture, approved by the bondholders' meeting of March 4, 2005;
- the distribution of bonus stock warrants to the Company's shareholders;
- offering to exchange the OCEANE 2000-2005 for cash and securities (the "Offer").

## Step 1: Amending of certain terms of the OCEANE 2000-2005

The OCEANE 2000-2005 indenture was amended as follows:

(i) the life of the bonds, which was initially of 5 years and 32 days and expired on July 1, 2005, was extended by 6 years, to July 1, 2011;

(ii) the OCEANE 2000-2005 bonds, which had an original redemption value of € 46.11 (including a premium of € 7.11), will now be redeemed at their face value of € 39 per bond on July 1, 2011; and the ratio at which the bonds can be converted or exchanged, which was originally one share for each OCEANE 2000-2005 bond, was raised to 10.5 shares for each bond.
The foregoing changes were initially approved by the OCEANE 2000-2005 bondholders' meeting of December 13, 2004, but were nullified when the Offer failed to take place prior to February 14, 2005.
They were again submitted to the holders of OCEANE 2000-2005 bonds at their meeting of March 4, 2005, and approved subject to the Offer being completed no later than April 15, 2005. That condition has since been satisfied.

### Step 2: Distribution of bonus stock warrants (the "Warrants")

On December 17, 2004, all shareholders received one bonus Warrant for each Infogrames Entertainment share held by them at the end of trading on December 16, 2004, so that an aggregate of 121,900,566 Warrants were issued and distributed to them free of charge, with two Bonds entitling their holders to subscribe for one share of the Company for a price of € 1.11. A prospectus was issued in connection with the distribution of bonus Warrants and approved by the AMF on December 15, 2004 (visa number 04-974).
A total of 70,477,818 warrants were exercised during the exercise period of December 17 to 24, 2004, requiring the issuance of 35,238,909 new shares. Warrants not exercised during that period have expired and been cancelled.
Out of the proceeds of € 38.4 million from the issue, € 26.9 million was used to finance the cash portion of the Offer.

## Step 3: Tender offer to exchange the OCEANE 2000-2005 bonds for notes, cash and new shares

The Company offered holders of OCEANE 2000-2005 bonds to tender them in exchange for a combination of new shares, notes and cash. A final prospectus was issued in connection with the Offer and approved by the AMF on March 4, 2005 (visa no. 05-130); the Offer was in effect from March 9 to 31, 2005.

For each OCEANE 2000-2005 bond tendered, holders received:

- € 11.20 in cash,
- 10 new Infogrames Entertainment shares,
- 1 Infogrames Entertainment note (the "Notes").

On April 7, 2005, the AMF issued notice 205C0605 indicating that a total of 2,403,772 OCEANE 2000-2005 had been tendered under the Offer. At the close of the Offer on March 31, 2005, a total of 135,031 OCEANE 2000-2005 bonds had not been tendered and remained outstanding; they could be converted into or exchanged for 1,417,826 Infogrames Entertainment shares, based on the increased ratio of 10.5 shares for each OCEANE bond decided by the previously mentioned OCEANE bondholders' meeting.

As of March 31, 2006, these 135,031 OCEANE bonds, which, if converted, could require the issuance of 1,417,826 shares, with a potential dilutive effect on the Company's stock of 0.75% and, if all were converted or exchange, they would increase the number of shares outstanding by 0.66%.

## 2003-2009 Bonds convertible into or exchangeable for new or existing shares (OCEANE 2003-2009)

Following the exchange tender offer of November 2003 for the OCEANE 1999-2004 and OCEANE 2000-2005 bonds, the Company issued convertible bonds on December 23, 2003 in the form of 16,487,489 "OCEANE" bonds with a face value of € 7 each, for a total of € 115,412,423, with a redemption premium of € 8.89 million. The bonds mature 5 years and 100 days from their issue date and carry interest at 4 percent. Their redemption date is April 1, 2009. A final prospectus was filed in connection with this issue and approved on November 6, 2003 by the *Commission des Opérations de Bourse* (visa number 03-971).

As of March 31, 2006, there remained 16,487,489 OCEANE 2003-2009 bonds outstanding, which, if converted, could require the issuance of 16,817,239 shares, with a potential dilutive effect on the Company's stock of 8.86% and, if all were converted or exchange, they would increase the number of shares outstanding by 7.8%.

## Stock warrants issued as part of the issue of OCEANE 2003-2009 bonds

Each OCEANE 2003-2009 bond has a stock warrant attached to it; the 16,487,489 warrants thus issued were detached from the bonds following their issuance and were traded on the *Premier Marché* of Euronext Paris. Five warrants entitle their holder to purchase one Company share for € 6 per share, subject to adjustments in the event of capital transactions.

The above warrants expired on June 30, 2005 and have lost all value.

No other securities exist with a right to the Company's equity other than the aforementioned securities.

- **INFORMATION CONCERNING THE DILUTION OF THE COMPANY'S CAPITAL SUBSEQUENT TO TRANSACTIONS INVOLVING ITS POTENTIAL EQUITY**

(as of March 31, 2006)

| **Potentially dilutive securities** | **Issue date** | **Exercise price in euros (1)** | **Identity of holders** | **Exercise period** | **Number of shares for which securities can be exercised** | **Potential dilution from the exercise of the securities (on the basis of a fully diluted capital stock)** |
|---|---|---|---|---|---|---|
| Stock options | 10/16/1998 | 7.65 | Persons referred to in sections L225-177 and L-225-180 of the Commercial Code | 10/16/2006 | 277,390 | |
| | 3/15/1999 | 10.84 | | 3/15/2007 | 63,189 | |
| | 10/1/1999 | 13.25 | | 10/1/2008 | 1,176,226 | |
| | 10/30/2000 | 20.50 | | 10/30/2008 | [2]21,420 | |
| | 10/24/2001 | 7.45 | | 10/24/2009 | 684,505 | |
| | 10/24/2001 | 13.26 | | 10/24/2009 | 105,094 | |
| | 3/15/2002 | 10.88 | | 3/15/2010 | 96,645 | |
| | 11/7/2002 | 2.51 **(2)** | | 11/7/2010 | 1,395,132 | |
| | 9/16/2003 | 4.58 | | 9/16/2011 | 998,454 | |
| | 3/3/2004 | 3.45 | | 3/3/2012 | 153,000 | |
| | 7/27/2004 | 1.90 | | 7/27/2012 | 520,200 | |
| **Total** | 9/7/2005 | 1.38 | | 9/7/2013 | 2,120,000 | |
| | | | | | **7,611,255** | Total = 3.53% |
| OCEANE 2000/2011 **(3)** | 5/18/2000 | | Public | 7/1/2011 | 1,417,826 | 0.66% |
| OCEANE 2003-2009 | 12/23/2003 | | Public | 4/1/2009 | 16, 817,239 | 7.80% |
| **Total** | | | | | **25,846,320** | **11.99%** |

*(1) All figures have been adjusted as required by law to reflect the following events: (i) stock splits approved by the Shareholders' Meetings of December 15, 1997 and December 16, 1999, (ii) a five-percent stock dividend on January 15, 2002 and (iii) the issuance of stock warrants on January 4, 2005.*

*(2) € 2.64 for holders in the United States.*

*(3) Subsequent to the exchange offer for the OCEANE 2000-2005 bonds, the maturity of those bonds has been deferred to July 1, 2011, in accordance with the decision of the March 4, 2005 bondholders' meeting.*

- **CHANGES IN CAPITAL**

| Date and nature of transactions | Cumulative number of shares outstanding | Equity issues for cash or contributions in kind: Nominal value | Equity issues for cash or contributions in kind: Other paid-in capital | Capitalization of reserves | Nominal value of stock (FRF or €) |
|---|---|---|---|---|---|
| **7/15/98** | | | | | |
| Conversion of bonds | 11,079,761 | 8,019,100 | 65,355,665 | | 221,595,220 |
| **7/15/98** | | | | | |
| Equity issue (1) | 12,911,573 | 36,636,240 | 650,293,260 | | 258,231,460 |
| **10/5/98** | | | | | |
| Conversion of bonds | 12,946,663 | 701,800 | 12,456,950 | | 258,933,260 |
| **3/15/99** | | | | | |
| Conversion of bonds | 12,997,093 | 1,008,600 | 8,220,090 | | 259,941,860 |
| Exercise of options | 13,011,182 | 281,780 | 996,958 | | 260,223,640 |
| **6/8/99** | | | | | |
| Conversion of bonds | 13,238,132 | 4,539,000 | 36,992,850 | | 264,762,640 |
| Exercise of options | 13,238,504 | 7,440 | 24,260 | | 264,770,080 |
| **10/1/99** | | | | | |
| Conversion of bonds | 13,634,069 | 7,911,300 | | | 272,681,380 |
| Exercise of warrants | 13,634,156 | 1,740 | | | 272,683,120 |
| **12/31/99** | | | | | |
| Exercise of options | 13,709,780 | 1,512,480 | 7,030,213.40 | | 274,195,600 |
| Conversion of bonds | 13,954,325 | 4,890,900 | 18,294,305 | | 279,086,500 |
| Exercise of warrants | 13,998,871 | 890,920 | 19,154,780 | | 279,977,420 |
| Conversion of OCEANE bonds | 14,149,407 | 3,010,720 | 81,910,102.94 | | 282,988,140 |
| **1/3/2000** | | | | | |
| Five-for-one stock splits (2) | 70,747,035 | | | | 282,988,140 |
| **2/29/2000** | | | | | |
| Exercise of options | 70,775,350 | 113,260 | 284,848 | | 283,101,400 |
| Conversion of bonds | 71,283,475 | 2,032,500 | 16,564,875 | | 285,133,900 |
| Exercise of warrants | 71,496,445 | 851,880 | 18,315,420 | | 285,985,780 |
| Conversion of OCEANE bonds | 73,530,695 | 8,137,000 | 221,376,450.70 | | 294,122,780 |
| **3/24/2000** | | | | | |
| Exercise of options | 73,534,625 | 15,720 | 83,787.60 | | 294,138,500 |
| Conversion of bonds | 73,539,275 | 18,600 | 151,590 | | 294,157,100 |
| Exercise of warrants | 73,653,015 | 454,960 | 9,781,640 | | 294,612,060 |
| Conversion of OCEANE bonds | 74,107,750 | 1,818,940 | 49,486,356.30 | | 296,431,000 |
| **6/30/2000** | | | | | |
| Conversion of bonds | 74,701,400 | 2,374,600 | 19,352,990 | | 298,805,600 |
| Exercise of warrants | 74,746,415 | 180,060 | 3,871,290 | | 298,985,660 |
| Conversion of OCEANE bonds | 77,136,590 | 9,560,700 | 260,109,847.87 | | 308,546,360 |
| Stock offering to employees | 77,176,590 | 160,000 | 5,475,982.54 | | 308,706,360 |
| **7/1/2000** | | | | | (change to euros) |
| Restatement of capital in euros | | | | | € 47,061,981.20 |
| **7/28/2000** | | | | | |
| Conversion of bonds | 77,483,315 | 187,040 | 1,524,373.55 | | € 47,249,020.90 |
| Exercise of warrants | 77,483,570 | 155 | 3,343.21 | | € 47,249,176.39 |
| Equity issue (3) | 78,140,489 | 400,587 | 17,011,708.38 | | € 47,649,763.02 |
| **1/26/2001** | | | | | |
| Conversion of bonds (maturing Oct. 2000) | 79,720,989 | 963,782.69 | 7,854,828.89 | | € 48,613,545.71 |
| Exercise of warrants | 79,837,544 | 71,074.78 | 1,528,063.25 | | € 48,684,620.49 |
| Conversion of OCEANE bonds | 80,013,089 | 107,046.65 | 2,912,327.35 | | € 48,791,667.14 |
| Exercise of options | 80,098,139 | 51,863.15 | 200,477.59 | | € 48,843,530.29 |
| Equity issue (4) | 84,619,544 | 2,757,134.99 | 107,339,076.80 | | € 51,600,665.29 |
| **6/30/2001** | | | | | |
| Exercise of warrants | 88,471,759 | 2,349,065.56 | 50,504,895.96 | | € 53,949,730.85 |
| Conversion of OCEANE bonds | - | - | - | | - |
| Exercise of options | 88,560,319 | 54,003.53 | 306,431.61 | | € 54,003,734.39 |
| **12/17/2001** | | | | | |
| Equity issue (5) | 104,090,877 | 9,470,473.22 | 67,151,019.96 | | € 63,474,207.61 |
| **12/31/2001** | | | | | |
| Exercise of options | 104,189,542 | 60,165.53 | 286,914.72 | | € 63,534,373.14 |
| **12/31/2001** | | | | | |
| Stock offering to employees | 104,374,017 | 112,492.13 | 1,127,179.87 | | € 63,646,865.27 |
| **2/15/2002** | | | | | |
| Stock dividend (6) | 109,592,717 | | | 3,182,342.74 | € 66,829,208.01 |
| **5/29/2002** | | | | | |
| Equity issue (7) | 110,179,781 | 357,989.32 | 6,980,310.68 | | € 67,187,197.34 |

| | | | | |
|---|---|---|---|---|
| **6/30/2002**<br>Exercise of options | 110,240,081 | 36,770.70 | 142,32 .30 | € 67,223,968.04 |
| **12/15/2002**<br>Exercise of options | 110,442,769 | 123,598.35 | 447.981.81 | € 67,347,566.39 |
| **6/6/2003**<br>Stock offering to employees | 111,714,862 | 775,717.31 | 1.692.143.11 | € 68,123,283.70 |
| **9/30/2003**<br>Exercise of options | 111,741,114 | 16,007.15 | 96.080.35 | € 68,139,290.85 |
| **12/18/2003**<br>Exchange offer for OCEANE bonds (8) | 119,573,442 | 4,776,122.83 | 0 | € 72,915,413.68 |
| **12/31/2003**<br>Conversion of OCEANE bonds | 121,387,159 | 1,105,998.72 | 7,128,258.03 | € 74,021,412.40 |
| **12/31/2003**<br>Exercise of options | 121,391,095 | 2,400.16 | 8,187.68 | € 74,023,812.56 |
| **3/31/2004**<br>Exercise of warrants | 121,391,155 | 36.59 | 323.41 | € 74,023,849.15 |
| **6/30/2004**<br>Conversion of OCEANE 2004 bonds | 121,900,566 | 310,637.02 | 8,808,336.55 | € 74,334,486.17 |
| **1/4/2005**<br>Exercise of warrants (9) | 157,139,475 | 21,488,548.18 | 17,626,640.82 | € 95,823,034.34 |
| **3/31/2005**<br>Stock offering to employees | 159,458,788 | 1,414,307.95 | 448,480.03 | € 97,237,342.29 |
| **4/30/2005**<br>Exchange offer for OCEANE bonds (10) | 183,496,508 | 14,658,107.01 | 17,723,839.05 | € 111,895,449.25 |
| **6/30/2005**<br>Exercise of warrants (11) | 183,496,653 | 88.42 | 766.27 | € 111,694,176.91 |
| **8/22/2005**<br>Equity issue (12) | 189,726,158 | 3,798,727.66 | 5,234,055.52 | € 115,694,265.33 |

*(1) Issue of stock warrants. A prospectus was filed in connection with the issue and approved by the Commission des Opérations de Bourse on June 25, 1998 (visa No. 98-559).*

*(2) The Shareholders' Meeting of December 16, 1999 resolved to replace each existing share with five new shares.*

*(3) Issue of 656,919 new shares in consideration of the transfer of Paradigm Entertainment Inc. stock to the Company (Combined Shareholders' Meeting of July 28, 2000).*

*(4) Issue of 4,521,405 new shares as consideration for the transfer of the Interactive Division of Hasbro Inc. to the Company (Special Shareholders' Meeting of January 23, 2001).*

*(5) The Shareholders' Meeting of December 17, 2001 approved the merger into the Company of Interactive Partners S.A. and the issuance of 15,530,558 shares as consideration.*

*(6) On January 15, 2002 the Company distributed one free share for each twenty held as a stock dividend; for that purpose it issued 5,218,700 new shares that were allotted effective January 16, 2002.*

*(7) Issue of 587,064 shares as consideration for the acquisition by the Company of an equity interest in Eden Studios S.A. (Combined Shareholders' Meeting of May 29, 2002).*

*(8) Issue of 7,832,328 new shares as part of the simplified tender offer to exchange the OCEANE 1999-2004 and OCEANE 2000-2005 bonds (Shareholders' Meeting of December 18, 2003); a prospectus was issued in connection with the tender offer and approved by the Commission des Opérations de Bourse on November 6, 2003 under number 03-971.*

*(9) As part of the Company's debt restructuring plan and in order to fulfill its obligations arising from the maturity of the OCEANE 2000-2005 bonds, 121,900,566 warrants were issued and distributed free of charge to the shareholders, on December 17, 2004. A total of 70,477,818 warrants were exercised during the exercise period of December 17 to 24, 2004, requiring the issuance of 35,238,909 new shares.*

*(10) Issue of 24,037,720 new shares in connection with the simplified exchange offer for the OCEANE 2000-2005 bonds (Annual and Special Shareholders' Meeting of January 19, 2005); a circular concerning the offer was filed with the Commission des Opérations de Bourse under number 05-130 on March 4, 2005.*

*(11) Issue of 145 new shares in consideration of the exercise of warrants in June 2005.*

*(12) Issue of 6,229,505 new shares in consideration of the transfer of all of the shares of Humongous Inc. on August 22, 2005.*

## ▪ Stock ownership and voting rights

As of March 31 and June 30, 2006, the holders of the Company's shares were entitled to cast an aggregate of 196,285,737 votes. The data below was prepared on the basis of information obtained from the registrar.

