

**INFOGRAMES ENTERTAINMENT S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(€ millions, except share and per share amounts)	<b>December 31, 2001 (6 months)</b>	<b>December 31, 2000 (6 months)</b>	<b>June 30, 2001 (12 months)</b>
Revenue, net	422.1	349.7	674.3
Cost of revenue	191.1	170.2	334.6
Gross profit	231.0	179.5	339.7
Research and development expenses	58.2	54.7	101.4
Selling and distribution expenses	104.8	91.2	193.5
General and administrative expenses	47.2	46.0	100.6
(Loss) income from operations	20.8	(12.4)	(55.8)
Financial (expense) income, net	(11.2)	2.0	(9.0)
Current (loss) income before non-recurring income (expenses), taxation, share of net income (losses) of equity method investments, and amortization of goodwill	9.6	(10.4)	(64.8)
Non-recurring expenses, net	20.9	(4.4)	(25.9)
Taxation (provision) benefit	(2.2)	(0.5)	(12.9)
Net (loss) income before share of net income (losses) of equity method investments and amortization of goodwill	28.3	(15.3)	(103.6)
Share of net income (losses) of equity method investments	-	0.7	0.7
Amortization of goodwill	(11.4)	(9.2)	(20.6)
Net (loss) income before minority interests	16.9	(23.8)	(123.5)
Minority interests	1.1	(1.6)	(2.2)
Net (loss) income	15.8	(22.2)	(121.3)
Net (loss) income per share, not diluted (a)	0.17	(0.27)	(1.41)
Net (loss) income per share, fully diluted (a) (b)	0.19	(0.27)	(1.41)
Weighted average number of shares outstanding, not diluted (a)	93,503,436	83,644,708	86,007,818
Weighted average number of shares outstanding, fully diluted (a) (b)	116,606,382	108,833,344	111,196,454

(a) After the impact of the allocation of one for twenty stock split, performed on January 15, 2002.

(b) Taking into account the impact of dilutive securities (see Note 1.U to the consolidated financial statements).

**See notes to the consolidated financial statements**

**INFOGRAMES ENTERTAINMENT S.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(€ millions)	December 31, 2001	June 30, 2001	December 31, 2000
Goodwill, net	247.5	293.6	127.6
Intangible assets, net	299.8	305.5	265.3
Property and equipment, net	36.4	33.1	27.4
Investments	40.0	24.3	22.0
Total fixed assets	623.7	656.5	442.3
Inventories	77.0	64.5	61.4
Royalty advances and prepaid license fees	100.8	92.4	72.0
Trade receivables, net	179.1	125.6	191.9
Other assets	150.0	175.4	203.2
Marketable securities	5.7	40.6	93.6
Cash	83.3	58.4	49.1
Total current assets	595.9	556.9	671.2
Total assets	1,219.6	1,213.4	1,113.5
Capital stock	63.6	54.0	48.8
Additional paid-in capital	491.8	423.5	264.2
Retained earnings (deficit)	(202.6)	(223.6)	(153.1)
Total stockholders' equity	352.8	253.9	159.9
Minority interests	11.8	12.0	13.5
Contingency and loss provisions	10.9	21.3	24.3
Long-term debt	496.9	599.0	631.7
Total long-term liabilities	507.8	620.3	656.0
Portion of debt maturing in less than a year	54.5	44.6	22.9
Trade accounts payable	249.7	230.2	222.8
Other short-term liabilities	43.0	52.4	38.4
Total short-term liabilities	347.2	327.2	284.1
Total minority interests, liabilities and stockholders' equity	1,219.6	1,213.4	1,113.5

**See notes to the consolidated financial statements**

**INFOGRAMES ENTERTAINMENT S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(€ millions, except share amounts)	Number of Shares of Capital Stock Outstanding	Number of shares outstanding	Capital Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total stock holder equity
Balance as of June 30, 2000	79,084,465	79,084,465	48.2	242.7	(101.2)	189.7
Net loss	-	-	-	-	(121.3)	(121.3)
Unrealized foreign exchange income, net	-	-	-	-	1.7	1.7
Comprehensive (loss), net (a)					(119.6)	(119.6)
Acquisition of Hasbro Interactive	4,521,405	4,521,405	2.8	107.4	-	110.2
Issuance of warrants in acquisition of Hasbro Interactive	-	-		1.1		1.1
Acquisition of Paradigm Entertainment	656,919	656,919	0.4	17.0	-	17.4
Exercise of stock options	173,610	173,610	0.1	0.5	-	0.6
Repurchase of capital stock	-	(149,426)	-	-	(2.8)	(2.8)
Conversion of bonds 1999	154,895	154,895	0.1	2.8	-	2.9
Exercise of warrants	3,969,025	3,969,025	2.4	52.0	-	54.4
Balance as of June 30, 2001	88,560,319	88,410,893	54.0	423.5	(223.6)	253.9
Net income for the period	-	-	-	-	15.9	15.8
Unrealized foreign exchange income, net	-	-	-	-	(8.0)	(8.0)
Comprehensive income (loss), net (a)					7.8	7.8
Exercise of stock options	98,665	98,665	0.0	0.4	-	0.4
Subscriptions to Employees Savings Plan	184,475	184,475	0.1	1.2	-	1.3
Merger with Interactive Partners, net of costs	15,530,558	15,530,558	9.5	66.7	-	76.2
Interactive Partners interim income	-	-	-	-	4.6	4.6
Cancellation of treasury shares from the merger	-	(16,067,996)	-	-	(91.6)	(91.6)
(Purchase) sale of treasury shares, net of tax	-	10,849,426	-	-	123.2	123.2
Cancellation of treasury shares forfeited by Hasbro Inc.	-	(1,685,265)	-	-	(25.0)	(25.0)
Other movements	-	-	-	-	2.0	2.0
Balance as of December 31, 2001	104,374,017	97,320,756	63.6	491.8	(202.6)	352.8

(a) Comprehensive income (loss) includes net income (loss) and other changes in equity due to transactions and events from non-owner sources (see Note 12 to the consolidated financial statements).

**See notes to the consolidated financial statements**

**INFOGRAMES ENTERTAINMENT S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(€ millions)

	<b>December 31, 2001</b>	<b>June 30, 2001</b>
	<b>(6 months)</b>	<b>(12 months)</b>
<b>OPERATING ACTIVITIES:</b>		
Net (loss) income	15.8	(121.3)
Share of net (income) losses of equity method investments		(0.7)
Minority interests	1.1	(2.2)
Amortization of goodwill	11.4	20.6
Depreciation and amortization of intangible and tangible assets	13.2	29.5
(Gain) loss on the sale of property, equipment and intangible assets	0.4	(1.0)
Loss (gain) on the sale of investments	-	2.1
Gain deferred on buyback of convertible bonds	(46.4)	-
Taxation provision	3.6	12.7
Amortization of royalty advances and prepaid license fees	40.2	36.9
Contingency and loss provisions	(3.6)	(1.6)
Operating (loss) income before working capital changes	35.7	(25.0)
Changes in working capital requirements:		
Decrease (increase) in inventories	(4.4)	14.9
Payments of royalty advances and license fees	(49.8)	(87.4)
(Increase) decrease in trade receivables	(69.8)	(13.4)
(Decrease) increase in accounts payable and other short-term liabilities	15.0	(64.0)
Other	(2.7)	7.1
Total changes in working capital	(111.7)	(142.8)
Net cash used in operating activities	(76.0)	(167.8)
<b>INVESTING ACTIVITIES:</b>		
Purchases of intangible assets	(11.5)	(9.0)
Purchases of property and equipment	(7.5)	(7.1)
Proceeds from sale of property and equipment and intangible assets	-	2.8
Other investment purchases	(13.5)	(5.3)
Purchases of businesses, net of cash acquired	9.8	(14.3)
Net cash used in investing activities	(22.7)	(32.9)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of capital stock	1.7	52.2
Buyback of convertible bonds 2000/2005	(54.4)	-
Proceeds from disposal of treasury shares	91.9	-
Repayments (borrowings) of other debt, net	44.0	(4.4)
Net provided by financing activities	83.2	47.8
Foreign currency exchange rate changes on cash and cash equivalents	(0.4)	(1.7)
<b>CHANGING IN CASH AND CASH EQUIVALENTS</b>	<b>(15.9)</b>	<b>(154.6)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
	<b>Dec. 31, 2001</b>	<b>June 30, 2001</b>
Beginning of year	95.8	250.4
End of year (a)	79.9	95.8
Change	(15.9)	(154.6)
<b>(a) CASH AND CASH EQUIVALENTS - End of year :</b>	<b>Dec. 31, 2001</b>	<b>June 30, 2001</b>
Cash	83.3	58.4
Marketable securities	5.7	40.6
Bank overdrafts	(9.1)	(3.2)
Total	79.9	95.8
Other information		
Interest paid	(9.9)	(3.2)
Taxes paid	(0.3)	(0.4)

**INFOGRAMES ENTERTAINMENT S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. NATURE OF BUSINESS**

Infogrames Entertainment S.A. ("IESA") and its subsidiaries (collectively, the "Group") is a major international designer, producer, publisher, and distributor of entertainment software, interactive or otherwise, for all media systems. The Group derives its revenue primarily from the sale and licensing of its own internally-created products, from the sale and licensing of externally-created products under publishing agreements, from the distribution of other publishers' products, and from the production of products for others. The Group's customers include mass merchants, specialty software stores, computer superstores, and other distributors and developers throughout the world.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

The consolidated financial statements of the Group have been prepared in accordance with accounting rules and principles generally accepted under French law ("French GAAP"). Since July 1, 2000, the Group's consolidated financial statements comply with Regulation 99-02 of the Comité de la Réglementation Comptable ("Regulation 99-02"). The group consolidated half-year financial statements have been prepared in accordance with current French accounting regulations (recommendation N° 98-01 of the Commission des Opérations de Bourse) regarding interim financial statements, and the accounting policies adopted in preparing the 2001 annual financial statements.

