

# SIX-MONTH INTERIM REPORT

Six months ending December 31, 2002

## 1. BUSINESS ENVIRONMENT AND HIGHLIGHTS FOR THE PERIOD

The world market for interactive games continued its rapid growth in 2002.

This growth was spurred by the move to 128-bit next-generation consoles, the installed base of which reached record levels by Christmas 2002.

### Installed base of next-generation consoles, in millions of units

Console	United States		Europe		Europe + US	
	Dec 2001	Dec 2002	Dec 2001	Dec 2002	Dec 2001	Dec 2002
Playstation 2	7.7	16.3	5.2	12.6	12.9	28.9
X Box	1.5	4.7	-	1.5	1.5	6.2
Game Cube	1.3	3.6	-	1.4	1.3	5.0
Game Boy Advance	5.3	12.3	2.5	5.8	7.8	18.1
<b>Total</b>	<b>15.8</b>	<b>36.9</b>	<b>7.7</b>	<b>21.3</b>	<b>23.5</b>	<b>58.2</b>

Source: IDG (Decembre 2002)

Thus the number of consoles increased almost 2.5 times during the year, demonstrating the industry's vitality. This base of 128-bit consoles has been added to the installed base of active 32- and 64-bit consoles (more than 80 million units in North America and more than 60 million in Europe (source: NPD)) and personal computers (PCs), which are still a major market for interactive game publishers.

## THE US MARKET FOR CONSOLE GAMES GREW 21% IN 2002

(source: NPD - Decembre 2002)

The US market for interactive game software is estimated to have reached US\$ 7.1 billion in 2002 (a 12% increase), of which US\$ 5.5 billion was for console games (a 21% increase), US\$ 1.4 billion for PC games (a 5% drop), and US\$ 0.2 billion for educational software (a 27% drop).

The strong growth in console game sales was fueled by the success of PlayStation 2 (8.6 million consoles sold in 2002). The sales of software for this console represent 47% of total console software sales for 2002.

Sales of other consoles also reached high levels: 7.0 million GameBoy Advance consoles, 3.2 million Xboxes, 2.3 million GameCubes and even 2.2 million Playstation1. However, the software sales for these consoles still represent smaller market shares (14% for Xbox, 12% for GameBoy Advance, 11% for GameCube and 11% for PlayStation1).

The PC games market shrank 9% in 2002, more in the educational game segment (-27%), where the group is little represented, than in the other game software segments (-5%), where the Group makes most of its PC sales.

## EUROPE EXPERIENCED STRONG MARKET GROWTH

At Christmas 2002, the four platforms PlayStation 2, Xbox, GameBoy Advance and GameCube were available, whereas at Christmas 2001, only two consoles, PlayStation 2 and GameBoy Advance, were available. As a result, the software market showed strong growth.

The interactive game software market in 2002 is estimated to have reached € 4.9 billion in sales (an increase of approximately 10%), of which € 3.6 billion was for console games and US\$ 1.3 billion for PC games.

As in the United States, market growth was dominated by the success of PlayStation 2 (7.4 million units sold in 2002). The sales of software for this console now represent more than 45% of total sales of console game software.

Among the four major countries, the software market grew particularly well in Spain (+30%), France (+17%) and the UK (+17%), although it shrank slightly in Germany (-5%).

## CONTINUED GROWTH OF US OPERATIONS

Due to the success of several next-generation console game releases (Dragon Ball Z, Stuntman, Unreal Championship, Godzilla, etc.), Infogrames increased its market share from 3.5% to 4.4% during the calendar year 2002; the Group is now ranked number seven in the US and is the number five independent publisher (source: NPD)).

On PCs, major titles such as Roller Coaster Tycoon, Backyard Basketball, Backyard Football, Civilization III, and NeverWinterNights, as well as almost 200 catalogue titles, allowed Infogrames to strengthen its number three position with a 13.3% market share in 2002 (source NPD - Dec 2002).

## CHANGES IN THE CONSOLIDATED FINANCIAL STRUCTURE

Cash flow for the first half of the fiscal year was marked by:

- a return to positive cash flow from operations, which reached € 48.0 million (€ 28.0 million after interest and extraordinary expenses), versus negative cash flow from operations of € 57.0 million (€ 76.0 million after interest and extraordinary expenses) for the same period of the previous fiscal year, an improvement of € 105 million .
- acquisitions of various fixed and intangible assets for a total of € 18.0 million, versus € 22.7 million for the same period of the previous fiscal year.
- the repurchase as of December 31, 2002 of 1,199,587 OCEANE 2000-2005 bonds and of 7,000 OCEANE 1999-2004 bonds, paid partly in cash and partly in treasury shares, which resulted in a reduction of € 55.3 million in bonds outstanding and yielded a net gain of € 21.8 million.

- sales of 3,104,677 treasury shares, as part of financing OCEANE purchases. 2,187,483 shares were exchanged for OCEANE 2000-2005 bonds (see above), with the balance applied mainly to the cash repurchase of OCEANE 2000-2005.
- a € 14 million net reduction in outstanding amounts owed to banks and financial institutions, partly offset by a net increase of € 6 million in leasing finance, resulting into a net reduction in financial debt of € 8.1 million.