To the best of the Company's knowledge, ownership and voting rights divided up as follows on June 30, 2006:

| | Number of shares | (%) | Number of voting rights | (%) |
|---|---|---|---|---|
| Founders (1) | 4,244,036 | 2.23% | 7,866,468 | 4.01% |
| Hasbro Inc. | 2,977,945 | 1.57% | 4,748,171 | 2.42 % |
| Public | 182,504,176 | 96.20% | 183,671,098 | 93.57 % |
| **Total** | **189,726,158** | **100.0%** | **196,285,737** | **100.0%** |

*(1) Directly or indirectly held by Bruno Bonnell, Christophe Sapet and Thomas Schmider.*

Since the merger of Interactive Partners into the Company on December 17, 2001, no shareholder holds a controlling interest in the Company within the meaning of article L.233-3 (1) of the Commercial Code.

To the best of the Company's knowledge, no other shareholders hold, either directly, indirectly or jointly, 5% or more of the shares or voting rights.

## ▪ CROSSING OF THRESHOLDS IN THE PERIOD FROM MARCH 31, 2005 TO JUNE 30, 2006

In accordance with the provisions of the articles of incorporation and bylaws requiring that ownership of more than 2% of the shares or voting right be reported, the Company was notified by a letter dated December 1, 2005 that, as of November 29, 2005, UBS AG, of 100 Liverpool Street, London, EC2M 2RH, England, held 2.12% of the shares and 2.02% of voting rights.

The Company was subsequently notified by a letter dated December 28, 2005 that the above investor has reduced its interest to less than 2 percent of shares and voting rights and, as of December 20, 2005, held 0.02% of the shares and voting rights.

## ▪ TRADING BY THE COMPANY IN ITS OWN SHARES

The Company did not buy back any of its own shares in the period from April 1, 2005 to June 30, 2006.

## ▪ CHANGES IN OWNERSHIP DURING THE FISCAL YEAR

Eurazeo SA reported to the Financial Markets Authority on August 30, 2004 that its holdings had fallen below the 5% limit on voting rights following the disposal of shares on the market, and that it held at the time 3.04% of the Company's shares and 4.90% of its voting rights.

On November 3 and 16, 2004, Eurazeo SA reported to the Company that it had sold virtually all of its stock and held 32,789 shares with 65,578 voting rights as of November 16, 2004.

As a result of those disposals, on April 1, 2005 Eurazeo SA held 0.02% of the Company's stock and 0.04% of voting rights.

The table below shows changes in treasury shares held by the Company since March 31, 2004:

| | March 31, 2004 | Increase | Decrease | Sept. 30, 2004 | Increas e | Decrease | February 28, 2005 | Increase | Decrease | March 31, 2005 | March 31, 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Trading to maintain an orderly market | 73,590 | | (73,590) | - | - | - | - | | | 0- | 0- |
| Hasbro price adjustment | 604,205 | | (604,205) | - | - | - | - | | | 0- | 0- |
| Bond conversions | 563,570 | 105,099 | (653,997) | 14,672 | 7,336 | - | 22,008 | | (22,008) | 0 | 0 |
| Other | 135,474 | | (135,474) | - | 1,500 | - | 1,500 | | (1,500) | 0- | 0- |
| TOTAL | 1,376,839 | 105,099 | (1,467,266) | 14,672 | 8,836 (1) | - | 23,508 | | (23,508) | 0- | 0- |

*(1) Including the exercise of warrants for 7,836 new shares.*

As of March 31, 2006, the Company no longer held any of its own stock.

- **CHANGES IN OWNERSHIP OVER THE PAST THREE FISCAL YEARS**

Stock ownership has changed as follows in terms of percentage of stock held and voting rights over the past three years. Differences between the number of shares and voting rights held is due to the fact that shares held in registered form for two years or more are entitled to double voting rights:

| Shareholders | March 31, 2006 | | | March 31, 2005 | | | March 31, 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | % equity | % voting rights | Shares | % equity | % voting rights | Shares | % equity | % voting rights |
| Founders (1) | 4,244,036 | 2.23% | 4.01% | 7,760,453 | 4.87% | 8.66% | 7,887,953 | 6.50% | 11.58% |
| Eurazeo S.A. | - | - | - | 32,789 | 0.02% | 0.04% | 2,889,892 | 2.38% | 4.28% |
| Hasbro Inc. | 2,977,945 | 1.57% | 2.42% | 2,977,945 | 1.87% | 2.77% | 2,977,945 | 2.45% | 3.35% |
| Dassault Multimedia S.A.S. (2) | - | - | - | 2,577,702 | 1.62% | 3.01% | 2,577,702 | 2.12% | 3.41% |
| Treasury shares | - | - | - | - | - | - | 813,269 | 0.67% | - |
| Own shares indirectly held | - | - | - | - | - | - | 563,570 | 0.46% | - |
| Public (3) | 182,504,176 | 96.20% | 93.57% | 146,109,899 | 91.63% | 85.52% | 103,680,824 | 85.41% | 77.38% |
| **Total** | **189,726,158** | **100.0%** | **100.0%** | **159,458,788** | **100.00%** | **100.00%** | **121,391,155** | **100.00%** | **100.00%** |

*(1) Directly or indirectly held by Bruno Bonnell, Christophe Sapet and Thomas Schmider.*

*(2) Dassault Multimedia SAS registered its shares directly with the Company during fiscal 2005-2006.*

*(3) Including employees.*

- **SHAREHOLDERS' AGREEMENTS**

To the best of the Company's knowledge, there are no shareholders' agreements.

- **TRANSACTIONS WITH AFFILIATES**

*Atari license:* Atari Interactive Inc., the wholly-owned subsidiary of the Company in the United States, which owns the Atari trademark and logos, granted an exclusive license to Atari Inc. in September 2003, allowing it to use the trademark and logos in the United States, Canada and Mexico, and another to Atari Europe covering the rest of the world. The licenses expire on December 31, 2013. Starting January 1, 2009, royalty payments will be calculated as a percentage of the licensees' net annual sales.

*Intra-group service agreements*: Infogrames Entertainment, the parent company, charges the Group for services (strategic and financial management, legal and communications services, etc.). Atari Inc. charges the Group for services (management, financial, legal, etc.) provided to the Group's subsidiaries in the United States. For the year ended March 31, 2006, the charges amounted to US$ 3 million. Atari Inc. also bills the Group, on a product-by-product basis for the manufacture and localization of games.

Regulated agreements entered into or which remained in force during the year are described in the auditors' special report, prepared in accordance with article L.225-40 of the Commercial Code.

- **PLEDGES, SURETYSHIPS AND GUARANTEES**

## On behalf of European entities

### a) Assets pledged to finance operations

After the end of the fiscal year, as part of the renegotiation of their bank debt, Infogrames Entertainment and Atari signed a new agreement with a new major bank, deferring to March 31, 2008 the repayment of € 25.5 million in medium-term loans, extending € 20 million in short-term operating loans over the following year and providing for the possibility of obtaining up to € 30 million in local financing in Europe, secured by trade receivables. The new agreement replaces the Group's previous agreements with other banks.

A subsequent agreement was reached on September 8, 2006, increasing the credit facility to € 45 million, of which € 10 million are repayable from the proceeds of the equity issue proposed in the financial restructuring plan. The final repayment date of the facility was also deferred to December 31, 2008 (see note 26.1 to the consolidated financial statements).
Under the agreement, the Company and Atari Europe have pledged all of the shares of the following subsidiaries: Eden Games SAS, Atari Interactive Inc. and Atari Europe SAS, and their majority holdings in European and Australian subsidiaries (Atari France SAS, Atari United Kingdom Ltd., Infogrames Entertainment GmbH and Atari Asia Holding Pty. Ltd.), and have created security interests on certain trademarks and elements making up games published by Atari Europe SAS. These liens serve to secure the obligations of Atari Europe and its borrowing subsidiaries with respect to short- and medium-term financing, which are further guaranteed by Infogrames Entertainment in the form of a suretyship and a guarantee given by Atari Europe SAS for the obligations of its subsidiaries.

In addition, short-term credit facilities in Europe are secured by trade receivables, on a basis that varies with the sums drawn down.

The table below shows the book value of assets pledged by the Group (other than Atari Inc.) on June 30, 2006:

| Pledged assets | Effective date of pledge | Expiration date | Value of pledged assets (a) | Balance-sheet total (b) | % (a) / (b) |
|---|---|---|---|---|---|
| Intangible assets (1) | April 16, 2003 (renewed on April 13, 2006) | March 31, 2008 | € 2.6 million | € 90.7 million | 2.9% |
| Investment holdings (2) | April 16, 2003 (renewed on April 13, 2006) | March 31, 2008 | € 195.8 million | € 287.8 million | 68.0% |

*(1) The consolidated net book value of most games pledged by Atari Europe is not material, as most of it has been depreciated; the sum of € 90.7 million comes from the consolidated financial statements.*
*(2) The book value of those shares is shown in the corporate financial statements on March 31, 2006 and is the only relevant value, given that the subsidiaries concerned are consolidated. The balance sheet amount is the amount shown in the corporate financial statements (interest in subsidiaries).*

## On behalf of Atari Inc. in the United States

On May 13, 2005, Atari Inc. secured a revolving credit facility in the United States of up to US$ 50 million from HSBC Business Credit Inc., replacing the credit line extended by GECC secured by first pledges of trade receivables and shares and other property and intangible assets of Atari Inc. The Company does not stand surety for Atari's obligations to HSBC under this facility.
On January 25, 2006, Atari Inc. announced that it was in default of certain financial covenants required under the agreement and that HSBC had accordingly notified it that the facility would be unavailable until further notice. Atari Inc. has specified, however, that it was not using that credit facility at the time, except for small amounts in the form of letters of credit secured by cash collateral.
Atari Inc. has informed the Company that its credit facility with HSBC was terminated on May 31, 2006.

## b) Other pledges

The Group has also given guarantees to holders of its 2005-2008 Notes in connection with the exchange tender offer for the OCEANE 2000-2005 bonds. The servicing of the Notes in principal repayment, costs and ancillary expenses is guaranteed by California US Holding Inc., a wholly-owed subsidiary of the Company, by means of a senior pledge of 40.1 million Atari shares, which, for information, had a market value on March 31, 2006 of US$ 25.6 million. It should be noted that the body of Note holders resolved on March 28, 2006 to increase the number of Atari Inc. shares pledged by California US Holdings in favor of the note holders from 33.1 million to 40.1 million, an addition of 7 million shares.

## c) Undertaking to pledge or to keep certain assets free of liens and encumbrances

As part of the previously mentioned bank refinancing, Infogrames Entertainment and its principal subsidiaries (other than Atari Interactive Inc., Atari Inc., California US Holdings Inc. and their respective subsidiaries) have undertaken to refrain from creating security interests on their current or future assets without the consent of the lending bank (including in the form of counter guarantees for security given by any member of the Group), without issuing an equivalent *pari passu* security in favor of the lender or creating an equivalent security interest.

The Group has also guaranteed, in connection with the production fund, that California US Holding Inc. would keep Atari shares with a market value of € 14 million free of liens and encumbrances, for as long as the Group has not fulfilled all of its obligations to the production fund.

As of March 31, 2006, CUSH shares held by the Group were not pledged. However, in addition to existing security interests, the Group could grant additional guarantees in connection with its financial restructuring.

### d) Guarantees provided by the Company and Atari Europe SAS

In connection with the financing of its operations, the Company has given parent-company guarantees to Group subsidiaries during the year ended March 31, 2006 for a total of € 46.3 million, of which € 27.6 million for overdraft facilities and cash loans extended to Atari Deutschland (€ 12.5 million), Atari UK (€ 11.5 million), Atari Italia (€ 2.3 million) and Atari España (€ 1.3 million), and € 18.7 million for letters of credit and other guarantees provided by banks to Atari Europe's principal suppliers to finance its purchasing of supplies. The Company is also a guarantor of financial obligations of AUS 8.5 million (€ 5 million) by its Atari Australia subsidiary.

After the close of the year, the Company and Atari Europe renewed or extended guarantees, jointly and severally, on behalf of their subsidiaries, in connection with the bank financing arranged on April 13, 2006 with the Group's new bank, for the following amounts:

| Guaranteed obligation | Guaranteed principal (excl. interest and expenses) | Due date |
|---|---|---|
| Short-term credit facility | € 20 million | 4/1/07 |
| Medium-term loan | € 25.5 million | 8/31/08 |
| Other local facilities extended by banks (Italy, Spain, Australia) | € 8.6 million | – |

- **Other guarantees**

The Company is also guarantor of Atari Europe's obligations to production funds; the aggregate amount guaranteed is € 31 million (not including any royalties that may be payable).

California US Holdings is also a guarantor of Atari Europe's obligations to the production fund of December 2004, for € 3.9 million (not including any royalties that may be payable).

# INFORMATION ON TRADING IN THE COMPANY'S SHARES

The Company's stock is traded on the First Market (*Premier Marché*) of Euronext Paris S.A - Deferred settlement system (SDR)

It is included in the Euronext market indexes [CAC Small 90, CAC Mid & Small 90].