**C. CONSOLIDATION PRINCIPLES**

The financial statements of entities in which the Group has exclusive control have been fully consolidated prospectively from the time such control is achieved.

Investments in which the Group has an equity interest of 20% to 50% and which the Group exercises significant influence are accounted for under the equity method.

Investments in entities that the Group does not intend to hold a long-term interest are not consolidated though they are complying with the principles mentioned hereabove.

All transactions between fully consolidated entities have been eliminated. See Note 25 for a list of the Group's fully consolidated entities at December 31, 2001 and June 30, 2001.

The unconsolidated investments are reported at the lesser of historical cost or net realizable value (to reflect a long-term impairment of value).

The consolidated statements of operations include the financial results of entities acquired during the year from the date on which the Group acquired a controlling interest in them, and those of entities disposed of during the year for the period leading up to their transfer. When the Group acquires a controlling interest in an entity, any portion of the assets and liabilities retained by minority shareholders is recorded at its fair value in the consolidated balance sheets. Accordingly, if the Group subsequently acquires the assets and liabilities considered held by minority shareholders, no additional fair value adjustment is recorded at that time.

## **D. TRANSLATION OF FINANCIAL STATEMENTS AND REPORTING OF TRANSACTIONS IN FOREIGN CURRENCY**

### *Translation of the Group's Financial Statements*

The Group's companies in countries that are members of the European Monetary Union ("EMU") changed their functional currencies from their local currencies to the euro on July 1, 2001. The functional currencies of the Group's companies outside of the EMU have retained their respective local currencies. The financial statements of the Group's companies outside of the EMU are translated into euros using the following principles:

- items in the balance sheets are translated using exchange rates in effect at the end of the fiscal year;
- items in the statements of operations and statements of cash flows are translated at the average exchange rates for the fiscal year;
- unrealized foreign exchange gains or losses are recorded to "Retained earnings (deficit)" in the consolidated statements of stockholders' equity for those attributable to the Group and in "Minority interests" for those attributable to minority stockholders.

The Group consolidated financial statements as of December 31, 2001 have been prepared in euro.

All amounts presented in these notes to the consolidated financial statements, except where otherwise indicated, are expressed in euros ("€").

### *Translation of Foreign Currency Transactions*

Transactions by a Group company denominated in a currency other than that company's functional currency are translated using the exchange rate in effect at the time of the transaction or at the hedging rate if any. Assets and liabilities denominated in a currency other than a company's functional currency are remeasured using the exchange rate in effect at the reporting date or the applicable hedging rate if any. Any foreign exchange gains or losses are recorded to "Financial income (expense), net" in the statements of operations.

## **E. CASH FLOW STATEMENTS**

Cash flows are split between operating, investing and financing activities. "Net income (loss)" in the consolidated statements of operations is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Bank overdrafts are deducted from cash and cash equivalents.

## **F. GOODWILL**

When the Group acquires a new entity, the acquired entity's identifiable assets and liabilities (including identifiable intangible assets described in Note 1.G) are recorded in the consolidated balance sheets at their estimated fair value on the acquisition date. Initial estimates of fair values are finalized within the fiscal year subsequent to the year of acquisition. Any excess of the net purchase price over the net fair value of identifiable assets and liabilities is recorded to "Goodwill" in the consolidated balance sheets and is amortized on a straight-line basis over a period not in excess of its related estimated useful life, between 10 to 15 years. The net purchase price includes any incidental out-of-pocket fees directly related to the acquisition. The net fair value of identifiable assets and liabilities includes certain acquisition adjustments if necessary, including provisions for reorganizations and/or restructurings.

Prior to the Group's adoption of Regulation 99-02 (see Note 1.B), goodwill arising from acquisitions that were financed by equity instruments issued specifically to finance the related acquisitions was charged to "additional paid-in capital" in the consolidated balance sheets in accordance with the literature from the Commission des Opérations de Bourse ("Approval N°98-559, Monthly statement No. 210 and 1997 annual report").

The balance of goodwill is reviewed regularly in order to take into account events or changes that could reduce, in a long-term basis, the carrying amount. This review is performed by analysing both external (development of the market, Group's market share...) and internal (historical development and business plans in term of revenue, profitability and cash flow) factors. If this review indicates a possible depreciation, a comparison between cash flow from operations of the related business unit and the carrying amount of the net investment is performed; if necessary, the carrying amount of the net investment is reduced to its estimated fair value with a reduction of goodwill.

## **G. INTANGIBLE ASSETS**

The Group classifies its intangible assets, other than goodwill, as either amortizable or non-amortizable.

### *Amortizable Intangible Assets*

Amortizable intangible assets, other than goodwill, include identifiable intangible assets resulting from acquisitions of businesses (e.g., game catalogs) and computer software acquired for internal use (e.g., accounting software). These assets are amortized to "General and administrative expenses" or "Research and development expenses" in the consolidated statements of operations (depending their nature) on a straight-line basis over a period not in excess of their related estimated useful lives (ranging from 1 to 4 years).

Amortizable intangible assets also include entertainment software products purchased from external software producers under production fund development agreements. Under these agreements, which differ from the Group's royalty-based development agreements (see Note 1.L), the Group agrees, in advance, to purchase products, for a set price, subject to the producers achieving contractually specified production milestones. Such products are capitalized and amortized to "Cost of revenue" in the consolidated statements of operations over each product's expected sales life (generally 1 to 3 years) commencing upon the product release date.

### *Non-amortizable intangible assets*

Non-amortizable intangible assets include market share and trademarks resulting from acquisitions, to the extent that an accurate and objective fair value can be determined for these items.

## **H. PROPERTY AND EQUIPMENT**

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of the related assets. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful lives of the related assets (including extension periods under certain circumstances). Land is not depreciated.

Assigned economic lives of property and equipment are as follows:

	<u>Years</u>
- Building	25
- Computer equipment	1 to 3
- Furniture and fixtures (including leasehold improvements) and other equipment	3 to 10

Certain leased assets are treated as if purchased on credit and are reported as capital leases on the basis of the current value of future lease payments and are depreciated over their estimated useful lives.

#### **I. IMPAIRMENT OF LONG-LIVED ASSETS**

The Group reviews, annually, intangible assets and property equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the case of intangible assets related to an acquired company, this review is performed by analysing both external (development of the market, Group's market share...) and internal (historical development and business plans in term of revenue, profitability and cash flows) factors. If it appears that such amounts could not be recoverable, the Group estimates the future cash flows expected to result from the use of the asset and its eventual disposition and recognizes, if necessary, an impairment loss for the difference between the carrying value of the asset and its fair value.

#### **J. INVESTMENTS**

##### UNCONSOLIDATED INVESTMENTS

Unconsolidated investments that the Group does not intend to sell in the short-term are recorded at their acquisition cost. A loss provision is recorded whenever an investment's going-concern value is estimated to be less than book value. The going concern value is estimated based on a number of criteria including the prospects for returns on the Group's investment.

##### TREASURY SHARES

Treasury shares held by the Group are reflected as a reduction of stockholders' equity calculated at their acquisition cost. Gains or losses on sales of treasury shares are excluded from the determination of net income.

#### **K. INVENTORIES**

The value of inventories is calculated using the first-in, first-out method. The gross value of inventories includes their purchase price and incidental expenses. Interest expenses are not included in the value of inventories. A loss provision is recognized to reduce the recorded cost to net realizable value whenever the probable market value of inventories is below their cost and is charged to "Cost of revenue" in the consolidated statements of operations.

#### **L. ROYALTY ADVANCES AND PREPAID LICENSE FEES**

Royalty advances to external software developers under royalty-based development agreements for certain products and prepaid license fees to intellectual property rights holders for use of their trademarks or copyrights are capitalized and amortized to "Cost of revenue" in the consolidated statements of operations. Amortization of these assets commences upon the product release date and is based on the agreed-upon royalty schedule.

The Group's management evaluates the future realization of these assets on a regular basis and records a charge for any amounts deemed unlikely to be realized through the volume of expected sales. Such charges may be recorded to "Research and development expenses" or "Non-recurring expenses, net" in the consolidated statements of operations.

#### **M. MARKETABLE SECURITIES**

"Marketable securities" in the consolidated balance sheets are highly liquid securities with an original maturity of three months or less and are considered to be cash equivalents. The fair values of the Group's marketable securities approximate their carrying amounts due to the short-term maturity of these instruments.

#### **N. OTHER ASSETS**

##### *Bond Issue and Redemption Premiums*

Bonds are reported at their principal amount, inclusive of any bond issue or redemption premium. The value of the bond issue or redemption premium is capitalized to "Other assets" in the consolidated balance sheets and amortized as interest expense over the life of the bonds, except if the Group has separately hedged the redemption risk.

##### *Bond Issue Costs*

Bonds issue costs are capitalized to "Other assets" in the consolidated balance sheets over the life of the bonds and amortized to "Financial income (expense)" in the consolidated statements of operations.