ISIN code: FR-0000052573

Reuters code: IFOE.PA

Bloomberg code: IFGEF

Paying agent: CACEIS CT, 14 Rue Rouget de Lisle, 92130 Issy-les-Moulineaux

Telephone: +33 1 43 23 19 23

- **STOCK (ISIN CODE: FR-0000052573)**

| | **Monthly highs and lows (€)** | | **Trading volume** | **Value of shares traded (€ millions)** |
|---|---|---|---|---|
| | High | Low | | |
| 2003 | | | | |
| January | 3.84 | 2.81 | 15,713,203 | 52.22 |
| February | 3.71 | 2.26 | 16,408,957 | 51.10 |
| March | 2.93 | 1.95 | 13,539,419 | 33.22 |
| April | 4.41 | 2.26 | 18,200,197 | 61.32 |
| May | 6.98 | 4.16 | 37,096,496 | 210.35 |
| June | 6.10 | 4.92 | 16,870,830 | 93.41 |
| July | 5.55 | 4.52 | 20,989,161 | 106.89 |
| August | 5.16 | 4.57 | 13,474,837 | 65.93 |
| September | 5.40 | 4.55 | 26,268,553 | 131.79 |
| October | 5.02 | 4.33 | 18,963,575 | 89.80 |
| November | 5.33 | 4.64 | 20,720,464 | 103.77 |
| December | 5.47 | 4.04 | 14,898,627 | 71.71 |
| 2004 | | | | |
| January | 4.72 | 3.83 | 20,607,489 | 107.19 |
| February | 4.07 | 3.55 | 17,390,242 | 63.66 |
| March | 3.97 | 3.10 | 16,078,414 | 57.02 |
| April | 3.45 | 3.03 | 7,970,103 | 25.02 |
| May | 3.02 | 1.99 | 27,007,582 | 67.71 |
| June | 2.38 | 2.00 | 16,744,359 | 37.77 |
| July | 2.24 | 1.52 | 24,007,695 | 46.48 |
| August | 1.67 | 1.05 | 59,556,984 | 84.53 |
| September | 1.54 | 1.33 | 23,096,868 | 34.24 |
| October | 1.47 | 1.14 | 32,691,566 | 44.69 |
| November | 1.58 | 1.16 | 62,750,938 | 89.07 |
| December | 1.27 | 1.11 | 53,042,507 | 63.76 |
| 2005 | | | | |
| January | 1.48 | 1.13 | 95,175,166 | 124.92 |
| February | 1.96 | 1.40 | 176,611,548 | 310.54 |
| March | 1.79 | 1.48 | 75,959,310 | 123.48 |
| April | 1.54 | 1.09 | 139,077,104 | 177.41 |
| May | 1.33 | 1.11 | 121,374,933 | 149.36 |
| June | 1.76 | 1.25 | 242,182,599 | 375.42 |
| July | 1.8 | 1.54 | 148,439,234 | 249.83 |
| August | 1.74 | 1.38 | 131,649,896 | 199.66 |
| September | 1.61 | 1.38 | 87,083,662 | 128.8 |
| October | 1.64 | 1.39 | 82,926,208 | 127.01 |
| November | 1.48 | 1.31 | 69,983,652 | 99.33 |
| December | 1.47 | 1.34 | 46,906,121 | 65.83 |
| 2006 | | | | |
| January | 1.41 | 1.17 | 75,961,757 | 97.29 |
| February | 1.21 | 0.74 | 284,938,517 | 250.81 |
| March | 0.84 | 0.71 | 176,607,515 | 136.08 |
| April | 0.73 | 0.65 | 102,723,735 | 71.52 |
| May | 0.81 | 0.63 | 144,517,093 | 103.45 |
| June | 0.78 | 0.45 | 128,781,518 | 74.43 |
| July | 0.54 | 0.47 | 33,546,831 | 17.09 |

(Source: Euronext)

## ▪ OCEANE 2000-2011 (FORMERLY 2000/2005) (ISIN CODE: FR-0000181042)

| | Monthly highs and lows (€) | | Trading volume | Value of shares traded (€ millions) |
|---|---|---|---|---|
| | High | Low | | |
| 2003 | | | | |
| January | 16.40 | 12.30 | 66,519 | 0.92 |
| February | 18.50 | 15.53 | 60,122 | 1.04 |
| March | 17.50 | 14.00 | 43,822 | 0.70 |
| April | 22.38 | 14.55 | 38,539 | 0.71 |
| May | 30.50 | 21.50 | 95,021 | 2.76 |
| June | 29.50 | 27.00 | 30,405 | 0.87 |
| July | 29.50 | 26.00 | 37,823 | 1.06 |
| August | 34.90 | 29.00 | 201,196 | 6.82 |
| September | 38.61 | 33.50 | 241,775 | 8.93 |
| October | 38.50 | 37.00 | 277,803 | 10.49 |
| November | 40.80 | 38.50 | 472,401 | 19.06 |
| December | 41.90 | 40.10 | 61,859 | 2.53 |
| 2004 | | | | |
| January | 41.90 | 40.05 | 12,982 | 0.54 |
| February | 41.10 | 40.30 | 8,359 | 0.34 |
| March | 40.95 | 39.50 | 146,676 | 5.97 |
| April | 41.10 | 33.20 | 8,483 | 0.34 |
| May | 41.05 | 39.15 | 12,547 | 0.50 |
| June | 39.95 | 36.00 | 3,359 | 0.13 |
| July | 39.80 | 38.60 | 10,090 | 0.39 |
| August | 41.41 | 33.70 | 7,776 | 0.27 |
| September | 35.10 | 20.05 | 30,448 | 0.82 |
| October | 24.00 | 15.00 | 23,078 | 0.44 |
| November | 29.50 | 20.40 | 131,044 | 3.57 |
| December | 34.00 | 29.40 | 66,478 | 2.05 |
| 2005 | | | | |
| January | 38.00 | 33.50 | 166,292 | 5.83 |
| February | 39.80 | 37.00 | 28,296 | 1.10 |
| March | 42.90 | 32.00 | 6,045 | 0.23 |
| April | 29.00 | 18.00 | 217 | 0.004 |
| May | 19.00 | 15.90 | 250 | 0.004 |
| June | 28.50 | 16.82 | 251 | 0.006 |
| July | 27.3 | 27.3 | 30 | 0.001 |
| August | 30 | 19.03 | 251 | 0.005 |
| September | 20 | 15.03 | 630 | 0.011 |
| October | | | | 0.000 |
| November | 17.9 | 17.9 | 60 | 0.001 |
| December | 15 | 14.5 | 182 | 0.003 |
| 2006 | | | | |
| January | 16.5 | 16.5 | 62 | 0.001 |
| February | 14.9 | 14.9 | 90 | 0.001 |
| March | 11 | 11 | 35 | 0.000 |
| April | 11 | 11 | 45 | 0.000 |
| May | 10 | 8.1 | 152 | 0.001 |
| June | 12.85 | 7.3 | 300 | 0.003 |
| July | - | - | - | - |

(Source: Euronext)

As noted above, by decision of the bondholders' meeting of March 4, 2005, the maturity date of OCEANE 2000-2005 bonds not tendered under the exchange offer by the Company in the period from March 9 to 31, 2005 was moved back to July 1, 2011 and their conversion ratio was increased to 10.5 Infogrames Entertainment shares per OCEANE 2000-2011 bond.

## ▪ 4% OCEANE 2003-2009 (ISIN CODE: FR-0010032839)

| | Monthly highs and lows (€) | | Trading volume | Value of shares traded (€ millions) |
|---|---|---|---|---|
| | High | Low | | |
| 2003 | | | | |
| December | 7.10 | 6.90 | 3 | 0.00 |
| 2004 | | | | |
| January | 7.10 | 6.35 | 3,960 | 0.03 |
| February | 6.40 | 5.55 | 2,404 | 0.01 |
| March | 6.03 | 5.25 | 22,478 | 0.13 |
| April | 5.66 | 5.50 | 29,228 | 0.16 |
| May | 5.61 | 4.22 | 52,177 | 0.23 |
| June | 5 | 4.3 | 7,162 | 0.03 |
| July | 5 | 4.2 | 18,403 | 0.08 |

| | | | | |
|---|---|---|---|---|
| August | 4.3 | 3.1 | 10,135 | 0.04 |
| September | 3.85 | 3.19 | 237,535 | 0.79 |
| October | 3.45 | 2.7 | 49,869 | 0.14 |
| November | 3.5 | 2.95 | 754,212 | 2.49 |
| December | 4.8 | 3.3 | 123,157 | 0.44 |
| 2005 | | | | |
| January | 4.7 | 4.12 | 23,589 | 0.10 |
| February | 5.79 | 4.5 | 34,580 | 0.18 |
| March | 5.6 | 5 | 2,600 | 0.001 |
| April | 5.3 | 5 | 3,030 | 0.001 |
| May | 0 | 0 | 0 | 0 |
| June | 5.89 | 5 | 584,052 | 3.08 |
| July | 5.8 | 5.1 | 134,362 | 0.696 |
| August | 5.48 | 4.98 | 168,653 | 0.900 |
| September | 5.3 | 4.95 | 341,480 | 1.736 |
| October | 5.09 | 4.6 | 116,634 | 0.588 |
| November | 5.14 | 4.7 | 55,691 | 0.273 |
| December | 5 | 4.25 | 297,018 | 1.363 |
| 2006 | | | | |
| January | 4.6 | 4 | 997,418 | 4.327 |
| February | 4.25 | 2.05 | 935,054 | 2.870 |
| March | 3.3 | 2.74 | 237,057 | 0.682 |
| April | 3.21 | 2.3 | 271,784 | 0.715 |
| May | 3.99 | 2.5 | 70,501 | 0.200 |
| June | 3.95 | 2.75 | 20,855 | 0.060 |
| July | 3 | 2.6 | 38,512 | 0.112 |

- **2005-2008 6% NOTES (ISIN CODE: FR-0010174193)**

| | Monthly highs and lows (€) | | Trading volume | Value of shares traded (€ millions) |
|---|---|---|---|---|
| | High | Low | | |
| 2005 | | | | |
| April | 86.70 | 85.00 | 2,237 | 0.02 |
| May | 85.90 | 85.90 | 26,286 | 0.32 |
| June | 91.01 | 91.01 | 100 | 0.001 |
| July | 95.01 | 93.8 | 818 | 0.011 |
| August | 95.22 | 95.2 | 275 | 0.004 |
| September | 95.2 | 95.1 | 221 | 0.003 |
| October | 97 | 97 | 40 | 0.001 |
| November | 95.81 | 95.75 | 444 | 0.006 |
| December | 96.5 | 94.8 | 243 | 0.003 |
| 2006 | | | | |
| January | 94 | 94 | 185 | 0.003 |
| February | 93.1 | 91.08 | 1,235 | 0.017 |
| March | 87.49 | 84.07 | 970 | 0.013 |
| April | - | - | - | - |
| May | 81.9 | 77.24 | 435 | 0.005 |
| June | 77.5 | 77.5 | 160 | 0.002 |
| July | 76 | 74.5 | 4 | 0.000 |

- **2005 STOCK WARRANTS (ISIN CODE: FR-0010032847)**

| | Monthly highs and lows (€) | | Trading volume | Value of shares traded (€ millions) |
|---|---|---|---|---|
| | High | Low | | |
| 2003 | | | | |
| December | 0.15 | 0.15 | 2 | 0.00 |
| 2004 | | | | |
| January | 0.32 | 0.14 | 1,439,053 | 0.29 |
| February | 0.33 | 0.22 | 230,284 | 0.06 |
| March | 0.29 | 0.17 | 251,783 | 0.06 |
| April | 0.23 | 0.15 | 21,506 | 0.00 |
| May | 0.16 | 0.05 | 348,301 | 0.03 |
| June | 0.11 | 0.05 | 149,995 | 0.01 |
| July | 0.1 | 0.05 | 70,917 | 0.00 |
| August | 0.06 | 0.04 | 97,565 | 0.00 |
| September | 0.05 | 0.02 | 335,559 | 0.01 |
| October | 0.05 | 0.01 | 603,996 | 0.01 |
| November | 0.05 | 0.02 | 899,333 | 0.02 |
| December | 0.05 | 0.02 | 4,223,790 | 0.13 |
| 2005 | | | | |
| January | 0.03 | 0.02 | 772,738 | 0.02 |
| February | 0.03 | 0.02 | 308,656 | 0.00 |
| March | 0.02 | 0.02 | 592,845 | 0.01 |
| April | 0.02 | 0.01 | 125,011 | 0.00 |
| May | 0 | 0 | 0 | 0.00 |
| June | 0.01 | 0.01 | 4 | 0.00 |

(Source: Euronext)

The 2005 warrants expired on June 30, 2005, after which they had no value.

# DIVIDENDS

The Company has not paid any dividends for the past five fiscal years and does not anticipate that it will propose to distribute a dividend for fiscal 2006.

# CORPORATE GOVERNANCE

## MANAGEMENT, SUPERVISORY AND OVERSIGHT BODIES

### COMPOSITION OF THE BOARD OF DIRECTORS AS OF MARCH 31, 2006

**Bruno Bonnell**

Mr. Bonnell holds degrees in chemical engineering and economics from the University of Paris Dauphine. He founded IESA with Thomas Schmider and Christophe Sapet in 1983.

Chairman and Chief Executive Officer of IESA since May 24, 1987.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2008.

Other positions currently held: Chairman of the Board of Directors and Chief Executive Officer of Atari Inc.; Chief Financial Officer (interim) of Atari Inc.; Chief Creative Officer of Atari Inc.; Chairman of [Robopolis SAS, Sorobot SAS]; director of Danone S.A., Eurazeo S.A., LZ Publications; member of the supervisory board of Pathé S.A.

Mr. Bonnell is also a director of most of the Group's subsidiaries in France and other countries.

Positions previously held: During the past five years, Mr. Bonnell also served as Chairman of I-Volution SAS and as a director of IXO S.A.* and Interactive Partners.

**Thomas Schmider**

Mr. Schmider is a graduate of the Lyon ESC school of business. He founded IESA with Bruno Bonnell and Christophe Sapet in 1983.

Director since June 20, 1990; Deputy Chief Operating Officer.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2008.

Other current positions held: Chief Executive Office and/or Director of Atari Inc. and Pyramide XV.

Mr. Schmider is also a director of most of the Group's subsidiaries in France and other countries.

Positions previously held: During the past five years, Mr. Schmider also served as Chairman of the Board of S.A.O.S A.S.S.E, director of Flamatis, Infosources, Interactive Partners, Exodia S.A. and IXO S.A.*, and Chairman of SUP SAS.

**Christophe Sapet**

Mr. Sapet is a graduate of *Ecole Nationale Supérieure de Chimie et de Physique* (ENSCP) and of CESMA (Lyon ESC School of Business) and a co-founder of Infogrames Entertainment.

Director since May 24, 1987.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2008.

Other positions currently held: Managing Director of XK Interactive (a partnership); Representative of XK Interactive in his capacity as Chairman of I-Partners S.A.S.

Positions previously held: During the past five years, Mr. Sapet also served as chairman and chief executive officer of IXO S.A.*, Himalaya S.A.*, TOP Achats.com S.A. and Wattmusic S.A.; chairman of Francité France S.A.S.; general manager of Interactive Partners; a director of Flamatis S.A., IXO Publishing S.A.*, Zonejeux.com S.A. and Capbooster; member of the supervisory board of Top Achat.com S.A. and Francité International Inc. and permanent representative of IXO S.A. on the board of directors of Capitol S.A.

**Jean-Michel Perbet**

After serving as chief executive officer of Sony Europe, Mr. Perbet was appointed chairman of Atari Europe and Executive Vice President for Marketing and Distribution since September 7, 2005. A graduate of the IPAG business school, he started out as the distributor of Texas Instruments' TI99/4 the first home computer sold in France, and later set up the first sale network for home computer software, VIFI Nathan. He also organized Sony's personal computer operations in Europe, which brought out the Vaio PC line there.

A director since December 18, 2003; Chairman of Atari Europe and Executive Vice President for Marketing and Distribution.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2009.

### Grey Phantom Limited, Represented by David Ward (resigned November 22, 2005)

Mr. Ward is the founder of the Ocean Group.

Director since May 29, 2002.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2007.

Other positions held by Mr. Ward: director of Atari Inc., Atari United Kingdom Limited, Ocean Holdings Limited, Ocean International Limited, Imagine Software Limited and Ifone Holdings Limited.

### Evence-Charles Coppée

Evence-Charles Coppée joined Infogrames Entertainment in September 2005 as the Group’s Executive Vice President for Administration and Finance, after having served as chief executive officer and joint manager of the Paris daily *Libération*.

Before joining *Libération*, he spent ten years as a key operational executive at Chargeurs/Pathé, whose operations include textiles, transportation, communications and movies. A Belgian national, Mr. Coppée started his professional career at the Boston Consulting Group, where he stayed for seven years.

A director since October 20, 2005; Executive Vice President for Administration and Finance.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

Other positions held: Director of Lafarge Ciments.

### Claude de Saint Vincent

Claude de Saint Vincent is currently the chief executive officer of Groupe Dargaud (since 1991), where he is in charge of publishing and film and video production.

Before joining Groupe Dargaud, he served as vice president for communications and development at the La Sept/Arte television channel. Mr. de Saint Vincent has also worked as sales and marketing manager for Groupe Air France. He is a graduate of the *Hautes Etudes Commerciales* business school.

Outside director since October 20, 2005.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

Other positions held: Managing director of Groupe Dupuis since 2004.