#### **O. REVENUE**

##### *Sales of Entertainment Software*

Revenue from the sale of entertainment software is recognized at the time products are shipped to customers. A reserve is provided at this time for expected future returns, net of the related cost of such items. The Group is not contractually obligated to accept returns, however, the Group may permit the exchange of products sold to certain customers. In addition, the Group may provide warranties, price protection concessions for unsold products and other allowances to certain customers. When the Group grants such allowances, management of the Group estimates the amount of these future credits and reserves are recorded to "Trade receivables, net" in the consolidated balance sheets. The Group also performs ongoing credit evaluations of its customers and reserves for potential losses are recorded, as necessary, to "Trade receivables, net."

##### *Entertainment Software Licensing*

Under various licensing agreements, licensees are entitled to make multiple copies of entertainment software subject to the payment of a guaranteed fee. The guaranteed fee is recognized as revenue at the time of delivery of the master software or the first copy. Revenue is recognized for additional copies of entertainment software, which exceed the multiple copies allowed by the guaranteed fee, as earned.

##### *Service Revenue*

Revenue from development and publishing services performed for others reflect fees received for providing such services and are recognized as earned based on development milestones specified in the related service agreements.

## **P. CLASSIFICATION OF OPERATING EXPENSES**

Operating expenses are recorded in the statements of operations based on the nature of the expenses, including depreciation and provision allowances on related assets.

## **Q. RESEARCH AND DEVELOPMENT EXPENSES**

In-house production costs are charged to "Research and development expenses" in the consolidated statements of operations as incurred until technological feasibility has been established for the product. The technological feasibility criterion is considered to have been met upon completion of a working model, which in practice takes place at the end of the development period. Accordingly, since expenses incurred after completion of technical feasibility tests have not been significant, the Group has not capitalized any significant in-house software production costs to date.

Production costs incurred in the development of products for external software producers under production fund agreements are charged to "Research and development expenses" as incurred.

The "research and Development expenses" include also if necessary the depreciation on royalty advances to software developers under royalty-based development agreements which are described in Note 1.L.

## **R. ADVERTISING**

General advertising costs are recognized as incurred and charged to "Selling and distribution expenses" in the consolidated statements of operations, with the exception of expenses directly related to the promotion of a product that has not been released. Advertising costs for products that have not been released are capitalized in "Other assets" in the consolidated balance sheets and recognized at the time of the release of the related product

## **S. TAXATION**

Current taxes are calculated based on rules and rates applicable in the countries where the Group operates.

Deferred taxes are calculated using the interperiod tax allocation method for all temporary differences that may exist between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred taxes are measured using the enacted tax rates in the countries where the Group operates in effect for the years in which the differences are expected to reverse. A provision is recorded for net deferred tax assets whenever it is deemed more doubtful than likely (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized.

A provision has been set aside for taxes payable in the event that the undistributed earnings of French and foreign subsidiaries should be distributed, except when those earnings are intended to be permanently kept by the subsidiaries concerned.

## **T. NON-RECURRING INCOME AND EXPENSES**

Non-recurring income and expenses consists of items that are deemed to be exceptional in character and one-time in nature, and therefore, are not considered part of the Group's normal ongoing business operations. Included with these items are capital gains and losses from the sale of fixed assets and restructuring costs.

## **U. NET INCOME (LOSS) PER SHARE**

Earnings per share are calculated on the basis of the weighted average number of shares outstanding during the year (excluding treasury shares reflected as a reduction of stockholders' equity). "Net income (loss) per share, fully diluted" in the consolidated statements of operations

takes into account potential diluting factors (e.g., convertible bonds, stock warrants and options). When the net profit per share is negative, the diluted net profit per share is the same as the net profit per share.

## **V. FINANCIAL INSTRUMENTS**

The fair values of the Group's trade and other receivables, trade accounts payable, and other short-term liabilities approximate their carrying amounts due to the short-term maturity of these instruments. The disclosure of the fair value of other financial instruments, where estimates of fair value are practicable, is provided in the related notes to the consolidated financial statements. Significant judgment is required to develop estimates of fair value. Estimates of fair value are stated at closing date and are not necessarily indicative of the amounts that the Group could realize in current market exchanges.

The Group's policy is to enter into derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates and foreign currency exchange rates. Derivative financial instruments are generally designated as hedges of the underlying exposure. The reporting in the consolidated statements of operations of income and expenses from such derivative financial instruments parallels that of the hedged instrument concerned (i.e., gains and losses on interest rate and foreign currency agreements are generally accounted for in the same period as the item being hedged). To the extent an instrument is no longer effective as a hedge due to a change in the underlying exposure, gains and losses are recognized currently in "Financial income (expenses)" in the consolidated statements of operations.

## **W. PENSION AND OTHER BENEFIT PLANS**

According to the laws and customary practices of each country, the entities in the Group have obligations in terms of pension and other retirement plans, life and disability insurance plans, medical plans applicable to active employees and other benefit plans. The Group accounts for these obligations as contributions are made and records the related expenses in the consolidated statements of operations based on their nature.

Obligations with respect of retirement benefit plans are computed on a prospective actuarial method. These commitments are not recognized in the consolidated financial statements but are reported in Note 21 (off balance sheet commitments) They are updated annually at the fiscal year-end (June 30).

The Group may grant stock-based awards to certain employees. Stock-based awards are not recorded by the Group on the date of grant, however, upon exercise of the awards, the Group records the issuance of the related shares of stock as an equity transaction based on the amount of cash received from the employees and directors.

## **X. USE OF ESTIMATES**

The preparation of the Group's consolidated financial statements requires the Group's management to make estimates and assumptions which have an impact on the balance sheet values of assets and liabilities, any assets and liabilities referred to in the notes to the consolidated financial statements, as well as revenue and expenses reported in the statements of operations. Actual results could differ from these estimates.

## 2. ACQUISITIONS

### A. ACQUISITIONS DURING THE PERIOD ENDED DECEMBER 31, 2001

#### ACQUISITION BY MERGER – ABSORPTION OF INTERACTIVE PARTNERS

The extraordinary general meeting on December 17, 2001 approved the merger–absorption of Interactive Partners SA by IESA. This transaction was described in document E no. E.01-465 dated November 21, 2001 and document E No. E.01-487 dated December 14, 2001, respectively and approved by the Commission des Opérations de Bourse.

The main activity of Interactive Partners was the co-ordination, management and control of the participating interest in IESA as well as assistance and advisory services to the Infogrames Group companies. As of December 17, 2001, the IESA securities represented the main asset of Interactive Partners SA. As this merger–absorption was fully paid up in shares, this transaction was recorded based on the net book value of the assets and liabilities comprising the shareholders' equity of Interactive Partners and in accordance with Article 215 of regulation 99-02. The company has been consolidated from December 17, 2001.

#### STEP-ACQUISITION OF MISTIC, INC.

On December 1, 2001, the Group increased its controlling interest in Mistic Inc., a development studio based in Montreal (Canada) to 100%, following the purchase of this company from Den-O-Tech (61% owned subsidiary of Infogrames Entertainment), concurrently with the sale of the latter to its minority shareholders (see Note 2-C).

This additional acquisition led to the recording of goodwill in the amount of € 0.1 million in the December 31, 2001 consolidated financial statements.

### B. ACQUISITIONS DURING THE FISCAL YEAR ENDED JUNE 30, 2001

#### Acquisition of Hasbro Interactive:

On December 6, 2000, the Group entered into a contribution agreement to acquire certain businesses and other assets that had represented the interactive business of Hasbro, Inc. (“Hasbro Interactive”). The terms of the contribution agreement note that the Group would also acquire a long-term licensing agreement with Hasbro, Inc. to provide exclusive rights to develop and publish digital interactive games based on current and future Hasbro, Inc. properties. In exchange, Hasbro, Inc. would receive fair value consideration of U.S. Dollars (“USD”) 100.0 million comprised of: USD 5.0 million in cash; USD 94.0 million in shares of IESA capital stock (based on a defined per share common stock valuation computation); and USD 1.0 million in warrants to IESA capital stock (based on a defined per warrant valuation computation).

On January 26, 2001, the Group completed its acquisition of Hasbro Interactive, which the name of the main entity Hasbro Interactive, Inc has changed to Infogrames Interactive, Inc.

The contract clauses stipulated a price adjustment mechanism in favor of the Group, after the close of the transaction, on the basis of the net equity of Hasbro Interactive stockholders' equity as of December 31, 2000. This price adjustment was subject to a preliminary agreement between the parties dated December 20, 2001.

In particular, this price adjustment resulted in :

- the payment to the Group by Hasbro, Inc. of USD 4.0 million in cash (€ 4.5 million),
- the forfeiture of 1,685,265 Infogrames Entertainment shares from Hasbro to the Group, i.e. the equivalent of € 25.0 million,

The agreement (payments and forfeit of shares by Hasbro, Inc.) was performed on January 31, 2002.

The accounting impacts of this agreement were recorded in the December 31 2001 consolidated financial statements.

In addition, the agreement provides that the Group benefits from pre-emptive rights to the residual Infogrames Entertainment shares held by Hasbro, Inc., if it sells them, for a period expiring on the first of the following two dates: (i) the date on which Hasbro proposes to purchase a total number of shares representing at least 50% of the Infogrames Entertainment shares from the Group and (ii) January 26, 2004.