### Dominique D’Hinnin

Dominique d’Hinnin has served as the chief financial officer of Groupe Lagardère since 1998.

A graduate of *Ecole Normale Supérieure* and a senior tax inspector, he joined Groupe Lagardère in 1990 as assistant to Philippe Camus. He then served successively as head of internal audit for the group and chief financial officer at Hachette Livre, before his 1994 appointment as Executive Vice-President of Grolier Inc.

Named outside director on November 22, 2005 following the resignation of Grey Phantom Ltd.; Chairman of the Audit Committee. Mr. d’Hinnin sits on the board of directors in his personal capacity and not as a representative of Groupe Lagardère.

Term expires at the Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2007.

### ADVISOR TO THE BOARD

#### Benoît Regnault de Maulmin

Member since April 18, 2002

Other positions held: managing director of Interactive Finance S.A. and Game Production Fund 1 S.A, director of Anuman Interactive S.A., member of the supervisory board of Metaboli S.A.

Positions previously held: During the past five years, Mr. Regnault de Maulmin also served as chairman of the board of Inskor Entertainment Ltd., director of Infogrames Entertainment and Interactive Partners and managing director of Interactive Finance S.A. and Game production Fund S.A.

Asterisks (*) above indicate that the company has been liquidated, in accordance with article L. 620-1 of the Commercial Code.

### EMPLOYEE REPRESENTATIVES (elected by the works' council meeting of the Infogrames Entertainment French entities on January 11, 2005)

Nadège de Bergevin, senior producer (management staff)

Alexandre Breas, manager (supervisors)

Fabien Roy, department assistant (non-supervisory employees)

The Board of Directors does not include members elected by the employees.

# MANAGEMENT AND BOARD OF DIRECTORS (On March 31 and June 30, 2006)

## GENERAL MANAGEMENT:

| | |
|---|---|
| Bruno Bonnell | Chairman and Chief Executive Officer |
| Thomas Schmider | Executive Vice President |
| Jean-Michel Perbet | Executive Vice President Marketing and Distribution, Chairman Europe |
| Evence-Charles Coppée | Executive Vice President Administration and Finance |

## GROUP EXECUTIVE COMMITTEE:

The Group is managed by an Executive Committee consisting of Bruno Bonnell (Chairman and Chief Executive Officer of Infogrames Entertainment SA and Chairman of the Board of Directors and Chief Executive Officer of Atari Inc.), Thomas Schmider (Deputy Chief Operating Officer), Jean-Michel Perbet (Chairman, Atari Europe, Executive Vice President) and Evence Charles Coppée (Executive Vice President).

## BOARD OF DIRECTORS AND BOARD COMMITTEES

### Organization of the Board

The Company's Board of Directors has a minimum of three members and a maximum of 18, subject to legal exemptions. The Board of Directors has its own bylaws, which are regularly updated. As recommended by the Bouton Report on corporate governance, those bylaws include provisions governing eligibility (including in terms of business qualifications) for membership and reelection as well as a code of conduct for the directors (including obligations to abstain from trading on the basis of privileged information).

In order to qualify for a seat on the Board, directors are required to hold at least 1,000 shares of the Company. The bylaws provide for procedures by which Board members can obtain independent and critical information for an annual assessment of the directors and of the Board's work. The outside directors will be asked to conduct the next assessment.

The Company's Board of Directors met thirteen times between April 1, 2005 and March 31, 2006. On average, more than 93% of the directors attended the meetings. Board meetings were chaired by the chairman and were attended by employee representatives, the corporate secretary and, depending on the order of business, Group executives and outside experts. Besides examining the annual and interim financial statements and decisions of a financial or legal nature made in the ordinary course of business, the Board principally concerned itself with: (i) the financing of operations, negotiating agreements with banks and measures to ensure the Company's continued operation, so that the warning procedure initiated by the independent auditors can be called off, (ii) the Group's financial restructuring - including the debt reduction plan (disposal of assets), (iii) the diversification of its resources and (iv) the improvement of its organization. During the second half of the year, the Board also began an examination with a consulting firm of the Group's strategic options for the next few years.

### Outside directors

Membership of the Board of Directors was expanded during the year with the addition of Claude de Saint Vincent and Dominique d'Hinnin (co-opted by the Board following the resignation of Grey Phantom). Mr. d'Hinnin was named chairman of the Board's Audit Committee.

Outside directors will be selected on the basis of their expertise in either the financial and accounting fields or the interactive entertainment sector. The Company aims to gradually fill half of the seats of the Board with outside directors, as advocated by the Bouton Report. The outside directors will be asked to evaluate the work of the Board and the independence of its members, on an annual basis.

### Board Committees

As of March 31 and June 30, 2006, the Board of Directors had established an **Audit Committee** composed of Dominique d'Hinnin (Chairman), Claude de Saint Vincent and Thomas Schmider. The membership of the **Compensation and Appointment Committees**, currently consisting of Bruno Bonnell and Christophe Sapet, will be changed during the coming fiscal year.

### Organization and business of the committees during the year ended

Each committee has its own bylaws, which specify its competences and operating mode. The committees' membership has been adjusted and the Company aims to gradually bring their make-up into line with the recommendations of the Bouton Report.

The report by the chairman of the Board of Directors on the conditions governing the preparation and organization of the Board's work and the internal oversight procedures, required under article L. 225-37 of the Commercial Code, is attached to the annual report.

## COMPENSATION OF DIRECTORS AND OFFICERS

### Compensation

Aggregate compensation paid by all Group entities to corporate officers, not including directors' fees, for the period ended March 31, 2006 (12 months) amounted to € 2,432,100 (including € 430,000 paid to Mr. Sapet as severance when he left his position as executive vice president).

The table below shows the aggregate compensation, benefits in kind and directors' fees received by each officer, either directly or indirectly, from the Company or other Group entities during the year ended March 31, 2006.

| *€ 000* | **B. Bonnell** | **T. Schmider** | **C. Sapet** | **J.M. Perbet** | **E.C. Coppée** | **Other** |
|---|---|---|---|---|---|---|
| 2005-2006 fixed compensation | (1) 561.9 | 240.0 | 140.7 | 289.9 | (4) 178.4 | |
| 2005-2006 variable compensation | 30.0 | 180.0 | 62.2 | 137.5 | | |
| One-time compensation paid in fiscal 2005-2006 | | | *(6)* 430.0 | | | |
| *Plus benefits in kind* | *(2) 3.1* | *(2) 3.8* | *(2) 2.5* | *(2) 3.9* | | |
| | *(1) 168.2* | | | | | |
| Director's fees | (3) 21.9 | (3) 21.9 | 23.3 | 10 | (3) - | (3) 25.0 |
| **Total for the period to 3/31/2006 (12 months)** | **785.1** | **445.7** | **0** | **441.3** | **178.4** | **25.0** |
| 2004-2005 fixed compensation | 546.4 | 193.4 | 140.6 | (4) 205.6 | | |
| 2004-2005 variable compensation | - | 65.1 | - | 34.4 | | |
| *Plus benefits in kind* | *(2) 2.3* | *(2) 2.9* | *(2) 2.6* | *2.9* | | |
| | *122.6* | | | | | |
| Director's fees | *10.0* | *10.0* | *10.0* | *10.0* | - | *19.7* |
| **Total for the period to 3/31/2005 (9 months)** | (5) **681.3** | (5) **271.4** | **153.2** | **252.9** | **0.0** | **19.7** |
| 2003-2004 fixed and variable compensation | 802.1 | 385.7 | 60.0 | 137.5 | | |
| *Plus benefits in kind* | *(2) 2.7* | *(2) 2.9* | *(2) 2.8* | *1.3* | | |
| Director's fees | - | - | - | - | | |
| **Total for the period to 6/30/2004 (12 months)** | **804.8** | **388.6** | **62.8** | **138.8** | | |

*(1) Mr. Bonnell received fixed compensation of € 561,895 and variable compensation of € 30,000 for the period. As noted earlier, the fixed portion of Mr. Bonnell's compensation as Chairman and Chief Executive Officer of Infogrames Entertainment was reduced to € 5,000 in gross monthly pay starting in 2004, by decision of the board of directors, in order to take into account compensation received in the United States from Atari, Inc. for his position as Chairman of the Board of Directors and Chief Creative Officer. For the 12-month period to March 31, 2006, Mr. Bonnell received fixed compensation of € 60,000 and variable compensation of € 30,000 from Infogrames Entertainment. Over the same period, he was paid a salary € 501,895 ($607,293) by Atari Inc., in addition to € 168,211 ($203,536) in benefits in kind (per diem allowances while in the United States). Atari Inc. also paid premiums of $2,237 on a life insurance policy in favor of Mr. Bonnell,*

*(2) Company car*

*(3) Messrs. Bonnell, Schmider and Coppée did not receive directors' fees as members of the board of Atari Inc.*
*Messrs. Ward and de Maulmin received € 15,000 € 10,000, respectively for serving as directors of Infogrames Entertainment.*
*Messrs. d'Hinnin and de Saint Vincent did not receive directors' fees as members of the board of Infogrames Entertainment.*

*(4) Compensation paid for the period from September 2005 to March 2006.*

*5) In addition to the above compensation, in January 2004, Messrs. Bonnell and Schmider received respectively 110,000 and 70,000 shares (valued at respectively € 574,113 and € 334,899) from the Company, in consideration of the restructuring of the debt over the past three years.*

*6) Mr. Sapet was paid € 430,000 in severance pay when he resigned from his position as chief operating officer, under an agreement approved by the board of directors on December 14, 2005, as required by article L225-38 of the Commercial Code.*

Compensation paid by the Group to Mr. Bonnell was adjusted, effective April 1, 2004, following his appointment with Atari Inc. in 2004, in order to reflect his changed responsibilities.

As chairman and chief creative officer of Atari Inc., Mr. Bonnell receives gross annual compensation of € 500,000; in addition, he is entitled to variable compensation of up to the amount of his fixed salary, based on the attainment of targets. Mr. Bonnell did not receive any variable compensation from Atari during fiscal 2006.

As chairman and chief executive officer of Infogrames Entertainment, Mr. Bonnell has been receiving gross annual compensation of € 60,000, or € 5,000 a month, since December 2004; he is also entitled to variable compensation of up to the amount of his fixed salary, based on the attainment of targets.

The table below shows gross variable compensation paid to management during the year ended March 31, 2006:

## Variable compensation paid during the year ended March 31, 2006

| Executives | Amount (€ 000) | Group entity |
|---|---|---|
| Bruno Bonnell | 30.0 | Infogrames Entertainment |
| Thomas Schmider | 180.0 | Infogrames Entertainment |
| Christophe Sapet | 62.2 | Infogrames Entertainment |
| Jean-Michel Perbet | 137.5 | Infogrames Entertainment |
| Evence-Charles Coppée | - | Infogrames Entertainment |

As of the filing date of this document, no variable compensation had been voted by the board of directors of Infogrames Entertainment for the year ended March 31, 2006. None of the above executives received variable compensation from Atari Inc. during the year.

## Directors' fees paid during the year ended March 31, 2006 (for the previous fiscal year)

| Directors | Amount (€ 000) | Group entity |
|---|---|---|
| Bruno Bonnell | 21.9 | Infogrames Entertainment |
| Thomas Schmider | 21.9 | Infogrames Entertainment |
| Christophe Sapet | 23.3 | Infogrames Entertainment |
| Jean-Michel Perbet | 10.0 | Infogrames Entertainment |
| David Ward | 15.0<br>36.6 | Infogrames Entertainment<br>Atari Inc. |
| Benoît de Maulmin | 10.0 | Infogrames Entertainment |

Atari Inc. did not pay directors' fees to Infogrames Entertainment directors on its board, with the exception of fees of € 36,570 (US$ 44,250) paid to Mr. Ward as a director of that company.

The shareholders' meeting of October 20, 2005 (in resolution 7) authorized the Board of Directors to pay directors' fees of up to € 250,000. The Company envisages to use part of the authorized sum to pay directors' fees for the year ended March 31, 2006.

The Group has not booked any provisions for retirement or other benefits for the foregoing officers.

## Stock options granted by Infogrames Entertainment

(adjusted to reflect stock splits and stock dividends)

A total of 2,582,500 stock options have been granted to members of the Board of Directors (525,000 under the February 1998 plan, 21,000 under the October 1999 plan, 210,000 under the October 2001 plan, 550,000 under the November 2002 plan, 400,000 under the September 2003 plan, 150,000 under the March 2004 plan, 76,500 under the July 2004 plan and 650,000 under the September 7, 2005 plan).

During fiscal 2006, none of these options has been exercised.

#### OPTIONS FOR NEW OR EXISTING SHARES GRANTED TO CORPORATE OFFICERS

***Stock options granted and exercised by corporate officers in 2005/2006***

| | Total number of options granted / shares subscribed for / purchased | Price | Expiration date |
|---|---|---|---|
| **Options granted during the year to each officer by the issuer and other Group entities (list of individuals)** | | | |
| Issuer | | | |
| **Atari Inc.** | | | |
| None | | | |
| **Infogrames Entertainment** | | | |
| Bruno Bonnell | 100,000 | € 1.38 | 9/7/2013 |
| Thomas Schmider | 100,000 | € 1.38 | 9/7/2013 |
| Jean-Michel Perbet | 100,000 | € 1.38 | 9/7/2013 |
| Evence-Charles Coppee | 250,000 | € 1.38 | 9/7/2013 |
| Christophe Sapet | 100,000 | € 1.38 | 9/7/2013 |
| **Options exercised during the year by each officer (list of individuals)** | | | |
| None | | | |

#### OPTIONS GRANTED TO THE FIRST TEN EMPLOYEES

| | Total number of options granted / shares subscribed for / purchased | Price | Expiration date |
|---|---|---|---|
| **Options granted during the year to the first ten employees (1)** | | | |
| Infogrames Entertainment | 570,000 | € 1.38 | 9/7/2013 |
| **Options exercised during the year by the first ten employees (1)** | | | |
| Infogrames Entertainment | None | None | None |

## OPTIONS GRANTED TO EXECUTIVE COMMITTEE MEMBERS

As of March 31, 2006, 2,452,300 stock options had been granted to the four members of the Executive Committee as follows:

| Plan date (number of recipients) | Number of options | Price (€) | Expiration date | Options outstanding as of March 31, 2006 |
|---|---|---|---|---|
| February 3, 1998 (2 recipients) | 535,500 | 5.52 | February 3, 2006 | 0 |
| October 24, 2001 (3 recipients) | 321,300 | 7.45 | October 24, 2009 | 321,300 |
| November 7, 2002 (3 recipients) | 790,500 | 2.51 | November 7, 2010 | 790,500 |
| September 16, 2003 (3 recipients) | 561,000 | 4.58 | September 16, 2011 | 561,000 |
| March 3, 2004 (1 recipient) | 153,000 | 3.45 | March 3, 2012 | 153,000 |
| July 27, 2004 (1 recipient) | 76,500 | 1.90 | July 27, 2012 | 76,500 |
| September 7, 2005 (4 recipients) | 550,000 | 1.38 | September 7, 2013 | 550,000 |

## Loans extended and guarantees provided

During the past fiscal year, no loans were extended or guarantees provided to members of the Board of Directors or corporate officers.