The acquisition has been accounted for using the purchase method of accounting. The net purchase price of € 96.0 million, inclusive of out-of-pocket fees directly related to the acquisition, has been allocated, on a preliminary basis, as follows:

(€ millions) – Historical rate on January 26, 2001

Net fair value of identifiable assets and liabilities acquired (1)	(28.2)
Goodwill (2)	124.2
Net purchase price	<u>96.0</u>

(1) The net fair value of identifiable assets and liabilities acquired includes the following (in € millions):

Games.com	4.3
Trademarks	3.7
Game catalogs	5.9
Total	<u>13.9</u>

(2) Goodwill is being amortized over 15 years on a straight-line basis (minimum length of the license).

#### **Acquisition of Infogrames, Inc. Minority Interests:**

On October 2, 2000, the Group increased its percentage of ownership in Infogrames, Inc by 27,8% (Note 2.C) through:

- an issuance of shares of Infogrames, Inc. common stock in exchange for forgiveness of a Group loan's and for all the outstanding shares of a US operating wholly owned subsidiary.
- and a cash payment of € 4.8 million for common stock owned by minority interests.

The acquisition was accounted for using the purchase method of accounting and resulted in the recording of goodwill of € 25.4 million. This goodwill is being amortized over 10 years on a straight-line basis.

#### **Acquisition of Paradigm Entertainment:**

On July 28, 2000, the Group acquired Paradigm Entertainment, a game-development company in the United States. The net purchase price of € 19.5 million consisted of € 0.5 million in cash, € 17.4 million in shares of IESA capital stock, and out-of-pocket fees directly related to the acquisition. The acquisition was accounted for using the purchase method of accounting and resulted in the recording of goodwill of € 12.8 million. This goodwill is being amortized over 10 years on a straight-line basis. The Group has consolidated its investment in Paradigm Entertainment from July 28, 2000.

## C. ACQUISITIONS DURING THE FISCAL YEAR ENDED JUNE 30, 2000

### Acquisition of GT Interactive Software Corp:

On November 1999, the Group entered into an agreement to acquire the majority of common stock of GT Interactive Software Corp. ("GT Interactive"), a leading distributor of interactive games software in the United States, in exchange for cash of € 72.7. As a result of the acquisition of these shares, the Group obtained a controlling (61.2% of its then outstanding common stock) interest in GT Interactive. GT Interactive has changes to Infogrames, Inc.

The net purchase price of € 81.2 million included out-of-pocket fees directly related to the acquisition. The acquisition was accounted for using the purchase method of accounting and based on an initial estimate of the fair value of the identifiable assets and liabilities acquired resulted in the recording of goodwill of € 90.6 million. Goodwill is being amortized over 10 years on a straight-line basis.

The net purchase price of € 81.2 million was allocated as follows (in € millions) :

Net fair value of identifiable assets and liabilities acquired (1)	(9.4)
Goodwill	90.6
Net purchase price	<u>81.2</u>

(1) The net fair value of identifiable assets and liabilities acquired included the following intangible assets (in € millions):

Market share	168.8
Trademarks	17.5
Game catalogs	12.5
Total	<u>198.8</u>

The Group has consolidated its investment in Infogrames, Inc. prospectively from November 22, 1999.

### Acquisition of Den-O-Tech:

In March 2000, the Group acquired a controlling interest in Den-O-Tech (61.1% of its then outstanding common stock), a company specializing in software for in-flight entertainment. The net purchase price of € 5.6 million consisted of € 5.4 million in cash and transaction fees directly related to the acquisition. The acquisition was accounted for using the purchase method of accounting. The net purchase price was allocated based on an initial estimate of the fair value of the identifiable assets and liabilities acquired and resulted in goodwill of € 6.4 million that was being amortized over 10 years on a straight-line basis.

The Group has consolidated its investment in Den-O-Tech prospectively from March 31, 2000.

In June 2001, the Group's management estimated that the carrying value of goodwill may not be recoverable and, based on their evaluation, a charge of €2.7 million was recognized to write-off the remaining value of this goodwill. This investment was sold by the Group on December 1, 2001, after the Group's acquisition of its Mistic, Inc. subsidiary (see Note 2.A). In respect thereto, a capital loss of € 0.4 million was recorded in the December 31, 2001 consolidated financial statements.

## D. EFFECT OF ACQUISITIONS ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

The impact of the acquisition of Interactive Partners by merger-absorption is not material with respect to the December 31, 2001 consolidated financial statements.

## E. PRO FORMA OPERATING RESULTS

The following unaudited pro forma operating results have been prepared as if the acquisition of Hasbro Interactive and the step-acquisition of Infogrames, Inc. during fiscal year 2001, had taken place on July 1, 2000. The unaudited pro forma operating results do not reflect the Group's other acquisitions during the periods presented, as their inclusion would not materially affect the unaudited pro forma operating results. The unaudited pro forma operating results are not necessarily indicative of the operating results that would have occurred had the acquisition been consummated as of the dates indicated, nor are they necessarily indicative of future results.

(€ millions)	December 31, 2001 (6 months)	December 31, 2000 (6 months)	June 30, 2001 (12 months)
Revenue	422.1	508.8	841.7
Income (loss) from operations	20.8	(18.5)	(64.0)
Current income (loss) before non-recurring expenses (income), taxation, share of net income (loss) of equity method investments, and goodwill amortization	9.6	(17.2)	(74.0)
Net income (loss)	15.8	(28.3)	(131.4)
Net income (loss) per share, not diluted	0.17	(0.33)	(1.55)

### 3. GOODWILL

Goodwill consists of the following:

(€ millions)	<u>December 31, 2001</u>			<u>June 30, 2001</u>		
<u>Acquisition</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Infogrames						
Interactive, Inc.	127.5	(7.1)	120.4	156.5	(3.5)	153.0
Paradigm						
Entertainment	13.0	(2.1)	10.9	14.1	(1.3)	12.8
Infogrames, Inc.	141.9	(27.2)	114.7	147.5	(20.8)	126.7
Den-O-Tech	-	-	-	3.2	(3.2)	-
Others	9.7	(8.2)	1.5	9.3	(8.2)	1.1
Total	<u>292.1</u>	<u>(44.6)</u>	<u>247.5</u>	<u>330.6</u>	<u>(37.0)</u>	<u>293.6</u>

The decrease in gross goodwill related to Infogrames Interactive, Inc. as of December 31, 2001 (€ -29.0 million) is due essentially to the adjustment of the acquisition price during the period (€-29.4 million).

The Group recorded €11.4 million, € 9.2 million and € 20.6 million of amortization expense on goodwill in the consolidated statements of operations for the periods ended December 31, 2001 and 2000 and fiscal year ended June 30, 2001 respectively. Had the Group not applied COB Approval No. 98-559 (see Note 1.F.) in prior year, additional amortization expense on goodwill would have been € 8.8 million, € 8.8 million, and € 17.6 million, for the periods ended December 31, 2001 and 2000 and the fiscal year ended June 30, 2001 respectively. In the same period, consolidated equity and goodwill, respectively would have been superior of 100.8, 118.4 and 109.6 million euros, respectively, on December, 31, 2001 and 2000 and on June, 30, 2001.

#### 4. INTANGIBLE ASSETS

Intangible assets consist of the following:

(€ millions)	<u>December 31, 2001</u>			<u>June 30, 2001</u>		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Non-amortizable items:						
Market share	230.2	-	230.2	238.0	-	238.0
Trademarks	24.1	-	24.1	25.2	-	25.2
Total non-amortizable items	254.3	-	254.3	263.2	-	263.2
Amortizable items:						
Game catalogs	30.4	(16.6)	13.8	31.4	(13.1)	18.3
Entertainment software	43.4	(16.7)	26.7	33.5	(14.6)	18.9
Other (including computer software)	7.0	(2.0)	5.0	6.7	(1.6)	5.1
Total amortizable items	80.8	(35.3)	45.5	71.6	(29.3)	42.3
Total	335.1	(35.3)	299.8	334.8	(29.3)	305.5

The Group recorded € 7.8 million, € 5.8 million and € 16.2 million of amortization expense on amortizable intangible assets in the consolidated statements of operations for the periods ended December 31, 2001 and December 31, 2000 and the fiscal year ended June 30, 2001, respectively.

#### 5. PROPERTY AND EQUIPMENT

Property and equipment and their movements during the period ending on December 31, 2001, consist of the following:

(€ millions)	<u>Period ended December 31, 2001</u>					
	June 30, 2001	Business Acquisitions	Property and Equipment Additions	Sales and Disposals	Other	December 31, 2001
Land	1.7	-	0.3	-	0.0	1.9
Building	14.7	-	2.1	-	3.8	20.6
Computer equipment	34.1	-	2.9	(1.4)	(3.8)	31.7
Furniture and fixtures (including leasehold improvements) and other equipment	30.2	(0.4)	2.2	(3.4)	(8.0)	20.6
Total gross value	80.7	(0.4)	7.5	(4.8)	(8.0)	74.9
Accumulated depreciation	(47.6)	0.2	(5.3)	2.3	11.9	(38.5)
Total net value	33.1					36.4

The Group recorded approximately € 5.3 million, € 5.5 million and € 13.3 million of depreciation expense on property and equipment in the consolidated statements of operations, for the periods ended December 31, 2001 and 2000 and the fiscal year ended June 30, 2001, respectively.