## AUDITORS' FEES

Auditors perform services for a given fiscal year and their fees are recognized in income.

| | March 31, 2006 | | | | March 31, 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | PIN Associés | | Deloitte & Associés | | PIN Associés | | Deloitte & Associés | |
| (€ 000) | Euros | % | Euros | % | Euros | % | Euros | % |
| **Auditing** | | | | | | | | |
| - Audit, certification, examination of the consolidated and annual financial statements | 208.1 | 100% | 2,152.1 | 94% | 230.7 | 100% | 1 497.2 | 86% |
| - Other assignments | | | 12.7 | 1% | | | 127.2 | 7% |
| **Sub-total auditing (1)** | **208.1** | **100%** | **2,164.8** | **95%** | **230.7** | **100%** | **1,624.4** | **94%** |
| **Other services, if applicable** | | | | | | | | |
| - Legal, tax, personnel | | | 112.7 | 5% | | | 107.2 | 6% |
| - IT | | | | | | | | |
| - Internal audits | | | | | | | | |
| - Other (specify if more than 10% of auditor fees) | | | | | | | 1,2 | |
| **Sub-total other services (2)** | **0** | 0% | **112.7** | 5% | **0.0** | 0% | **108.4** | 6% |
| **TOTAL (1)+(2)** | **208.1** | **100%** | **2,277.5** | **100%** | **230.7** | **100%** | **1,732.8** | **100%** |

# INFORMATION CONCERNING EMPLOYEE PROFIT SHARING

## PROFIT-SHARING AGREEMENT

An employee profit-sharing agreement was negotiated on December 15, 1999, for the Group's entities in France. Sums set aside for employees are calculated in accordance with the profit-sharing formula provided for by law and distributed to employees on the payroll of the Infogrames French entities. The agreement provides that employees have the option to have their benefits paid into the Group Employee Savings Plan (*Plan d'Epargne Entreprise*) (see below).

There is no optional profit-sharing agreement.

## EMPLOYEE SAVINGS PLAN

An employee savings plan was also established for the Group's French entities on December 15, 1999. Employees may pay into it the sums they receive under the profit-sharing plan and make additional voluntary deposits as permitted by law.

Stock offerings of € 1.3 million and € 2.5 million, respectively, were made to employees on December 2001 and June 2003.

In March 2005, employees subscribed for € 1,414,307.95 in stocks under a special offering.

No stock offering was made to employees during the year ended March 31, 2006.

As of March 31, 2006, the Group's French employees held approximately 0.3% of the Company's stock through the employee savings plan.

Sums deposited in the employee savings plan may be placed, at each employee's option, in an Infogrames mutual fund invested in Infogrames Entertainment stock and money-market fund shares, in a fund invested exclusively in money-market instruments, or in diversified mutual funds (international equities and bonds).

# REGULATED AGREEMENTS

Regulated agreements entered into in fiscal 2006 are reviewed in the Auditors' Special Report below.
The Board is particularly careful to avoid any conflict of interests in its relationship with Atari Inc., the Company's publicly-traded subsidiary in the United States.

# AUDITORS' SPECIAL REPORT

Period ended March 31, 2006

Ladies, Gentlemen,

In our capacity as your Company's financial auditors, we hereby submit our report on regulated agreements.

Pursuant to article L.225-40 of the Commercial Code, we have been informed about agreements which are subject to the prior approval of the Board of Directors.

It is not our role to investigate the existence of other agreements, but to report to you, based on the information provided to us, the nature and basic terms and conditions of those which were brought to our attention, without expressing an opinion as to their purpose or justification. Pursuant to section 92 of the Decree of March 23, 1967, our assignment requires us to assess the value of these agreements that has warranted their approval.

We have conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform examinations to obtain a reasonable assurance that the information provided to us reflects the contents of the documents on which it is based.

## 1. PLEDGED ATARI INC SHARES

Under the agreement of March 28, 2006 with holders of 2005-2008 Notes, your Company agreed that California US Holdings Inc would pledge an additional 7,000,000 shares of Atari Inc. as security for the repayment of the 2005-2008 Notes.
The Atari shares were pledged on April 28, 2006.

The number of pledged Atari Inc shares increased from 33,107,151 to 40,107,151 as a result.

- Authorization granted by the board of directors on March 28, 2006.
- Directors concerned: Bruno Bonnell and Thomas Schmider

## 2. ACQUISITIONS OF INTERESTS IN SUBSIDIARIES

### 2.1. PURCHASE OF ADDITIONAL GAME ONE SHARES FROM I-PARTNERS

In order to establish a close equity and business relationship with MTV, which owns 50% of Game One's thematic television channel, the board of directors approved the purchase of 35.8% of the shares of Game One from I-Partners SAS, bringing the Group's interest in that company to 50%.
The purchase was completed on May 10, 2005 for a price of € 500,000, based on a valuation by an independent appraiser.

Authorization granted by the board of directors on April 7, 2005.

Director concerned: Christophe Sapet

### 2.2. ACQUISITION OF THE SHARES OF HUMONGOUS INC FROM ATARI INC AND ATARI INTERACTIVE INC

As part of the Group's general strategy of streamlining its own holdings and those of its Atari Inc. US subsidiary, your board of directors authorized the acquisition of all of the shares of Humongous Inc, by way of a transfer of assets valued at € 9,032,783. The value of the shares transferred was determined by a transfer appraiser (*commissaire aux apports*). The assets of Humongous, whose were purchased from Atari Inc (93.7%) and Atari Interactive Inc (6.3%), include intellectual property rights in the family/children segment.

The Humongous shares were paid for with 6,229,505 newly issued Infogrames Entertainment shares, reflecting a parity calculated on the basis of the average price of the shares over the three trading days immediately preceding the completion of the transfer, or € 1.45.

In connection with the foregoing transaction, an agreement was signed with Atari Inc. under which your Company undertook to guarantee that the value of the Infogrames Entertainment shares exchanged would not fall below US$ 7,000,000. This undertaking expired on December 31, 2005 and the guarantee was never enforced.

Authorization granted by the board of directors on August 22, 2005.

Directors concerned: Bruno Bonnell, Thomas Schmider and David Ward.

## 3. SERVICE AGREEMENT WITH ATARI INC

Atari Inc and your Company entered into a new five-year service agreement on March 31, 2006, which clearly sets forth the relationship between the two companies. The agreement covers the provision of parent-company services for which your Company charges Atari Inc. US$ 3 million per year.

The agreement had no impact on the financial statements for the year ended March 31, 2006.

Authorization granted by the board of directors on November 22, 2005.

Directors concerned: Bruno Bonnell, Thomas Schmider and Evence-Charles Coppée.

## 4. TERMINATION OF THE APPOINTMENT OF CHRISTOPHE SAPET AS EXECUTIVE VICE PRESIDENT

The board of directors approved the terms on which the appointment of Mr. Sapet as executive vice president was terminated. Those terms fall under the scope of article 8 of Act no. 2005-842 of July 26, 2005.

In connection with the termination of his appointment, Mr. Sapet received a negotiated indemnity of € 430,000 and was allowed to keep 100,000 stock options granted to him on September 7, 2005, exercisable at a price of € 1.38 per share. These terms were reviewed by an outside director before being validated by the board of directors.

An expense of € 430,000 was recognized in this connection for the year ended March 31, 2006.

Authorization granted by the board of directors on December 14, 2005.

Director concerned: Christophe Sapet.

## 5. APPROVAL OF THE TERMS AND CONDITIONS OF THE APPOINTMENT OF EVENCE-CHARLES COPPEE AS EXECUTIVE VICE PRESIDENT

The board of directors approved the terms and conditions of the appointment of Evence-Charles Coppée as executive vice president, including commitments made to him in the event that his appointment is terminated. These commitments fall under the scope of article 8 of Act no. 2005-842 of July 26, 2005.

Mr. Coppée would be entitled to a severance indemnity of 1.5 times his annual compensation (i.e. compensation received by Mr. Coppée over the last twelve months), and not less than € 337,000 if he were to leave his position for any reason whatsoever. The minimum indemnity would be increased to € 675,000 if his termination (resignation or discharge) occurs within six months of a takeover of the Company by a third party.

In consideration of the above indemnities, Mr. Coppée would refrain from holding any position whatsoever in the video-game sector for a period of eighteen months.

The foregoing agreement had no effect on the year ended March 31, 2006.

Authorization granted by the board of directors on September 7, 2005.

Director concerned: Evence-Charles Coppée.

Signed in Villeurbanne and Lyon,

September 14, 2006

The Auditors

Deloitte & Associés

Alain Descoins

PIN Associés

Jean-François Pin

# REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE L. 225-37 OF THE COMMERCIAL CODE ON CONDITIONS GOVERNING THE PREPARATION AND ORGANIZATION OF THE BOARD'S WORK AND ON INTERNAL OVERSIGHT PROCEDURES

As required by article 117 of the Financial Security Act of August 1, 2003 and article L.225-37 of the Commercial Code, the Chairman of the Board hereby submits to you his report on the conditions in which the work of the Board of Directors is prepared and organized and on Infogrames Entertainment's internal oversight procedures.

This report contains information on the following matters:

- Preparation and organization of the Board of Directors' work
- Restrictions on the authority of the chief executive officer
- Internal oversight

## 1) PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' WORK

**1.1 Principles:** The board of directors sets the strategic orientations of the Company and ensures that management implements them.

The Company follows local recommendations on corporate governance, including those of the Viénot Report and the AFEP-MEDEF working party headed by Daniel Bouton to improve corporate governance at listed companies (the "Bouton Report"). Its Atari, Inc. subsidiary, which is publicly traded in the United States, likewise complies with the corporate governance rules of NASDAQ and the Sarbanes-Oxley Act.

The board of directors has adopted its own bylaws, which govern the manner in which it is organized and operates and include most of the recommendations of the Bouton Report. The Board's bylaws list the decisions requiring its prior authorization (including acquisitions and divestitures, transactions that are not part of the corporate strategy or for which no provisions have been made in the budget). The bylaws also contain the eligibility and reappointment rules applicable to directors (including in terms of business experience) as well as a code of conduct.

**1.2 Organization of the Board:** The directors have access to independent and critical information at the company's principal office, as provided for by law and the board's bylaws, enabling them to conduct independent and critical evaluations of the Group's business, financial position, earnings and prospects. The board of directors' membership consists of Company founders who also hold executive positions (Messrs. Bonnell, Schmider and Sapet – director only since December 2005), the Executive Chairman of Atari Europe and Executive Vice President for Marketing and Distribution (Jean-Michel Perbet), the Executive Vice President for Administration and Finance (Evence Coppée) and two outside directors (Claude de Saint Vincent and Dominique D'Hinnin). Mr. Benoît de Maulmin, one of the original founders, participates in Board meetings in his capacity as a non-voting member (*censeur*). Those directors were selected on the basis of their expertise in either the financial and accounting fields or the interactive entertainment sector. The Company aims to gradually fill half of the seats of the board with outside directors, as advocated by the Bouton Report. The outside directors will be asked to evaluate the work of the board and the independence of its members, on an annual basis.

**1.3 Work of the Board during the past fiscal year:** The Company's board of directors met thirteen times between April 1, 2005 and March 31, 2006 with more than 93 percent of the directors attending. Board meetings were chaired by the chairman and were attended by employee representatives, the corporate secretary and, depending on the order of business, Group executives and outside experts. Besides examining the annual and interim financial statements and decisions of a financial or legal nature made in the ordinary course of business, the board principally concerned itself with: (i) financing operations, renegotiating bank agreements and implementing measures to ensure continued operations, (ii) the Group's financial restructuring - including the debt reduction plan (disposal of assets), (iii) the diversification of its resources and (iv) the improvement of its organization. During the second half of the year, the Board also began an examination with a consulting firm of the Group's strategic options for the next few years.

Organization and business of the committees during the year ended:  The Board's bylaws provide that it is assisted in its work by three committees (the audit committee, compensation committee and appointment committee). Each committee has its own bylaws, which specify its competences and operating mode. The audit committee met twice during the fiscal year ended March 31, 2006. The compensation and appointments committee met once during the period. The membership of the compensation and appointments committee will be adjusted to reflect the changed make-up of the board of directors.

Prior to the approval of the annual and consolidated financial statements for March 31, 2006, the members of the audit committee, financial management and the independent auditors held several meetings following which the committee chairman, management and the auditors reported their respective conclusions to the Board of Directors.

## 2) RESTRICTIONS ON THE CHIEF EXECUTIVE OFFICER'S AUTHORITY

The Company's bylaws and articles of incorporation do not contain restrictions on the authority of the chief executive officer, the chief operating officer or the chief financial officer.

## 3) INTERNAL OVERSIGHT

This report on internal oversight pertains to all of the entities controlled by the Company and consolidated by it.

1. Objectives of the Group's internal oversight procedures
2. Risk assessment procedures implemented by the Group
3. Responsibility for internal oversight
4. Internal oversight documents
5. Assessment of the internal oversight of processes that have an impact on the accuracy of the financial information
6. Summarized information on internal oversight procedures implemented by the Group

### 1. Objectives of the Group's internal oversight procedures

Internal oversight is a process carried out by the chairman, management and the staff, under the authority of the board of directors, aimed at obtaining reasonable assurances concerning the fulfillment of the following objectives:

- - The performance and effectiveness of operations
- - The consistency of financial transactions
- - Compliance with applicable laws and regulations

One of the aims of the internal oversight system is to prevent and control risks to which the business is exposed and risks of errors and fraud, in particular in the financial and accounting areas. As in the case of other oversight systems, it cannot provide an absolute guarantee that all of those risks will be eliminated.

### 2. Risk assessment procedures implemented by the Group

Internal oversight is based on risk assessment procedures performed by the management of operating entities, divisions and the Group, including in connection with annual reviews and budgeting processes.

In previous years, a critical review was conducted of the operating subsidiaries in Europe, Australia and Asia to draw up an inventory of the main oversight procedures implemented by finance management at the local level. An analysis of the findings led to the adoption of an action plan aimed at formalizing some of those oversight rules and principles.

As part of the changeover to IFRS during the period, the Group continued to circulate a self-evaluation questionnaire among several of its facilities in Europe and Asia.

At Atari Inc, the publicly-traded Group subsidiary in the United States, time was spent during the year to ensure that it met the requirements of section 4 of the Sarbanes-Oxley Act, which provides, inter alia, that the directors of companies concerned must formally evaluate internal oversight procedures as they apply to the consistency of financial information.

### 3. Responsibility for internal oversight

In addition to the Board of Directors and pursuant to the Group's internal oversight policy, the management of operating entities has direct authority for internal oversight. Financial executives are responsible for the implementation of procedures at the local level.

The internal oversight of processes that have an impact on the accuracy on the Group's financial information, whether of a financial reporting nature (consolidation, financial accounting, etc.) or of an operational one (purchasing, sales), is under the specific authority of:

- The heads of finance at the Group or division level for the definition and design or internal control procedures;
- The management of operating entities, regions, subsidiaries and the Group, for the supervision of the effective implementation of internal oversight measures.

### 4. Internal oversight documents

Group procedures and guidebooks are provided to affiliates. They contain mainly accounting rules adopted by the Group’s general management.

Detailed documents on key oversight of processes that have an impact on the accuracy of financial information are being drafted in the principal regions.

Specific procedures apply to the process of preparing financial information for release. They include:

- a computerized financial reporting and consolidation system to produce the Group's financial statements;
- a formal process of reporting and analyzing other information contained in Group annual reports and proxy statements.

The heads of finance at legal departments, finance managers for regions and the Group chief financial officer are in charge of this procedure.

### 5. Assessment of internal oversight of processes that have an impact on the accuracy on the Group's financial information

A management oversight entity responsible for monitoring operating performance (revenue, expenses, capital expenditures) and cash flow exists for every region and works jointly with the regional organization and operating entities. In addition, a Group-level management oversight unit coordinates the overall process.

The main features of the financial oversight process consist of the financial planning process, which includes strategy planning, budgeting preceded by a definition of key objectives, complete reevaluations at regular intervals, monthly statements, monthly and quarterly revised forecasts of certain indicators and monthly meetings of the financial staff and the management of regions and entities, at which financial performance is reviewed.

The Group requires the heads of finance for every region to conduct on-site reviews of each operating entity. Those reviews include examinations of the performance, procedures, end-of-period meetings, specific audits and compliance with action plans.

The independent auditors also report to the Group's top management any shortfall in oversight that they may identify during the course of their audit of the half-yearly and annual financial statements.

Oversight is conducted at various management and line levels and includes a wide range of measures, including authorizations, verifications and reconciliations, assessments of operating performance and verifications that due care is exercised to protect the assets and that the separation between functions is effective.

Internal oversight procedures implemented by the Group are designed to handle the subsidiaries' accounting and financial information and to ensure that such accounting and financial information is exhaustive, accurate and fair.