## 6. LEASES

The Group leases office space and equipment. The Group accounts for substantially all of its leases as operating leases. The leases expire on various dates through 2012. In particular, the Group entered into an operating lease agreement, for its French headquarters in Lyon for a period of 9 years beginning in June 2001.

As of December 31, 2001, the total minimum amount of future leases corresponding to operating leases was estimated at € 12 million.

## 7. INVESTMENTS

Investments consist of the following:

(€ millions)	December 31, 2001	June 30, 2001
Investments accounted for under the cost method of accounting (1)	19.3	20.3
Investments accounted for under the equity method of accounting (2)	(1.1)	(1.1)
Loans	10.4	4.3
Other	11.4	0.8
<b>Total</b>	<b>40.1</b>	<b>24.3</b>

- (1) Investments accounted for under the cost method of accounting - As described in Note 1.C, the Group's unconsolidated investments are reported at historical cost less any provision required to reflect a long-term impairment of value.

The Group's investments accounted for under the cost method of accounting at December 31, 2001, and June 30, 2001 are as follows:

(€ millions)	Investment	Country	December 31, 2001			June 30, 2001	
			Ownership %	Book Value	Fair Value (a)	Book Value	Fair Value (a)
	OddWorld (b)	United States	(b)	8.1	N/A	8.4	N/A
	Emme	France	9.0%	1.8	2.5	2.3	2.5
	CD & Co.	France	21.5%	2.1	N/A	2.1	N/A
	Eden	France	19.8%	3.4	N/A	3.4	N/A
	I. Phone	United Kingdom	20.0%	1.7	N/A	1.7	N/A
	Games.com	United States	100.0%	4.7	N/A	4.7	N/A
	Other	Various	Various	1.4	N/A	1.5	N/A
	Depreciation of investment (c)			<u>(3.9)</u> (c)		<u>(3.8)</u> (c)	
				<u>19.3</u>		<u>20.3</u>	

- (a) Fair value is given only for quoted market prices. Investments for which fair value is not easily determinable are reported to the lesser of historical cost or net realizable value. The Group estimates net realizable value using, total assets, stockholder's equity, net income or any other relevant factors related to the companies involved.

- (b) The Group's investment in Oddworld consists of non-voting convertible preferred stock convertible into approximately 50.0% of OddWorld's common equity.

- (c) In fiscal year 2001, the Group recognized an impairment charge of € 2.1 million and €1.7 million respectively on their investments in CD& Co. and I. Phone to reflect its estimate of the long-term impairment in value of these investments.

- (2) Investments accounted for under the equity method of accounting - The Group's investments accounted for under the equity method of accounting were as follows:

(€ millions)	December 31, 2001			June 30, 2001		
	Equity %	Book Value	Group Share of Income (loss) for the Year	Equity %	Book Value	Group Share of Income (loss) for the Year
Investment						
Canal+ Multimedia	50.0	(1.7)	-	50.0	(1.7)	(0.7)
Sunflowers	30.0	0.6	-	30.0	0.6	-
Total		(1.1)	-		(1.1)	(0.7)

## 8. INVENTORIES

Inventories consist of the following:

(€ millions)	December 31, 2001	June 30, 2001
Finished goods	95.7	113.7
Raw materials and supplies	0.0	0.5
Total gross value	95.7	114.2
Less: Provisions for obsolescence reserve	(18.7)	(49.7)
Total	77.0	64.5

The Group's obsolescence reserve are analyzed as follows:

(€ millions)	December 31, 2001 (6 months)	June 30, 2001 (12 months)
Balance at beginning	49.7	61.8
Additions	8.3	5.0
Business acquisitions	0.0	-
Write-offs and recoveries	(18.0)	(17.3)
Other (cancellation of gross values)	(21.3)	0.2
Balance at end	18.7	49.7

## 9. ROYALTY ADVANCES AND PREPAID LICENSE FEES

Royalty advances and prepaid license fees and activity during each of the respective period is as follows:

(€ millions)	December 31, 2001 (6 months)	June 30, 2001 (6 months)
Balance at beginning	209.6	116.0
Payment of royalty advances and license fees	49.8	87.4
Amortization of royalty advances and license fees	(21.3)	(36.9)
Business acquisitions	0.0	47.8
Advances cancelled and other	(14.5)	(4.7)
Total gross value	223.6	209.6
Less: Balance at beginning	(117.2)	(60.7)
Additions, net	(18.9)	(21.4)
Business acquisitions	-	(40.1)
Provision cancelled and other	13.3	5.0
Provision for the fiscal year-end	(122.8)	(117.2)
Net value at beginning	92.4	55.3
Net value at end	100.8	92.4

## 10. TRADE RECEIVABLES

Trade receivables consist of the following:

(€ millions)	December 31, 2001	June 30, 2001
Gross value	226.0	180.0
Less: Provisions for bad debts, sales returns, and other allowances	(46.9)	(54.4)
Total	<u>179.1</u>	<u>125.6</u>

Provisions for bad debts, sales returns, and other allowances are analyzed as follows :

(€ millions)	December 31, 2001 (6 months)	June 30, 2001 (12 months)
Balance at beginning	54.4	35.1
Additions	13.8	27.3
Business acquisitions	(0.2)	1.0
Write-offs and recoveries	(6.2)	(5.4)
Advances cancelled and other	(14.9)	(3.6)
Balance at end	<u>46.9</u>	<u>54.4</u>

Given its large number of customers, in many different countries, the Group does not consider itself exposed to significant customer credit risk.

The maximum share of the revenue recorded by the Group from one single client during the period ended December 31, 2001 and fiscal year 2001 represented 13.6% and 12.0% respectively. The Group had no single customer constituting greater than 10% of net revenue in fiscal years 2000 and 1999, respectively.

All trade receivables have maturity less than one year.

## 11. OTHER ASSETS

Other assets consist of the following:

(€ millions)	December 31, 2001	June 30, 2001
Bond redemption premiums (see Note 14)	58.7	74.3
Prepaid expenses	20.3	20.3
Bond issue costs	6.2	9.9
Sales tax receivable	15.2	9.4
Other receivables	20.0	14.2
Deferred tax assets (see Note 20)	29.6	47.3
Total	<u>150.0</u>	<u>175.4</u>

At December 31, 2001, other assets have maturities of less than one year, except for bond redemption premium and deferred tax assets amounting to € 10.0 millions.

## 12. STOCKOLDERS' EQUITY

### *Capital Stock*

At December 31, 2001 and June 30, 2001, there were 104,374,017 and 88,560,319 shares, respectively, of IESA capital stock issued and 97,320,756 and 88,410,893 shares, respectively, outstanding, with a nominal value of € 63.6 million and € 54.0 million, respectively. Each share is of the same class and may be in either bearer or registered form, at the holder's option. Each share entitles its holder to one vote on each matter submitted to a vote of stockholders. Double voting rights exist for all existing paid-up shares held in registered form by the same stockholder for at least two years, as well as for all shares additionally acquired pursuant to rights attached to these registered shares that have earned double voting rights. This double voting right is reserved to shareholders living in European Union.

On July 17, 1998, the Group issued 1,831,812 shares of IESA capital stock (9,159,060 shares after consideration of the stock split discussed below) with warrants attached. One warrant was attached to each share issued. The number of outstanding warrants were not affected by the stock split discussed below, rather, the exchange ratio was altered so that the exchange of two warrants together with approximately € 68.6, entitle a warrant holder to five shares of IESA capital stock, at any time between the date of issuance and June 30, 2001. On June 30, 2001, 6,246 warrants expired prior to their conversion.

### *Dividends*

The Board of Directors may propose a distribution to stockholders as a dividend up to the amount of IESA's distributable equity, including any net income of the latest fiscal year. The stockholders at IESA's annual stockholders' meeting must approve such dividends. There were no dividends declared in fiscal years 2001, 2000 and 1999.

### *Capital Stock Repurchase Program*

The Board of Directors is authorized, through June 2003, to repurchase up to 10.0% of the outstanding shares of IESA capital stock. Gain or loss on repurchase of the Group's share would be recorded to "Retained earnings (deficit)" in the consolidated statements of stockholders' equity. Repurchased shares may be retired or used for any strategic intention, including business acquisitions and issuances upon the exercise of capital stock rights (e.g., stock option exercises, bond conversions). The maximum per share repurchase price has been set at €30.0, subject to adjustments caused by capital transactions. During the period ended December 31, 2001, IESA purchased 418,690 and sold 567,916 of its own shares as part of this program. These transactions led to the recognition of a loss of € 2.8 million, which was charged directly to consolidated stockholders' equity as of December 31, 2001. As of December 31, 2001, the Group no longer held any of its own shares bought back as part of this program.

### *Treasury shares*

As of December 31, 2001, the Group held 7,053,261 of its own shares, resulting from the following transactions:

- Treasury shares received from Interactive Partners

When Interactive Partners was merged into IESA, the Group received 16,067,996 of its own shares. In accordance with articles 215 and 271 of Regulation 99-02 (see Note 2.A), these treasury shares have been recorded at the net book value reflected in Interactive Partners financial accounts and presented as a reduction in stockholders' equity. From December 17, 2001 to December 31, 2001, the Group sold 10,700,000 treasury shares in an amount of € 135.4 million. The profit net of tax of € 62.2 million (€72.4 million of unrealized gain net of tax at the time of the acquisition and € 10.2 million of loss net of tax between the date of acquisition and the date of sale)

was charged to stockholders' equity. As of December 31, 2001, 5,367,996 treasury shares received from Interactive Partners remain retained by the Group.