In connection with the preparation of the annual report (Form 10K) of the US Atari Inc. subsidiary, which must be filed with the Securities and Exchange Commission (SEC) and as provided by section 302 of the Sarbanes-Oxley Act, the chief executive officer and the chief financial officer of Atari Inc. evaluated the effectiveness of disclosure controls and procedures as of March 31, 2006, as such controls and procedures are defined by US regulations. An assessment of control procedures was conducted on the basis of the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Shortcomings were identified in the following four areas:

- Cash-flow statement preparation and review procedure
- Procedure for calculating tax expenses and preparing notes to the annual financial statements concerning taxes
- Payroll reconciliation procedure at a development studio
- Impact of electronic general audit on sale and purchasing procedures

These shortcomings led the US management to determine that internal oversight procedures were not efficient, as measured against the COSO guidelines. Management has devised a plan to remedy identified internal control shortcomings within twelve months.

## 6. Summarized information on internal oversight procedures implemented by the Group

In accordance with the board of directors' policy of delegating authority, the implementation and supervision of internal oversight procedures are part of the responsibilities of operating and financial managers at each subsidiary. All internal control systems must be consistent with Group guidelines, which describe, inter alia, the following oversight procedures:

### Self-assessment of internal oversight procedures

In recent years, the Group has paid special attention to the development, dissemination and use of self-assessment approaches to internal control. Most subsidiaries today conduct self-assessments, which are part of management processes at entities and follow existing internal oversight guidelines. Self-assessments make it possible to carry out efficient oversight and monitor changes in internal control, while also providing opportunities for employee training. During fiscal 2004-05, the self-assessment procedure focused on general internal audit principles. In fiscal 2005-2006, a diagnostic of the application of accounting principles was added to ascertain their consistency with the newly adopted IFRS.

### Reporting procedure

The Management Control Department is in charge of ensuring that the reporting procedure is consistent with Group guidelines (A-Book) which are available on the intranet system. The procedure calls, inter alia, for the submission of monthly reports by subsidiaries with an analysis of key operating data and of the use and source of funds, based on a model and standards selected by the Group.

One of the purposes of the reporting procedure is to provide regional managers with a detailed analysis of financial and operating performances, which they can use when making decisions on the allocation of resources and to measure the effectiveness of existing processes.

### Preparation of the consolidated financial statements

The consolidated financial statements are prepared by the financial management on the basis of information provided to it by the general and financial management of regions and subsidiaries. The manner in which this information is presented must be consistent with the Group's instructions.

The information is prepared under the responsibility of the regions and subsidiaries, which guarantee to the Group's financial management that the data presents a true picture and is consistent with the Group's guidelines.

In order to ensure that financial reporting by consolidated subsidiaries is accurate, Group management circulates internal memoranda issued by the regional financial divisions. The memoranda include a cost-based review of the principal financial items, which are compared to budgeted expenses, and a specific review of the business risks to which they are exposed.

When auditing the consolidated financial statements, the independent auditors examine consolidation reports provided by the consolidated entities. Regional financial management also validates, on a spot basis, the proper implementation of Group guidelines on the preparation of consolidated financial statements by subsidiaries and brings issues raised to the attention of management.

Lastly, the consolidated financial statements are submitted to the chief financial officer and the audit committee for review, prior to their approval by the board of directors.

Bruno Bonnell
Chairman and Chief Executive Officer

# AUDITORS' REPORT ON THE REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF INFOGRAMES ENTERTAINMENT CONCERNING INTERNAL OVERSIGHT PROCEDURES AND THE PREPARATION AND TREATMENT OF FINANCIAL AND ACCOUNTING INFORMATION, SUBMITTED PURSUANT TO THE LAST PARAGRAPH OF ARTICLE L.225-235 OF THE COMMERCIAL CODE

(Year ended March 31, 2006)

Ladies, Gentlemen,

In our capacity as Infogrames Entertainment's auditors and pursuant to the provisions of the last paragraph of article L. 225-235 of the Commercial Code, we hereby submit our report on the report prepared by your Company's Chairman in accordance with article L.225-37 of the Commercial Code, for the financial year ended March 31, 2006.

The Chairman must include in his report information on the manner in which the work of the Board of Directors and the internal oversight procedures implemented by the Company are prepared and organized.

Our responsibility consists of informing you of any observations regarding the information contained in the Chairman's Report on the internal oversight procedures concerning the preparation and processing of accounting and financial information.

We have conducted our audit in accordance with professional standards applicable in France. These standards require that we perform verifications in order to examine the fairness of the information contained in the Chairman's Report on internal oversight procedures concerning the preparation and processing of accounting and financial information. These verifications include

- examining the objectives and general organization of internal oversight, as well as of internal oversight procedures concerning the preparation and processing of accounting and financial information, as set out in the Chairman's report;
- reviewing the procedures underlying the information contained in said report.

Part 5 of the Chairman’s report refers to shortcomings in internal control procedures at the Atari Inc. subsidiary. We have noted that these shortcomings are described as significant in that company’s annual report. Based on our audit, we have no observations to make regarding the information given on internal oversight procedures concerning the preparation and processing of accounting and financial information in the report by the Chairman of the Board of Directors prepared pursuant to the last paragraph of article L.225-37 of the Commercial Code.

Lyon and Villeurbanne, September 14, 2006

The Auditors

| | |
|---|---|
| Pin Associés | Deloitte & Associés |
| Jean-François Pin | Alain Descoins |

# PARTIES RESPONSIBLE FOR THE ANNUAL REPORT AND DECLARATIONS

## PARTIES RESPONSIBLE FOR THE ANNUAL REPORT AND PROXY STATEMENT

### PARTY RESPONSIBLE

Bruno Bonnell, Chairman and Chief Executive Officer

### DECLARATION

I hereby certify that, based on all reasonable diligences in this respect, the information contained in this Document is, to the best of my knowledge, consistent with the facts and does not omit anything likely to materially affect its import.

I have received an audit letter from the statutory auditors, in which they report that they have examined the information on the financial position and the financial statements contained herein, and read this entire Document.

The historical financial information contained in this Document has been examined by the statutory auditors.

In their report on the consolidated financial statements for the fiscal year ended March 31, 2006 (included on pages 132 and 133 of this Document) the statutory auditors made an observation concerning (1) the significant uncertainty as to the going-concern assumption referred to in note 2.1 to the financial statements and (2) the change in accounting methods explained in note 1.3 to the financial statements concerning the recognition of internal development expenses.

In their reports on the consolidated financial statements for the fiscal years ended March 31, 2005 and March 31, 2004 (included on pages 80 and 76 of Documents D.05-1115 et D.04-1088), the statutory auditors made an observation calling attention to note 1.B(2), which explains the method used to prepare the consolidated financial statements under the going-concern assumption.

Lyon, September 21, 2006

Bruno Bonnell, Chairman and Chief Executive Officer

- **PARTIES RESPONSIBLE FOR THE FINANCIAL AUDIT**

## Auditors

### Pin et Associés

Represented by Jean-François Pin

170 Boulevard Stalingrad, 69006 Lyon

Initially appointed in June 1993. Term extended by the Shareholders' Meeting of December 15, 1998 and January 19, 2005 for an additional six years.

Term expires at the end of the Shareholders' Meeting called to approve the financial statements for fiscal 2010.

### Deloitte & Associés

Represented by Alain Descoins

185 Avenue Charles de Gaulle, 92203 Neuilly-sur-Seine

Initially appointed in October 1993. Term extended by the Shareholders' Meetings of December 16, 1999 and October 20, 2005 for an additional six years.

Term expires at the end of the Shareholders' Meeting called to approve the financial statements for fiscal 2011.

## Alternate auditors

Hervé Gay

170 Boulevard Stalingrad, 69006 Lyon

Appointed in January 2005

Term expires at the end of the Shareholders' Meeting called to approve the financial statements for fiscal 2010.

B.E.A.S. SARL

7/9 Villa Houssaye, 92200 Neuilly sur Seine

Appointed in December 1999.

Term expires at the end of the Shareholders' Meeting called to approve the financial statements for fiscal 2011.

# INFORMATION

## ▪ PARTIES RESPONSIBLE FOR INVESTOR INFORMATION

Bruno Bonnell Tel: + 33 (0)4 37 64 30 00
Thomas Schmider Tel: + 33 (0)4 37 64 30 00

## ▪ INVESTOR RELATIONS

Thomas Schmider Tel: + 33 (0)4 37 64 30 00

All information pertaining to the Company's business and financial position is posted on its website at http\\www.atari.com

## ▪ TENTATIVE TIMETABLE (FOR INFORMATION)

| | |
|---|---|
| Annual Shareholders' Meeting: | September 29, 2006 (initial notice)<br>October 12, 2006 (2nd notice) |
| Announcement of fiscal 2006-2007 second-quarter revenue: | November 8, 2006 |
| Interim financial results: | December 2006 |

The dates above are indicative only and may have to be changed. Firm dates can be obtained by contacting the Company.

# RESOLUTIONS BEFORE THE SHAREHOLDERS' MEETING OF SEPTEMBER 29, 2006

## DRAFT RESOLUTIONS

### WITHIN THE PURVIEW OF THE ANNUAL SHAREHOLDERS' MEETING

#### Resolution 1 (Approval of the annual financial statements for the fiscal years ended March 31, 2006 and discharge of the directors for their management duties)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, having reviewed the report of the board of directors and the auditors' reports, including the auditors' special report on the warning procedure issued pursuant to article L.234-1(3) of the Commercial Code, approve the financial statements for the year ended March 31, 2006, consisting of the balance sheet, the income statement and the notes to the financial statements, as submitted to them, the transactions reflected in those financial statements and summarized in the reports, as well as expenses of € 17,795 not deductible under article 39-4 of the General Tax Code (*Code général des impôts*) and the amount of the corresponding tax. They note that the loss for the year amounted to € 192,527,473.

The Shareholders accordingly discharge the members of the board of directors for their management duties during the fiscal year ended.

#### Resolution 2 (Approval of the consolidated financial statements for the fiscal years ended March 31, 2006 and discharge of the directors for their management duties)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, having reviewed the report of the board of directors on the Group's management and the auditors' reports, including the auditors' special report on the warning procedure prepared pursuant to article L.234-1 (3) of the Commercial Code, approve the consolidated financial statements for the year ended March 31, 2006, consisting of the balance sheet, the income statement and the notes to the financial statements, as submitted to them, the transactions reflected in those financial statements and summarized in the reports.

The Shareholders accordingly discharge the members of the board of directors for their management duties during the fiscal year ended.

## Resolution 3 (Appropriation of income for the fiscal year ended March 31, 2006, as shown in the annual financial statements)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, having reviewed the report of the board of directors on the Group's management and the auditors' report and having noted that a loss was recognized for the year ended March 31, 2006 in the amount of € 192,527,473,

- resolve, as proposed by the board of directors, to allocate that loss to "retained earnings", which thereafter will show a negative balance of € 748,816,772;
- resolve not to distribute a dividend for said year.

The Shareholders take note of the fact that no cash dividend has been distributed over the past three years.

## Resolution 4 (Approval of regulated agreements - articles L. 225-38 *et seq*. of the Commercial Code)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, having reviewed the auditor's special report on agreements governed by articles L. 225-38 *et seq*. of the Commercial Code, approve the contents of the report and the agreements referred to therein.

## Resolution 5 (Grant of authority to the Board of Directors to trade in shares of the Company)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, having reviewed the Board of Directors' report:

- cancel, effective immediately, the authority granted by resolution 9 of the annual shareholders' meeting of October 20, 2005 to purchase shares of the company;
- authorize the Board of Directors, pursuant to sections L. 225-209 et seq. of the Commercial Code, to purchase up to 10 percent of the company's shares outstanding at any time the Board decides to act under this authority. In accordance with section L. 225-209 (3), the Board of Directors shall be entitled to delegate authority for such transactions to the chief executive officer or, with the latter's consent, to one or more executive vice presidents;
- Shares may be repurchased for any purpose permitted by law, the objectives of said buy-back program being as follows, in decreasing order of priority:
- transferring shares to third parties, in any form whatsoever, in connection with acquisitions, mergers, demergers or transfers or generally as a means of implementing investment and finance policies;
- allotting shares whenever rights attached to securities redeemable, convertible or exchangeable for existing Company shares – including warrants or other rights – are exercised for existing shares of the Company;
- distributing shares to employees and executives, as part of incentive programs, stock option plans, company savings plans or any other procedure allowed under applicable law;
- if necessary, ensuring the liquidity of the shares under a market-making agreement with an investment service provider;
- the performance of any new financial transaction allowed by law or by the Financial Markets Authority (Autorité des Marchés Financiers);
- retiring shares, subject to the adoption by the shareholders' meeting of a resolution to that effect before the shareholders, subject to the quorum and voting requirements applicable to special shareholder' meetings.

Shares may be bought, sold, transferred or exchanged by any means, including during the course of a tender offer, as permitted by the markets authorities, on regulated markets or over the counter and including by way of block trades and, if applicable, through the exercise of derivatives (options, convertible bonds, etc.), at any time, in accordance with applicable laws and regulations. Block trades may account for all of the shares repurchased under the program

The Shareholders resolve that the maximum price at which shares may be bought shall be € 3 per share, provided that the foregoing prices may be adjusted accordingly by the Board of Directors in the event of capital transactions such as the capitalization of reserves, the distribution of bonus shares and/or stock splits or reverse splits.

In order to ensure that this resolution is duly carried out, full authority is hereby granted to the Board of Directors – with the further authority to delegate same – for the purpose of:

- placing market orders and entering into agreements regarding such matters as the recording of trades in the company's stock;
- completing all filings and formalities with the French Financial Markets Authority or other agencies;
- in the event that the Company should purchase its own shares for more than their trading price, making all necessary adjustments to the number of shares for which stock warrants and options – or other securities with a right to acquire existing Company shares – may be exercised;
- completing all other formalities and, as a general matter, doing whatever is necessary.

The authority hereby granted shall be for the period decided by the annual shareholders' meeting and shall in no event exceed eighteen months from the date of this shareholders' meeting.

The Board shall report to the Shareholders, at the annual shareholders' meeting, on purchases, transfers, sales or retirements of shares under the authority hereby granted.

## WITHIN THE PURVIEW OF THE SPECIAL SHAREHOLDERS' MEETING

### Resolution 6 (Amendments to the articles of incorporation and bylaws required by changes in the law)

The Shareholders, subject to the quorum and majority rules applicable to special shareholders' meetings, having heard the board of directors' report and in view of the need to amend the Company's articles of incorporation and bylaws (*statuts*) to reflect changes in the law, resolve to amend articles 20 and 21 as follows:

Article 20, paragraph 2 (Quorum requirements applicable to annual Shareholders' Meetings) shall henceforth read as follows:

"Annual Shareholders' Meetings are duly convened and may validly transact business when at least one-fifth of the voting stock is present. If that quorum is not present, a new meeting must be convened no sooner than six days after the original meeting. Business may be transacted at that second meeting regardless of the portion of shares represented but only to the extent that it was included in the order of business of the first meeting.

Article 21, paragraph 2 (Quorum requirements applicable to special Shareholders' Meetings) shall henceforth read as follows:

"Special Shareholders' Meetings are duly convened and may validly transact business if the shareholders present or represented by proxy at the meeting following the first notice own at least one-fourth and, at the meeting following the second notice, one-fifth of the voting stock; if this last quorum is not reached, a second meeting may be postponed to a date no more than two months after the date on which it was convened, subject to the exceptions provided for by law."

### Resolution 7 (Decision to reduce capital, on grounds other than losses, by one hundred and fourteen million five hundred and thirty-seven thousand three hundred and twenty-three euros and thirty cents (€ 114,537,323.30), by reducing the par value of the shares and recognizing a premium over par as paid-in capital)

— The Shareholders, subject to the quorum and majority rules applicable to special shareholders' meetings, having heard the board of directors' report and the auditors' special report,

— resolve to reduce capital stock by one hundred and fourteen million, five hundred thirty-seven thousand, three hundred twenty-three euros and thirty cents (€ 114,537,323.30, by recognizing a premium over par of an equivalent amount, from one hundred and fifteen million, six hundred and ninety-four thousand, two hundred sixty-five euros and thirty cents (€ 115,694,265.30) to one million, one hundred fifty-six thousand, nine hundred forty-two euros (€ 1,156,942.00), corresponding to a nominal value of one cent (€ 0.01) per share.