- Treasury shares received from Hasbro Inc.

According to the agreement entered into with Hasbro Inc. related to the acquisition price of Hasbro Interactive (see note 2.B), Hasbro Inc. has returned to the Group 1,685,265 of its own shares in an amount of € 25.0 million. This amount is reflected in reduction to stockholders' equity.

#### *Authorized Capital*

Approvals voted concerning stockholder's equity are mentioned in the annual June 30, 2001 report. A summary of these is presented as follow:

The Board of Directors is authorized, through February 17, 2004, to issue additional shares of IESA capital stock or other securities with a present or future claim on additional shares of IESA capital stock in an amount up to a nominal value of € 50.0 million, for cash consideration or to offset liabilities. Such capital increases may be issued with or without consideration for shareholders' preferential subscription rights.

The Board of Directors is authorized, through February 17, 2004, to issue shares of IESA capital stock or other securities with a present or future claim on shares of IESA capital stock in an amount up to a nominal value of € 50.0 million (€ 2.5 billion if it related to debt securities), in consideration for shares tendered in an offer by IESA to acquire equity in certain defined businesses. Such capital increases may be issued without consideration for shareholders' preferential subscription rights.

The Board of Directors is authorized, through February 17, 2004, to increase stated capital in an amount up to a nominal value of € 50.0 million by capitalizing reserves, earnings or premiums, and subsequently issuing capital stock for distribution.

#### *IESA Capital Stock Option Plan*

The Board of Directors is authorized to grant, through February 17, 2005, options to subscribe or purchase shares of IESA capital stock to the officers and directors and certain employees of the Group, in an amount up to five percent of IESA capital stock outstanding. The exercise price of these options may not be less than 95.0% of the average IESA capital stock trading price over the twenty trading days immediately preceding the date on which the respective options are granted and for not less than 95.0% of the average purchase price in the case of existing shares. Options generally vest ratably over a four or five-year period from their date of grant under certain conditions and are exercisable eight years from their date of grant. No such options may be granted to any officer, director, or employee that already owns more than 10.0% of IESA capital stock. See Note 17 for disclosures related to IESA capital stock options.

#### *Employee saving plan*

The Board of Directors of October 24, 2001 decided to open a new slot as part of the employee saving plan destined to the French employees of the Group. The subscription ended on December 31, 2001, led to the issuance of 184,475 ordinary stocks of IESA in an amount of €1.3 million.

#### *Comprehensive Income (Loss)*

Comprehensive income (loss) includes net income (loss) and changes in equity due to transactions and events from non-owner sources (e.g., goodwill charges, foreign currency translation).

The accumulated balances of these items reflected in the consolidated statements of changes in stockholders' equity are as follows :

(€ millions)	December 31, 2001	June 30, 2001,
Unrealized foreign exchange income (loss), net	(1.0)	9.0
Deduction of goodwill (see Note 1.F)	(173.3)	(173.3)
<b>Totals</b>	<b>(174.3)</b>	<b>(164.3)</b>

### 13. CONTINGENCY AND LOSS PROVISIONS

The following table reflects the Group's contingency and loss provisions and activity:

(€ millions)	June 30, 2001	Additions due to Business acquisitions	Additions for New Provisions	Reductions To Provisions	Other	December 31, 2001
Restructuring provisions	15.2	-	1.1	(3.8)	(6.5)	6.0
Other provisions	6.1	-	3.4	(5.4)	0.8	4.9
<b>Total</b>	<b>21.3</b>	<b>-</b>	<b>4.5</b>	<b>(9.2)</b>	<b>(5.7)</b>	<b>10.9</b>

### 14. DEBT

Debt consist of the following:

(€ millions)	December 31, 2001	June 30, 2001
2000 Convertible Bonds	311.4	412.3
1999 Convertible Bonds	125.8	125.8
GAP Convertible Notes	-	59.0
Other borrowings	101.8	43.3
Bank overdrafts	9.1	3.2
Accrued interest on convertible bonds	3.3	-
<b>Total</b>	<b>551.4</b>	<b>643.6</b>
Less: Amounts maturing in less than one year (1)	(54.5)	(44.6)
<b>Total long-term debt</b>	<b>496.9</b>	<b>599.0</b>

(1) Amounts maturing in less than one year consist of the following:

(€ millions)	December 31, 2001	June 30, 2001
Other borrowings	45.4	41.4
Bank overdrafts	9.1	3.2
<b>Total</b>	<b>54.5</b>	<b>44.6</b>

On May 18, 2000, IESA issued 8,941,517 par value € 39.0 subordinated convertible bonds (the "2000 Convertible Bonds") with an aggregate principal amount of approximately € 412.3 million (inclusive of an aggregate redemption premium of approximately € 63.6 million that was separately hedged – see Note 23). The bonds are scheduled to mature on July 1, 2005 and carry interest, payable annually, at 1.5% (e.g. 4.75% actuarial rate of return, redemption premium inclusive). Each bond was immediately eligible for conversion by its holders into one share of IESA capital stock (1). The bonds are redeemable, at the option of the Group, in the same ratio to which the holders are entitled, if, at any point through maturity, the share price of IESA's capital

stock exceeds a defined redemption value. This bond issuance's was registered at the COB through the document N° 00-823 issued in May 18, 2000.

During the period ended December 31, 2001, the Group bought 2,189,139 2000 convertible bonds on the OTC market for a total consideration of € 54.4 million. As a result, this purchase led to a €100.9 million decrease in borrowings and exceptional income of € 31.9 million (after amortization of the share of the redemption premium for the bonds purchased and the market value as of December 31, 2001 of the instruments used to hedge this share of the redemption premium). As of December 31, 2001 6,752,378 bonds were outstanding and none were eligible for redemption by the Group.

On June 28, 1999, IESA issued 2,500,000 par value € 86.0 bonds convertible or exchangeable into shares (the "1999 Convertible Bonds") for an aggregate principal amount of approximately €234.5 million (inclusive of an aggregate redemption premium of approximately € 20.0 million that was separately hedged – see Note 23). The bonds are scheduled to mature on July 1, 2004 and bear interest, payable annually, at 1.0% (e.g. 2.75% actuarial rate of return, redemption premium inclusive). Each bond is immediately eligible for conversion by its holders into five shares of IESA capital stock (1). The bonds may be redeemed early, at the option of the Group, in the same ratio to which the holders are entitled, if, at any time before maturity, the share price of IESA's capital stock exceeds a defined redemption value. This bond issuance's was approved by the COB through the document N° 99-844 issued on June 16, 1999. As of December 31, 2001, the bonds were not eligible for conversion by the Group and as December 31, 2001 and June 30, 2001, 1,338,533, bonds remained outstanding.

On December 16, 1999, GT Interactive Software Corp. (reappointed Infogrames, Inc.), issued non-interest bearing subordinated convertible notes with an aggregate principal amount of USD 50.0 million to General Atlantic Partners, LLC (the "GAP Convertible Notes"). The outstanding bonds were immediately eligible for conversion (through maturity of the notes on December 16, 2004 ) by their holders into common stock of Infogrames, Inc. at USD 20.0 per share.

On December 28, 2001, the Group exchanged 8,000,000 of its treasury shares with General Atlantic Partners in return for USD 50.0 million and all of these subordinated convertible bonds. As of December 31, 2001, IESA holds all of these securities instead of General Atlantic Partners LLC. The Group's ownership of its bonds generated the elimination of these bonds in the consolidated financial statements and the recording of exceptional income of €15.9 million, representative of the write-down between the value of these securities on the consolidated balance sheet as at June 30, 2001 and the Group buyback price (the latter being estimated on the basis of the value of the Infogrames Entertainment shares on the date of the transaction).

(1) Adjustable in the event of a split in the nominal value of the shares, payments of dividends using shares or other similar transactions. The free attribution of one share for 20 shares owned, dated January 15, 2002, is not taken into account.

The fair values of the Group's debt were estimated based upon quoted market prices at the closing date and the current rates offered to the Group for debt with the same remaining maturities, as applicable. The estimated fair values of the Group's debt obligations are as follows:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
Fair value	417.4	477.8
Carrying amount	551.4	643.6

The maturity dates of the Group's debt obligations are as follows:

(€ millions)	
December 31, 2002	64.7
June 30, 2003	1.3
June 30, 2004	5.0
June 30, 2005	162.5
June 30, 2006	315.5
Thereafter	2.4
<b>Total</b>	<b>551.4</b>

The currencies in which the Group's debt obligations were denominated are as follows:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
European Monetary Union currencies	507.6	538.9
U.S Dollars	39.9	100.1
Other currencies	3.9	4.6
<b>Total</b>	<b>551.4</b>	<b>643.6</b>

## 15. OTHER SHORT-TERM LIABILITIES

Other short-term liabilities consist of the following:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
Taxes and employee benefits payable	22.2	30.8
Deferred tax liabilities	0.2	-
Other	20.6	21.6
	<b>43.0</b>	<b>52.4</b>

## 16. SEGMENT AND GEOGRAPHIC INFORMATION

The Group has two operating segments, the sales of entertainment software (both products internally and externally developed and other publisher's products through the Group's distribution systems) and internet operations (Game Nation Sales of entertainment software represented 99.8%, 99.0%, and 99.6% of the Group's consolidated revenue for the periods ended December 31, 2001 and 2000 and the fiscal year ended June 30, 2001, respectively. Information regarding the Group's geographic locations and Game Nation is as follows:

(€ millions)	<b>Entertainment Software Operations</b>			<b>Game Nation</b>	<b>Consolidation Eliminations</b>	<b>Total</b>
	<b>United States</b>	<b>Europe</b>	<b>Asia</b>			
<b>Period ended December, 31 2001</b>						
Revenue, net	286.5	155.1	18.9	0.8	(39.2)	422.1
Loss (income) from operations	36.6	(14.4)	(1.5)	0.1	-	20.8
Net loss before minority interests	10.4	12.2	(2.4)	(3.3)	-	17.0
Long-lived assets (1)	506.2	71.4	5.4	0.7	-	583.7

<b>Period ended December 30, 2000</b>						
Revenue, net	193.1	157.4	21.4	3.6	(25.8)	349.7
Loss (income) from operations	16.9	(26.0)	(0.8)	(2.5)	-	(12.4)
Net (loss) income before minority interests	2.9	(19.7)	(4.4)	(2.6)	-	(23.8)
Long-lived assets (1)	356.4	52.7	4.9	6.3	-	420.3
<b>Year ended June 30, 2001</b>						
Revenue, net	357.8	311.3	38.4	2.9	(36.1)	674.3
Income (loss) from operations	(5.9)	(39.0)	(3.2)	(7.7)	-	(55.8)
Net income before minority interests	(47.1)	(52.4)	(9.4)	(14.6)	-	(123.5)
Long-lived assets (1)	540.0	86.6	5.2	0.4	-	632.2

(1) Consist of net goodwill, intangible assets, and property and equipment.

## 17. PAYROLL EXPENSE, WORKFORCE AND STOCK OPTIONS

### *Payroll Expense*

The Group's payroll expense for the periods ended December 31, 2001 and 2000 and the fiscal year ended June 30, 2001 consisted of the following:

(€ millions)	<b>December 31, 2001 (6 months)</b>	<b>December 31, 2000 (6 months)</b>	<b>June 30, 2001 (12 months)</b>
Group officers and management	2.5	0.8	4.5
Other employees	62.7	72.0	126.0
Total	65.2	72.8	130.5

No directors' fees were paid to members of the Board of Directors in respect of the periods and fiscal year in question.

### *Employees*

The average number of employees in the Group's workforce for the periods and fiscal year in question, were 2,049, 2,279, and 2,271, respectively.

### *IESA Stock-based Compensation*

As described in Note 12, the Board of Directors is authorized to grant options to shares of IESA capital stock to the officers and directors and certain employees of the Group. A summary of IESA capital stock options outstanding at December 31, 2001 and June 30, 2001 is as follows:

<b>Date of Grant</b>	<b>Exercise Price (1) (€ per share)</b>	<b>Options outstanding (1) as of</b>	
		<b>December 31, 2001</b>	<b>June 30, 2001</b>
December 15, 1995	3.86	-	66,095
December 6, 1996	2.97	252,350	295,000
June 6, 1997	4.48	25,000	25,000
October 7, 1997	4.44	247,500	247,500
February 3, 1998	5.92	852,000	855,500
October 16, 1998	8.20	257,965	260,965
March 15, 1999	11.62	64,000	64,000
October 1, 1999	14.20	1,441,500	1,494,000
October 30, 2000	21.95	20,000	173,750
October 24, 2001	14.20	128,750	-
October 24, 2001	7.98	850,000	-
<b>Total</b>		<b>4,139,065</b>	<b>3,481,810</b>

(1) Exercise prices and number of options have been restated to reflect all stock splits of IESA capital stock until December 31, 2001.

A summary of the transactions involving options for IESA outstanding stock capital is as follows:

<b>Number of Options (1)</b>	<b>December 31, 2001 (6 months)</b>	<b>June 30, 2001 (12 months)</b>
Outstanding at beginning	3,481,810	3,912,590
Granted	978,750	203,750
Exercised	(98,665)	(173,610)
Cancelled due to departure	(222,830)	(460,920)
<b>Outstanding at end</b>	<b>4,139,065</b>	<b>3,481,810</b>

(1) Numbers of options have been restated to reflect all stock splits of IESA capital as of December 31, 2001.

## **18. FINANCIAL INCOME AND EXPENSES**

The Group's investment income and expense for the fiscal periods ended December 31, 2001 (6 months), December 31, 2000 (6 months) and June 30, 2001 were as follows:

(€ millions)	<b>December 31, 2001 (6 months)</b>	<b>December 31, 2000 (6 months)</b>	<b>June 30, 2001 (12 months)</b>
Realized foreign exchange gains, net	2.8	6.3	3.9
Interest income on marketable securities	0.4	4.2	6.8
Interest expense on convertible bonds	(9.0)	(9.2)	(14.1)
Other interest expense on bank borrowings	(3.6)	(0.3)	(5.3)
Other investment (expense) income, net	(1.8)	1.0	(0.3)
<b>Total</b>	<b>(11.2)</b>	<b>2.0</b>	<b>(9.0)</b>

## 19. NON-RECURRING INCOME AND EXPENSES

The Group's non-recurring income and expenses for the periods ended December 31, 2001 (6 months), December 31, 2000 (6 months) and June 30, 2001 (12 months) were as follows:

(€ millions)	December 31, 2001 (6 months)	December 31, 2000 (6 months)	June 30, 2001 (12 months)
(Loss) gain on sale of capital assets	(0.4)	1.6	(1.1)
Write-offs of royalty advances (see Note 1.L)	(4.8)	(2.2)	(8.3)
Restructuring expenses	(6.5)	(2.8)	(11.2)
Write-down of account receivables	(6.5)	-	-
Capital gain from purchase of convertible bonds	46.4	-	-
Correction of royalty advances (prior year)	(5.9)	-	-
Other, net	(1.4)	(1.0)	(5.3)
Non-recurring expenses before taxation	20.9	(4.4)	(25.9)

## 20. TAXATION

Net income (loss) before taxation can be broken down as follows:

(€ millions)	December 31, 2001 (6 months)	December 31, 2000 (6 months)	June 30, 2001 (12 months)
Net (loss) income from operations after financial result	9.7	(10.4)	(64.8)
Non recurring (loss) income	20.9	(4.4)	(25.9)
Net income (loss) before tax, share of net income (losses) of equity method investments and amortization of goodwill	30.6	(14.8)	(90.7)
Share of net income (losses) of equity method investments	-	0.7	0.7
Amortization of goodwill	(11.4)	(9.2)	(20.6)
Net (loss) income before taxation	19.2	(23.3)	(110.6)

### *Taxation Benefits and Provisions*

The components of net taxation (provision) benefit for the periods ended December 31, 2001 (6 months) and June 30, 2001 are analyzed as follows:

(€ millions)	December 31, 2001		June 30, 2001	
	Net Income (Loss) Before Taxation	Net Taxation Benefit (Provision)	Net Income (Loss) Before Taxation	Net Taxation Benefit (Provision)
French companies	25.2	(2.3)	(55.6)	12.4
Companies in other countries	(6.1)	0.1	(55.0)	(25.3)
Total	19.1	(2.2)	(110.6)	(12.9)
Net taxation (provision) benefit:				
Current (1)		1.4		(0.2)
Deferred		(3.6)		(12.7)
Total		(2.2)		(12.9)

(1) Current taxation (provision) benefit represents taxes refundable or payable within one year.

#### *Deferred Tax Assets and Liabilities*

Balance sheet classifications:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
Deferred tax assets (net by subsidiary)	290.9	345.7
Valuation allowance	(261.3)	(298.4)
Deferred tax assets (see Note 11), net of valuation allowance	29.6	47.3
Deferred tax liabilities (see Note 15)	(0.2)	-
Total	<u>29.4</u>	<u>47.3</u>

As of December 31, 2001 and June 30, 2001, the write-down provision recorded mainly relates to the losses which can be carried forward in the United States (Infogrames Inc.), in United Kingdom (Infogrames UK) and in France.

## **21. OFF BALANCE-SHEET COMMITMENTS**

### **Given commitments**

In the normal course of its business, the Group has provided letter-of-credit guarantees to two of its leading suppliers totaling € 23.0 million at June 30, 2001.

The Group agreed, subject to certain conditions, to buy interests of minority holders of Ozisoft Pty Ltd. This purchase would not be material to the operations of the Group.

As described in Note 1.W, the Group accounts for its benefit plan obligations as contributions are made. Management of the Group estimated its off-balance sheet retirement benefit obligations were € 0.3 million at June 30, 2001.

As described in Note 1.G, the development of certain of the Group's products is performed under production fund development agreements. At December 31, 2001, assuming that all contractually specified milestones under such production fund development agreements are achieved, the Group was committed to make € 7.0 million of purchases under these agreements.

As described in Note 1.L, the Group makes advances to external software developers or licensors under royalty-based development agreements in the normal course of business. At December 31, 2001, assuming that all contractually specified milestones under such royalty-based development agreements are achieved, the Group was committed to make € 152 million of purchases under these agreements over the coming years.

### **Received commitments**

The Group benefits from pre-emptive rights to the residual Infogrames Entertainment shares held by Hasbro, Inc., if it sells them, for a period expiring on the first of the following two dates: (i) the date on which Hasbro proposes to purchase a total number of shares representing at least 50% of the Infogrames Entertainment shares from the Group and (ii) January 26, 2004.