The Shareholders grant full authority to the board of directors for the purpose of implementing this resolution and amending the articles of incorporation and bylaws accordingly, as well as carrying out all formalities required to notify the Company's creditors of their rights.

## Resolution 8 (Authorization to carry out a reverse split of the Company's shares under which each one hundred (100) existing shares with a par value of one cent (€ 0.01) each would be exchanged for one (1) new share with a par value of one euro (€ 1), and to amend articles eight and eleven of the articles of incorporation and bylaws accordingly)

— The Shareholders, subject to the quorum and majority rules applicable to special shareholders' meetings, having heard the board of directors' report and the auditors' special report, and subject to the condition precedent that this special shareholders' meeting adopts resolution 7 before it,

1) resolve to authorize a reverse split of the Company's shares with a par value of € 0.01 each, exchanging each 100 shares with a par value of € 0.01 each for one share with a par value of € 1, on the expiration of a fifteen-day period from the date of publication by the Company of a notice of reverse-split in the BALO legal announcements gazette. The two-year period in which shareholders would have to exchange their shares would run from the exact date of the notice in the BALO.

2) resolve that, given that securities are outstanding which can be exercised or exchanged for shares of the Company, the exact number of shares with a par value of one-cent (€ 0.01) to be exchanged and the exact number of shares with a par value of one euro (€ 1) likely to result from the reverse split will be recognized and approved by the board of directors (which may further delegate authority to the chairman and chief executive officer) before the expiration of the above fifteen-day period;

3) accordingly grant full authority to the board of directors (which may further delegate such authority to its chairman) for the purpose of amending article 8 "Capital stock" of the articles of incorporation and bylaws, after recognizing the number of shares with a par value of one euro (€ 1) likely to result from the reverse split and to add to the said article a paragraph specifying the shares' par value;

4) resolve to amend article 11 "Rights attached to shares" subsequent to the reverse split by adding a fourth paragraph reading as follows:

"Shareholders shall be entitled to as many votes at shareholders' meetings as the number of shares they own or represent. For a period of two years following the decision by the special shareholders' meeting of (date) to carry out the reverse stock split, old shares shall be entitled to one vote and new shares to one hundred votes, so that the number of votes attached to each share shall correspond to the portion of equity it represents." »

5) resolve that the board of directors shall be granted full authority, which it may delegate to its chairman, for the purpose of implementing this resolution, performing all registration formalities required and, as a general matter, doing whatever is necessary to complete the reverse stock split as set forth above.

## Resolution 9 (Delegation of authority to the Board of Directors to increase the Company's capital by issuing shares and equity securities by means of rights offerings)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' special report:

1. Delegate to the board of directors their authority under sections L. 225-129, L. 225-129-2 and L. 228-92 of the Commercial Code to issue, in one or more transactions, in such amounts and at such times as it deems appropriate, in France or elsewhere, in euros, a foreign currency or a currency unit corresponding to a basket of currencies, shares of the Company or any other securities with a present or future right to the Company's equity, provided that the shares to which such securities entitle their holders shall carry the same rights as existing shares, subject to their effective date; it is specified that preferred shares are excluded from the foregoing.
2. Resolve that the capital increase resulting immediately or subsequently from this delegation of authority shall not exceed € 750,000,000 (seven hundred and fifty million euros), which ceiling may be raised, if applicable, by the nominal value of additional shares to be issued for the purpose of protecting the rights of holders of securities with a right to equity, as required under applicable laws and regulations as well as under existing agreements.

3. Further resolve that the nominal value of debt securities with rights to equity issued under this delegation of authority shall not exceed € 500,000,000 (five hundred million euros) or the equivalent thereof in other currencies or in currency units corresponding to a basket of currencies.

4. Resolve that the shares or securities with a right to equity shall be issued either for cash or in consideration for the setoff of debts.

5. Resolve that the holders of existing shares shall be entitled to exercise their right to subscribe for a minimum number of new securities, as provided for by law. The board of directors may further grant shareholders a preemptive right to subscribe for any excess shares or securities proportionately to the number of shares they hold and subject to the number stated in their application.

In the event that the exercise of rights to subscribe for a minimum number of securities and, if applicable, for excess securities should fail to account for the entire issue above, the board of directors shall have the option, in the order that it deems appropriate, to either:

- reduce the issue to the number for which applications have been received, provided that such applications are for at least three-quarters of the intended issue;
- freely allocate some or all of the shares or securities for which rights have not been exercised;
- offer to the public some or all of the shares not subscribed for;

6. Resolve that, in the event that subscription or share warrants are distributed free of charge to existing shareholders, the board of directors shall have the authority to decide that fractional rights shall not be traded and that the corresponding rights will be sold, with the proceeds of sales being allocated to the holders of said rights no later than thirty days after the registration in their name of the whole numbers of warrants to which they are entitled;

7. Note that, if applicable, the authority hereby delegated entails the automatic waiver by existing shareholders of their rights to subscribe for the Company's shares for which any warrants thus issued may be exercised, in favor of the holders of such warrants;

8. Resolve that the sum paid or owed to the Company for each of the shares issued or to be issued in the future under this authority, after taking into account the issue price of subscription or share warrants if such warrants are issued, shall not be less that the par value of the shares on the issue date of the above securities;

9. Resolve that the Board of Directors shall have full authority and may further delegate such authority to the chief executive officer or, subject to the latter's approval, to one or more executive vice presidents, in accordance with the law, to make use of the authority hereby delegated, including for the purpose of:

- determining the dates, prices and other terms of the issues and the form and attributes of securities to be issued;
- deciding the amount of the issues and their effective date, which may be retroactive;
- deciding the manner in which shares or other securities issued are to be paid for and, if applicable, the terms on which they may be redeemed or exchanged;
- suspending, if necessary and for no more than three months, the exercise of rights attached to securities issued;
- making all adjustments required to offset the impact of capital transactions by the Company, such as changes in the par value of shares, capital increases by means of the capitalization of reserves, distributions of bonus shares, stock splits or reverse splits, distributions of reserves or assets, the retirement of shares or other transactions affecting shareholders' equity;
- deciding how the rights of holders of equity securities shall be protected in accordance with applicable laws and regulations and the provisions of relevant agreements.

The board of directors shall further be authorized, if necessary, to deduct expenses incurred in connection with security issues from paid capital in excess of par, and to carry out all measures and enter into all agreements necessary to complete the planned issues, arrange for the performance of formalities for the rights, shares or securities issued to be admitted to trading, and record the increases in capital resulting from equity issues under this delegation of authority and amend the articles of incorporation and bylaws accordingly.

In the event that debt securities with rights to the Company's equity are issued, the board of directors shall have full authority, including the right to further delegate such authority in accordance with the law to the chief executive officer or, with the latter's consent, to one or more senior vice presidents, for such purposes as deciding whether bonds are to be subordinated or not, setting their interest rate, currency, maturity date or perpetual nature, fixed or variable redemption price, the amount of their discount or premium if any, the calling procedure based on market conditions and the terms under which said securities may entitle their holders to shares of the Company's stock, as well as their other conditions of issue (including guarantees and security interests, if applicable) and redemption; the board of directors shall also be authorized to change the foregoing terms and conditions, in accordance with applicable procedures, during the life of the securities concerned.

10. This delegation of authority replaces and supersedes that granted by resolution ten of the special shareholders' meeting of January 19, 2005.

11. The authority hereby delegated is valid for a period of 26 months from this Meeting.

**Resolution 10 (Delegation of authority to the Board of Directors to increase capital by issuing negotiable securities with a right to the Company's equity, without shareholder preemptive right)**

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' special report:

1. Delegate to the Board of Directors their authority under sections L. 225-129, L. 225-129-2, L. 225-135 and L. 228-92 of the Commercial Code to issue, by means of public offerings, in one or more transactions, in such amounts and at such times as it deems appropriate, in France or elsewhere, in euros, a foreign currency or a currency unit corresponding to a basket of currencies, shares of the Company or any other securities with a present or future right to the Company's equity, provided that the shares to which such securities entitle their holders shall carry the same rights as existing shares, subject to their effective date; it is specified that preferred shares are excluded from the foregoing.

2. Resolve that the increase in capital resulting immediately or in the future from this delegation of authority shall not exceed € 750,000,000 (seven hundred and fifty million euros), which ceiling may be raised, if applicable, to include the nominal value of additional shares to be issued for the purpose of protecting the rights of holders of securities with a right to equity, as required under applicable laws and regulations as well as under relevant agreements. The nominal value of equity issued under this delegation of authority shall count against the overall ceiling of € 750,000,000 (seven hundred and fifty million euros) on capital increases set by the previous resolution of this special shareholders' meeting.

3. Further resolve that the nominal value of debt securities with rights to equity issued under this delegation of authority shall not exceed € 500,000,000 (five hundred million euros) or the equivalent thereof in other currencies or in currency units corresponding to a basket of currencies. The nominal value of debt securities issued under this delegation of authority shall count against the overall ceiling on debt security issues permitted under the previous resolution of this special shareholders' meeting.

4. Resolve that the rights of holders of existing shares to preemptively subscribe for new securities shall be waived, with the board of directors being entitled to grant shareholders a priority right to subscribe for some or all of the new securities during a period and on terms and conditions that the board shall determine in accordance with section L. 225-135 of the Commercial Code.

5. Resolve that the shares or securities with a right to equity shall be issued either for cash or in exchange for the setoff of debts.

6. Note that, if applicable, this delegation of authority entails the automatic waiver by existing shareholders of their preemptive rights to subscribe for the Company's shares to which warrants thus issued may be entitled, in favor of the holders of such securities.

7. Resolve that sums paid or owed to the Company for each of the shares issued or to be issued in the future under this delegation of authority, after taking into account the issue price of subscription or stock warrants if such warrants are issued, shall not be less than the weighted average trading price of shares over the three trading days immediately preceding the setting of said price, subject to a possible discount of 5 percent.

8. Resolve that the Board of Directors shall have full authority and may further delegate such authority to the chief executive officer or, subject to the latter's approval, to one or more executive vice presidents, in accordance with the law, to make use of the authority hereby delegated, including for the purpose of:

- determining the dates, prices and other terms of the issues and the form and attributes of securities to be issued;
- deciding the amount of the issues and their effective date, which may be retroactive;
- deciding the manner in which shares or other securities issued are to be paid for and, if applicable, the terms on which they may be redeemed or exchanged;
- suspending, if necessary and for no more than three months, the exercise of rights attached to securities issued;
- making all adjustments required to offset the impact of capital transactions by the Company, such as changes in the par value of shares, capital increases by means of the capitalization of reserves, distributions of bonus shares, stock splits or reverse splits, distribution of reserves or assets, the retirement of shares or other transactions affecting shareholders' equity;
- deciding how the rights of holders of equity securities shall be protected in accordance with applicable laws and regulations and the provisions of relevant agreements.

The board of directors shall also be authorized, if necessary, to deduct expenses incurred in connection with security issues from paid capital in excess of par, and to carry out all measures and enter into all agreements necessary to complete the planned security issues, arrange for the performance of formalities for the rights, shares or securities issued to be admitted to trading, and record the increases in capital resulting from equity issued under this delegation of authority as well as amend the articles of incorporation and bylaws accordingly.

In the event that debt securities with immediate or future rights to equity are issued, the board of directors shall have full authority, including the right to further delegate such authority in accordance with the law to the chief executive officer, or with the latter's consent, to one or more senior vice presidents, for such purposes as deciding whether bonds are to be subordinated or not, setting their interest rate, currency, maturity date or perpetual nature, fixed or variable redemption price, the amount of the redemption premium if any, the calling procedure based on market conditions and the terms under which said securities may entitle their holders to shares of the Company's stock, as well as their other terms of issue (including guarantees and security interests, if applicable) and redemption; the board of directors shall also be authorized to change the foregoing terms and conditions, in accordance with applicable procedures, during the life of the securities concerned;

9. This delegation of authority replaces and supersedes resolution 11 of the special shareholders' meeting of January 19, 2005.

10. The authority hereby delegated is valid for a period of 26 months from this Meeting.

### Resolution 11 (Delegation of authority to be granted to the board of directors to issue shares or other securities and to freely set the price thereof)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' general report, authorize the board of directors to issue shares, equity and other securities exercisable, convertible or exchangeable for shares of the Company or for debt, for up to 10% of the Company's capital per year, over a period of twenty-six (26) months, as provided by article L. 225-136 (1) of the Commercial Code, and to set the issue price thereof, for offering to the public without preemptive rights by existing shareholders, as the opportunity may arise in the market, subject solely to the condition that the proceeds from the sale of each share shall not be less than the share's nominal value. In the event of such issues, the Board of Directors shall submit a supplementary report, certified by the auditors, setting forth the final terms and conditions of offerings and showing their effective impact on the interests of shareholders.

### Resolution 12 (Delegation of authority to issue shares or other securities in the event of a tender offer by the Company for its own shares or for the shares of another company)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' general report, and as provided by articles L. 225-148, L. 225-129 to L. 225-129-6 of the Commercial Code:

1) grant authority to the Board of Directors, for a period of twenty-six (26) months from this shareholders' meeting, to decide, at its sole discretion, to issue shares or other securities - including unattached warrants - with rights to or exercisable for shares of the Company, or entitling their holders to debt securities, in consideration for tendering securities under an exchange tender offer for the Company's own shares or other securities or the publicly-traded shares of another company, in France or elsewhere, within the meaning of article L.225-148 of the Commercial Code, and further resolve, as necessary, that the rights of existing shareholders to purchase such shares or other securities shall be waived in favor of the holders of those securities;

2) acknowledge that the issuance of securities with rights to or exercisable for shares of the Company entail the waiver by existing shareholders of their right to subscribe for shares to which these securities would entitle their holders;

3) resolve that the increase in capital resulting immediately or in the future from issues of shares or other securities under the authority hereby granted shall not exceed € 750 million or the equivalent thereof in any other authorized currency, with the proviso that this limit (i) does not include possible adjustments required by laws and regulations as a consequence of the issuance of shares and securities with future rights to shares, (ii) is concurrent with the ceiling set by resolution 10 and (iii) shall count against the overall ceiling of € 750 million of resolution 9;

4) resolve that the sums paid or owed to the Company for each share issued or to be issued under the authority hereby granted, including the issue price of warrants in the case of unattached shares or subscription warrants, shall not be less than the minimum price permitted by applicable laws and regulations on the date of issue, irrespective of whether the shares issued or to be issued are fungible with existing shares or otherwise.

The Shareholders resolve to grant full authority to the chief executive officer, including the right to further delegate such authority in accordance with the law, for the purpose of the above tender offers and issuance of the shares or other securities as compensation for shares or other securities tendered, provided that the board of directors shall set the exchange parities and record the number of shares or securities tendered.

### Resolution 13 (Delegation of authority to issue shares or other securities as consideration for contributions in kind to the Company)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and as provided by article L. 225-147(6) of the Commercial Code,

1) grant authority to the board of directors, for a period of twenty-six (26) months from the date of this shareholders' meeting, to issue shares and other equity securities in an amount of up to 10% of the Company's capital on the date of issue, for use as consideration for the transfer to the Company of stocks and other equity securities, or any securities satisfying the conditions of article L.225-147(6) of the Commercial Code, irrespective of the issuer's nationality, whenever the provisions of article L. 225-148 of the Commercial Code on exchange tender offers are not applicable. The Shareholders specify that, as provided by law, the board of directors shall base its decisions on the report by the transfer appraiser or appraisers (commissaires aux apports), in accordance with article L. 225-147 of the Code;

2) resolve that the proceeds collected by or owed to the Company for each share issued or to be issued under the authority hereby granted shall not be less than the minimum price permitted by applicable laws and regulations on the date of issue, irrespective of whether the shares issued or to be issued are fungible with existing shares or otherwise;

3) The Shareholders resolve to grant full authority to the board of directors, which may further delegate such authority, for the purpose of valuing the assets transferred, recording the transfer thereof, charging fees, expenses and duties to the excess of value of the transferred assets over the par value of shares issued, with the board of directors or the annual shareholders' meeting deciding how to use the balance thereof, increasing capital stock and amending the articles of incorporation and bylaws accordingly.

### Resolution 14 (Delegation of authority to the board of directors to increase the number of shares issued in the event of capital increases, with or without preemptive rights by existing shareholders)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, pursuant to article L. 225-135-1 of the Commercial Code, having reviewed the board of directors' report:

1. Delegate authority to the board of directors for the purpose of increasing the number of shares to be issued in the event of a capital increase by the Company, in the form of a rights offering or otherwise, within 30 days of the expiration of the initial offering period and for up to 15% of the original issue, at the same price as the original issue, in accordance with article 155-4 of Decree 67-236 of March 23, 1967 or other applicable regulations.
2. The maximum nominal value of shares issued under the authority hereby delegated shall count against the aggregate ceiling on capital increases set by resolution 9 of this special shareholders' meeting.
3. This delegation of authority shall be valid for a period of 26 months from this Meeting.

### Resolution 15 (Authority granted to the board of directors to increase capital stock by capitalizing reserves, earnings or other paid-in capital)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report,

1. Delegate authority to the board of directors, pursuant to section L. 225-130 of the Commercial Code, to increase capital, in one or more transactions, by up to € 800,000,000 (eight hundred million euros), by capitalizing all or part of the reserves, earnings, paid-in capital in excess of par or any other sums which it may be permitted to capitalize, either by issuing and distributing bonus shares or by changing the par value of existing shares, or by a combination of the two methods. The amount by which the nominal value of shares outstanding is increased under this delegation of authority shall count against the ceiling on capital increases set by resolution 9 of this special shareholders' meeting;
2. Resolve that fractional rights shall be neither traded nor transferred and that the corresponding shares shall be sold, the proceeds from such sales being allocated to the holders of said rights no later than thirty days after the registration in their name of the whole numbers of shares to which they are entitled;
3. Grant full authority to the board of directors, which may further delegate such authority to the chief executive officer or, with his approval, to one or more executive vice presidents, in accordance with the law, including for the purpose of:

- deciding all terms and conditions of the authorized transactions, including the amount and nature of reserves and other paid-in capital to be capitalized, setting the number of bonus shares or the amount by which the par value of existing shares is to be increased, setting the effective date - which may be retroactive - of the new shares or of the increase in the par value of shares;
- taking all measures aimed at protecting the rights of holders of equity securities at the time of the capital increase and, as a general matter, taking all action and entering into all agreements required to finalize the contemplated issue;
- recording the capital increase resulting from the issue of shares, amending the articles of incorporation and bylaws accordingly and complying with all required formalities and registrations.

4. This delegation of authority cancels and supersedes resolution 13 of the special shareholders' meeting of January 19, 2005.
5. The authority hereby delegated is valid for a period of 26 months from this Meeting.

## Resolution 16 (Authorization to distribute bonus shares to employees and officers of the Company and its affiliates)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' report, pursuant to article L. 225-197-1 of the Commercial Code,
- authorize the board of directors to distribute, in one or more transactions, at its discretion, free of charge, either existing shares of the Company bought back by it or bonus shares to be issued, to:

- employees and officers of the Company,
- employees and officers of companies or economic interest groupings in which the Company holds 10% or more of the equity or voting rights, either directly or indirectly, within the meaning of article L. 225-197-2 of the Commercial Code,

provided that the board of directors shall select the recipients of such bonus shares and the conditions and, as the case may be, the criteria applicable to distributions;
- resolve that the aggregate number of shares distributed free of charge, whether existing or newly-issued, shall not amount to more than 10% of those outstanding on the date the board of directors makes use of this authorization, that rights to shares so distributed will vest only after a waiting period of at least two years and that the shares will be locked up for at least two years following said vesting period, with the board of directors having the authority to extend the vesting and lock-up periods;
- take note of the fact that, in the case of newly-issued bonus shares, distribution under this authorization shall entail an increase in capital by means of the capitalization of reserves, earnings or other paid-in capital at the end of the vesting period, as well as the waiver by existing shareholders of their rights to such capitalized reserves, earnings and other paid-in capital in favor of the holders of said bonus shares;
- resolve that this authorization shall be for a period of thirty-eight months from this day.
The Shareholders grant full authority to the board of directors, which may further delegate such authority as permitted by law, to carry out this authorization and, if applicable, protect the rights of recipients, adjust the number of shares distributed to reflect changes in the Company's equity, determine the amount and nature of reserves, earnings and other paid-in capital to be capitalized in the case of issues of new bonus shares, record the increase or increases in shares outstanding resulting from distributions, amend the articles of incorporation and bylaws accordingly and, as a general matter, do all that is necessary.

## Resolution 17 (Grants of share warrants to specific recipients)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' report, pursuant to articles L. 225-138-1 and L. 228-91 of the Commercial Code, Resolve, subject to the completion of a rights issue by the Company before December 30, 2006 raising funds of at least € 73.7 million and of the adoption of the preceding resolutions,

- to grant 217,900,000 bonus share warrants, entitling their holders to subscribe for 217,900,000 newly-issued common shares of the Company, potentially resulting in a maximum capital increase of € 2,179,000 following the adoption of resolution 7, with each warrant being exercisable to purchase one new share with a par value of € 0.01, to the following recipients:
- (i)181,600,000 warrants exercisable for purchasing 181,600,000 shares would be offered to The BlueBay High Yield (Master) Fund, and
- (ii)36,300,000 warrants, exercisable to purchase 36,300,000 shares, to The Sark Master Fund;
- to waive shareholders' preemptive rights in favor of the above recipients;
- to set at € 0.15 per share the subscription price of shares with a par value of € 0.01 each issued in consideration for the exercise of warrants;
- that purchases shall be made in cash, from the Company, from this day until December 31, 2009;
- that the warrants shall be exercisable at any time up to December 31, 2009;
- that new shares shall be effective from their issue date, shall be entitled to the full amount of any dividends distributed subsequent to their issue and shall, accordingly, be fully fungible with old shares after that date;
- that, from the date of issue of the warrants and in accordance with article L. 228-98 of the Commercial Code, the Company shall not change its legal form or corporate purpose without the consent of the warrant holders, approved by a meeting of the body of warrant holders;
- that in addition and in accordance with article L. 228-98 of the Commercial Code, the Company shall be permitted to change the rules applicable to earnings distributions and retire shares without having to obtain the prior consent of the body of warrant holders, provided that it takes the necessary steps to protect the rights of warrant holders, as set forth below;
- that in the event the Company's capital is reduced because of losses by reducing the par value or the number of shares outstanding, the rights of warrant holders shall be reduced proportionately, as if the warrants had been exercised before the effective date of the reduction in capital;
- that if, subsequent to the issuance of the warrants, the Company performs one of the transactions listed in articles L. 228-99 and L. 228-101 of the Commercial Code, the rights of the warrant holders shall be protected in accordance with the provisions of said articles, by adjusting the terms on which shares may be purchased.

Said adjustment shall be made in such a way as to make the value of shares obtained through the exercise of warrants after the transaction equal to the value of the shares that would have been obtained by exercising the warrants before the transaction. In the event of adjustments, the new exercise ratio shall be calculated to the nearest one-hundredth of a share (0.005 being rounded to the next one-hundredth). Any subsequent adjustments shall be made on the basis of the previous ratio thus calculated and rounded off. However, warrants shall be exercisable only for whole numbers of shares, with fractional rights being settled as set forth below.

Should the Company carry out transactions without making adjustments as set forth above and subsequent laws or regulations require such adjustment, or if subsequent laws and regulations require changes in the foregoing adjustments, the Company shall make such adjustments in accordance with applicable laws and regulations.

The board of directors shall set forth the basis for calculating the adjustment and the result thereof in its annual report immediately following such adjustment.

- in the event that there are fractional shares, the holders of warrants shall receive the next lower whole number of shares and a cash payment from the Company for the fractional share. The cash payment shall be calculated as the fraction of the shares times the share value. The share value shall be the opening quoted price of the Company's shares on the Eurolist of Euronext Paris or any other exchange on which the Company's shares are traded, for the trading day immediately preceding the date on which application was made to exercise the rights attached to warrants.
- that pursuant to article L. 228-103 of the Commercial Code, the holders of warrants shall automatically belong to a body of warrant holders, which shall have legal personality, for the purpose of defending their interests and which shall be governed by provisions identical to those of articles L. 228-47 to L. 228-64, L. 228-66 and L. 228-90 of the Commercial Code.

- that in addition, pursuant to article L. 228-103 of the Commercial Code, the body of warrant holders shall be asked to approve all changes in the warrant issuance agreement decided by the board of directors, as well as all decisions affecting the terms and conditions of purchase or distribution of shares agreed upon on the date of issue.
- that in the event of the Company's merger, the warrant holders shall be notified in the same manner and receive the same information as if they were shareholders, so that they may, if they so wish, exercise their subscription rights.
- that the terms and conditions of the warrants, attached to the warrant subscription form, shall be considered the warrant issuance agreement.
- and to grant full authority to the board of directors, including to delegate such authority to the chief executive officer as permitted by laws and regulations, for the purpose of implementing this resolution, including:
- notifying the recipients of warrants of the terms and conditions of their warrants and providing them with a copy of the issuance agreement;
- recording the capital increase resulting from the issuance of shares effectively purchased;
- amending the articles of incorporation and bylaws (statuts) accordingly;
- if necessary, charging any expenses, including those incurred for the issuance of warrants to share premiums reserves; and
- performing all formalities required to have the shares admitted to trading on Eurolist of Euronext Paris or any other exchange, taking all necessary steps and entering into all agreements required for the purpose of the issuance of warrants.

### Resolution 18 (Delegation of authority to the board of directors to increase capital by issuing shares or other securities with a right to the company's equity, for offering to members of a company savings plan or a group pension plan)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' special report, pursuant to sections L. 443-5 et seq. of the Labor Code and sections L. 225-138-1 of the Commercial Code and in accordance with sections L. 225-129-1 and L. 225-129-6 of the Commercial Code,

1. Authorize the board of directors to increase the company's capital stock, in one or more transactions, at its sole discretion, by up to € 45,000,000 (forty-five million euros) by issuing shares or other securities with a right to the company's equity, for offering to the members of savings plans at the company or at its French or foreign affiliates, within the meaning of section L. 225-180 of the Commercial Code and section L. 444-3 of the Labor Code; it is specified that the value of shares issued shall count against the ceiling set by resolution 9 of this special shareholders' meeting.
2. Resolve to waive the rights of shareholders to preemptively subscribe for shares or other equity securities issued pursuant to this resolution, in favor of the plan members referred to above.
3. Resolve, pursuant to section L. 443-5 of the Labor Code, that the shares shall be offered at a discount of 20% (or 30% where permitted by law) from the average opening price of the company's shares on the First Market (*Premier Marché*) of Euronext Paris S.A. over the 20 trading days immediately preceding the date on which the decision was made setting the opening date of the offering period. However, the Shareholders expressly authorize the board of directors to reduce the above discount if it deems appropriate, in order to take into account, inter alia, local legal, accounting, tax and labor relations systems. The board of directors shall also be entitled to replace all or part of the above discount with bonus shares or other securities in accordance with the provisions below.
4. Resolve that the board of directors shall be entitled to distribute, free of charge, shares or other equity securities, provided that (i) benefits resulting from such distributions in terms of the employer contribution or the discount, as the case may be, shall not exceed the limits set by applicable laws and regulations, and (ii) that the company's shareholders shall waive their rights to shares or other equity securities that may be issued pursuant to this Resolution; and
5. Resolve that the characteristics of other securities with rights to the company's equity shall be determined by the board of directors in accordance with applicable regulations.

Full authority is granted to the board of directors, which may further delegate such authority as permitted by law, for the purpose of implementing this resolution, including deciding the terms and conditions of issues under the authority hereby granted, setting the amount of the offerings and their starting and closing dates, the price and effective date of the securities, the manner and time in which the securities are to be paid for and, if applicable, applying for listing on the exchange of securities so issued wherever it so decides, recording the capital increase corresponding to the shares effectively subscribed for, performing or arranging to have others perform all transactions and formalities related to capital increases, amending the articles of association and bylaws at its own discretion and, if it deems appropriate, charging the cost of capital increases to the capital in excess of par generated by equity issues and deducting from said paid-in capital the sums necessary to bring the legal reserve to one-tenth of the new capital subsequent to each increase, as well as completing all registrations with the authorities and doing all that is necessary.

6. This delegation of authority replaces and supersedes resolution 16 of the annual and special shareholders' meeting of January 19, 2005.

7. The authority hereby granted is valid for a period of 26 months from this Meeting.

### Resolution 19 (Reduction of capital by retiring shares acquired under the share buyback program)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the board of directors' report and the auditors' special report, prepared in accordance with the law,

- cancel the prior authorization granted by the shareholders' meeting of January 19, 2005 (resolution 17);
- authorize the board of directors, pursuant to sections L. 225-209 of the Commercial Code, to retire shares acquired by the company and/or that the company may subsequently acquire pursuant to any current or future authority granted by the annual shareholders' meeting in accordance with section L. 225-209 of the Commercial Code, representing up to 10 percent of the company's shares outstanding in each twenty-four month period, and in compliance with all other applicable laws and regulations;
- authorize the board of directors to reduce capital accordingly and to charge any excess of the purchase price of shares over their par value to available paid-in capital and reserve accounts.

Full authority is granted to the board of directors, which may further delegate said authority in accordance with the law, for the purpose of reducing capital in one or more transactions, including setting the final amount of the capital reduction, setting the terms and conditions and recording the completion thereof, as well as amending the articles of incorporation and bylaws accordingly and completing all formalities, procedures and filings with any agencies and, as a general matter, doing all that is necessary.

The authority hereby granted is valid for a period expiring at the end of the shareholders' meeting called to approve the financial statements for fiscal 2007.

### Resolution 20 (Approval of an amendment to the indenture of the OCEANE 2003-2009 bonds, subject to the approval by the OCEANE 2003/2009 bondholders' meeting of said amendment, deferring their scheduled redemption date and expiration of their convertibility and/or exchangeability to April 1, 2020 from the original maturity of April 1, 2009)

The Shareholders, subject to the quorum and majority voting requirements applicable to special shareholders' meetings, having reviewed the auditors' report and the resolution submitted to the bondholders' meeting of September 29 for holders of OCEANE 2006-2009 issued by the Company on November 6, 2003 (AMF visa no. 03-971 of December 23, 2003) calling for the deferral from April 1, 2009 to April 1, 2020 of the scheduled redemption date of the OCEANE 2003-2009 bonds' principal, as well as the expiration date of the bond's convertibility and/or exchangeability for new or existing Infogrames Entertainment shares, resolve, subject to the approval thereof by the OCEANE 2003/2009 bondholders' meeting, to approve the deferral to April 1, 2020 of the scheduled redemption date and expiration of the bonds' entire principal and expiration of their convertibility and/or exchangeability, originally scheduled for April 1, 2009.

## WITHIN THE PURVIEW OF THE ANNUAL SHAREHOLDERS' MEETING

### Resolution 21 (Appointment of a director)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, appoint Mrs. Gina Germano as a director of the Company for a six-year term expiring at the close of the shareholders' meeting called to approve the 2012 financial statements.

### Resolution 22 (Appointment of a director)

The Shareholders, subject to the quorum and majority voting requirements applicable to annual shareholders' meetings, appoint BlueBay Asset Management, represented by Eli Muraidekh, as a director of the Company for a six-year term expiring at the close of the shareholders' meeting called to approve the 2012 financial statements.

## WITHIN THE PURVIEW OF THE ANNUAL AND SPECIAL SHAREHOLDERS' MEETINGS

### Resolution 23 (Delegation of authority)

The Shareholders grant full authority to the bearer of the minutes of this meeting or a copy or extract thereof, for the purpose of all legal and administrative formalities, filings and registrations required under applicable laws.

# CROSS REFERENCE TO THE PRESENTATION REQUIRED UNDER EUROPEAN REGULATION 809/2004

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