Under certain conditions, the Group can use a call option of minorities' parts of Ozisoft Pty Ltd.

## **22. RELATED PARTIES**

No significant transaction with related companies was done during the period ending December 31, 2001.

## 23. FINANCIAL HEDGING INSTRUMENTS

The Group makes use of financial hedging instruments to protect against the risk of fluctuations in interest and foreign-exchange rates. Foreign-exchange and interest rate hedging for the Group's entities is managed by the parent corporation. At December 31 and June 30, 2001, the Group had outstanding positions in the following financial hedging instruments:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
Long-term interest rate swaps	565.0	565.0
Foreign currency exchange contracts	73.5	98.8

### Long-term interest rate swaps:

Long-term interest rate swaps are used to hedge the redemption premiums on the 2000 and the 1999 OCEANE Convertible Bonds. Per terms of these swap contracts, banks have committed to pay the redemption premiums attached to these bonds in the event of early redemption by the Group. In exchange, the Group pays the banks quarterly fees directly linked to market interest rates. The interest-rate swap for the 2000 Convertible Bonds includes a cap that limits the interest-rate risk exposure to the Group. Following the partial buyback of the 2000 convertible bonds during the period ended December 31, 2001 (Note 18), the Group sold partly of its hedging swap early January 2002, in order to reduce the nominal value of these swaps close to the nominal value of the bonds outstanding.

### Foreign currency exchange contracts:

The Group hedges its exposure to foreign-exchange risks from commercial and financial transactions through both foreign currency swaps and foreign currency options. The group uses financial hedging instruments to protect against the risk of fluctuations for all foreign exchange transactions. Hedging for companies in the group is carried out by the parent corporation. Most of the foreign currency contracts (€ 73.5 million) relate to the refinancing by Infogrames Entertainment of its Infogrames Inc. & Infogrames Interactive Inc. subsidiaries (management of foreign currency advances using foreign currency swaps).

The total net worth of the foreign exchange portfolio is as follows:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
<u>Description</u>		
SWAP EUR / GBP	3.9	4.0
SWAP EUR / USD	69.6	94.8
Total	73.5	98.8

The Group's foreign currency swap contracts, presented above, have been further hedged by the following foreign currency options:

(€ millions)	<b>December 31, 2001</b>	<b>June 30, 2001</b>
<u>Description</u>		
OPTION EUR / USD – purchase put EUR / call USD	-	59.0
OPTION EUR / USD – sale call EUR / put USD	-	41.3

All foreign currency financial instruments have maturities of less than one year.

The Group is exposed to counterpart risks inherent to the financial instruments contracts. Notwithstanding, as the group has contracts only with leading banks and financial institutions, the company estimates the risk is not material.

## **24. LITIGATION**

As described in Note 2.A, the Group and Hasbro, Inc. have entered into a settlement agreement to resolving the purchase price of Hasbro Interactive. In addition to this matter, the Group is involved in a number of disputes and legal cases arising in the normal course of business. As indicated in note 2.B, the dispute between Hasbro Inc. and the Group was subject to an agreement, all impacts of which were recorded in the December 31, 2001 consolidated financial statements.

## **25. SUBSEQUENT EVENTS**

The Group's board of directors declared a one-for-twenty IESA capital stock dividend, to be granted to shareholders of record on January 15, 2002. Each stockholder of record on this date will receive one additional share of each twenty shares then held. This capital stock dividend is not taken into account in these notes, except for the earning per share data.

In January 2002, the Group and Hasbro, Inc. signed an agreement on the final purchase price of Hasbro Interactive (see note 2-B).

## 26. FULLY CONSOLIDATED ENTITIES

Company	Country	<u>Percentage of control</u>		<u>Percentage of interest</u>	
		31/12/2001	30/06/2001	31/12/2001	30/06/2001
A+ Multimedia	Portugal	100.00	100.00	100.00	100.00
Atari Interactive Inc	USA	100.00	100.00	100.00	100.00
California US Holdings Inc.	USA	100.00	100.00	100.00	100.00
Curved Logic	UK	100.00	100.00	100.00	100.00
Den-O-Tech	Canada	(1)	61.10	(1)	61.10
Dynamic Systems GmbH	Austria	100.00	100.00	100.00	100.00
Europress Ltd	UK	100.00	100.00	100.00	100.00
Europress Interactive Ltd	UK	100.00	100.00	100.00	100.00
Gamecity	Switzerland	90.00	90.00	90.00	90.00
Hartland Trefoil Ltd	UK	100.00	100.00	100.00	100.00
I-Music	France	100.00	100.00	100.00	100.00
Infogrames Asia Pacific Pty	Australia	100.00	100.00	100.00	100.00
Infogrames Australia Holdings Pty	Australia	100.00	100.00	100.00	100.00
Infogrames Benelux BV	The Netherlands	99.99	99.99	99.99	99.99
Infogrames Castlefield	UK	100.00	100.00	100.00	100.00
Infogrames Denmark	Denmark	100.00	100.00	100.00	100.00
Infogrames Deutschland	Germany	100.00	100.00	100.00	100.00
Infogrames Direct Ltd	UK	100.00	100.00	100.00	100.00
Infogrames Do Brasil Ltda	Brazil	100.00	100.00	100.00	100.00
Infogrames Entertainment	France	100.00	100.00	100.00	100.00
Infogrames Entertainment GmbH	Germany	100.00	100.00	100.00	100.00
Infogrames España	Spain	100.00	100.00	100.00	100.00
Infogrames Europe	France	99.99	99.99	99.99	99.99
Infogrames France	France	100.00	100.00	100.00	100.00
Infogrames Hellas	Greece	100.00	100.00	100.00	100.00
Infogrames Hudson Inc.	Japan	70.00	70.00	70.00	70.00
Infogrames Inc.	USA	88.86	88.70	88.86	88.70
Infogrames Interactive	France	99.96	99.96	99.96	99.96
Infogrames Interactive Asia Pacific Pty	Australia	100.00	100.00	100.00	100.00
Infogrames Interactive GmbH	Germany	100.00	100.00	100.00	100.00
Infogrames Interactive Inc	USA	100.00	100.00	100.00	100.00
Infogrames Interactive Ltd	UK	100.00	100.00	100.00	100.00
Infogrames Israel	Israel	100.00	100.00	100.00	100.00
Infogrames Italia	Italy	100.00	100.00	100.00	100.00
Infogrames Japan KK	Japan	100.00	100.00	100.00	100.00
Infogrames Korea	Korea	100.00	100.00	100.00	100.00
Infogrames Ltd.	UK	100.00	100.00	100.00	100.00
Infogrames Melbourne House Pty	Australia	100.00	100.00	100.00	100.00
Infogrames Nordic	Sweden	100.00	100.00	100.00	100.00
Infogrames Norway	Norway	100.00	100.00	100.00	100.00
Infogrames Studios Ltd.	UK	100.00	100.00	100.00	100.00
Infogrames UK	UK	100.00	100.00	100.00	100.00
Infogrames Videogames GmbH	Germany	100.00	100.00	100.00	100.00
Infogrames Taiwan	Taiwan	100.00	100.00	100.00	100.00
Infogrames.com	France	100.00	100.00	100.00	100.00
Microprose Software Ltd	UK	100.00	100.00	100.00	100.00
Microprose Ltd	UK	100.00	100.00	100.00	100.00
Mistic	Canada	100.00	61.10	100.00	61.10
Ozisoft Pty	Australia	62.50	62.50	62.50	62.50
Paradigm Entertainment	USA	100.00	100.00	100.00	100.00
Spectrum Holobyte Japan KK	Japan	100.00	100.00	100.00	100.00
Welcom'Media	France	99.92	99.92	99.92	99.92
<i>Equity method investments</i>					
Canal + Multimédia	France	50.00	50.00	50.00	50.00
Sunflowers	Germany	30.02	30.02	30.02	30.02

(1) The company was sold on December 1, 2001.

**STATUTORY AUDITORS' REVIEW REPORT ON THE HALF YEAR  
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

Period from 1 July 2001 to 31 December 2001

Pursuant to article L. 232-7 of the French Companies Act (Code de commerce) , we have reviewed the accompanying half year consolidated condensed financial statements of Infogrames Entertainment prepared in French euros , covering the period from 1 July to 30 December 2001 and verified the information contained in the half year management report.

The half year consolidated condensed financial statements are the responsibility of your Board of Directors. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. Those standards require that we perform limited procedures, to obtain an assurance, which is less than obtained in an audit, as to whether the half year consolidated condensed financial statements are free of material misstatement. We have not performed an audit as a review is limited primarily to analytical procedures and to inquiries of group management and knowledgeable personnel on information that we deemed necessary.

Based on our review, nothing has come to our attention that causes us to believe that the half year consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in France, do not give a true and fair view of the financial position and the assets and liabilities of the Group as at 31 December 2001 and of the results of its operations for the six month period then ended.

We have also verified, in accordance with professional standards applicable in France, the information contained in the half year management report supplementing the half year consolidated condensed financial statements submitted to our review.

We have no comment to make as to the consistency with the half year consolidated condensed financial statements and the fairness of the information contained in the half year management report.

Lyon and Villeurbanne, February 12, 2002

The Statutory Auditors

Pin et Associés

Deloitte Touche Tohmatsu

Jean-François PIN

Joël JULLIEN

Alain DESCOINS

This is a free translation of the original French text for information purposes only.