As part of the effort to strengthen its financial structure, on November 12, 2002, the Group obtained a 30-month, US\$ 50 million revolving credit facility from General Electric Capital Corporation, of which US\$ 35 million may be used either as cash or as payment guarantees for product development and manufacturing. This credit line is designed to finance the Group's US activities. It is secured by a senior lien on Infogrames, Inc. trade receivables and inventory, Reflections Interactive Ltd and Atari Interactive, Inc. shares, and up to US\$ 25 million of intellectual property held directly by Infogrames, Inc. and Infogrames Interactive, Inc. (with the exception of third-party licenses and trademarks). As of December 31, 2002, US\$ 9.2 million (€ 8.7 million) of this credit line had been used in cash and is classified as short-term debt. US\$ 2.1 million (€ 2.0 million) has also been used for supplier letters of credit.

The Group has stated that it intends to completely revise its financial structure in a manner that is still under examination. This concerns convertible bonds maturing in 2004 and 2005 as well as bank borrowings and other debts. This restructuring may, depending on circumstances, have a significant impact (favorable or unfavorable) on the nature of the indebtedness, on maturities, on currency spread, or on any other element of the financial structure and shareholders' equity of Infogrames Entertainment S.A. or of its subsidiaries. In this regard, the Group may be required to give guarantees (see above). The Group also reserves the right to make additional repurchases of OCEANE during the year.

The classification of financial debt presented takes into account the restructuring that has already taken place, where appropriate.

## 2. REVENUE AND INCOME

(€ millions)	December 31, 2002 (6 months)		December 31, 2001 (6 months)		June 30, 2002 (6 months)	
Revenue	517.4		422.1		770.1	
		100.0%		100.0%		100%
Gross margin	268.9		231.0		391.1	
		52.0%		54.7%		50.8%
<b>Operating income before write-down of prepaid royalties*</b>	<b>37.5</b>	<b>7.2%</b>	<b>31.2</b>	<b>7.4%</b>	<b>0.1</b>	<b>0.0%</b>
<b>Operating income (loss)</b>	<b>14.1</b>	<b>2.7%</b>	<b>16.0</b>	<b>3.8%</b>	<b>(33.5)</b>	<b>(4.4%)</b>
Financial income (expense), net	(11.9)		(11.2)		(24.5)	
		(2.3%)		(2.7%)		(3.2%)
Non recurring income (loss)*/ Income tax	(21.4)		23.5		12.9	
		(4.1%)		5.6%		1.9%
<b>Net earnings (losses) of consolidated entities</b>	<b>(19.2)</b>	<b>(3.7%)</b>	<b>28.3</b>	<b>6.7%</b>	<b>(45.1)</b>	<b>(5.8%)</b>
Entities consolidated using the equity method	0.0	0.0%	0.0	0.0%	(0.5)	0.0%
Amortization of in-process R&D cost acquired	0.0	0.0%	0.0	0.0%	(9.0)	(1.2%)
Amortization of goodwill	(14.9)		(11.4)		(27.7)	
		(2.9%)		(2.7%)		(3.6%)
<b>Consolidated net income (loss)</b>	<b>(34.1)</b>	<b>(6.6%)</b>	<b>16.9</b>	<b>4.0%</b>	<b>(82.3)</b>	<b>(10.6%)</b>
<b>Net income (loss) after minority interests</b>	<b>(37.4)</b>	<b>(7.2%)</b>	<b>15.8</b>	<b>3.7%</b>	<b>(79.4)</b>	<b>(10.3%)</b>

\*The Group has decided to no longer distinguish between non-recurring and recurring write-down of prepaid royalties. All write-down not related to closing of operations are reported as operating expenses (see notes 1.L and 1.Z in the Notes to the consolidated financial statements).

## INCOME STATEMENT

The income statement as of December 31, 2002 (6 months), December 31, 2001 (6 months) and June 30, 2002 (12 months) shows the following:

(€ millions)	December 31, 2002 (6 months)		December 31, 2001 (6 months)		June 30, 2002 (6 months)	
Revenue	517.4		422.1		770.1	
		100.0%		100.0%		100.0%
<b>Gross margin</b>	<b>268.9</b>	<b>51.9%</b>	<b>231.0</b>	<b>54.7%</b>	<b>391.1</b>	<b>50.8%</b>
Research and development expenses	(85.9)		(63.0)		(145.3)	
		(16.6%)		(14.9%)		(18.9%)
Marketing and distribution expenses	(122.7)		(104.8)		(196.4)	
		(23.7%)		(24.8%)		(25.5%)
General and administrative expenses	(46.2)		(47.2)		(82.9)	
		(8.9%)		(11.2%)		(10.8%)
<b>Operating income before write-down of prepaid royalties</b>	<b>37.5</b>	<b>7.2%</b>	<b>31.2</b>	<b>7.4%</b>	<b>0.1</b>	<b>0.0%</b>
<b>Operating income (loss)</b>	<b>14.1</b>	<b>2.7%</b>	<b>16.0</b>	<b>3.8%</b>	<b>(33.5)</b>	<b>(4.4%)</b>

**Consolidated revenue** was up 22.6% (31.4% at consistent foreign exchange rates) from the same period of the prior fiscal year, reflecting the following factors:

- the turnaround of European operations, which grew 35.6% (37.1% at consistent foreign exchange rate) during the six-month period,
- continued growth in the United States at a higher rate than the overall market (+15.7% for the six-month period; +28.5% at consistent foreign exchange rate), and
- the increase in sales volumes and revenue per product, primarily due to a more favorable product mix: sales of next-generation consoles (PlayStation 2, GameBoy Advance, Xbox and GameCube), which account for 51% of consolidated revenue for the six-months period ending December 31, 2002 compared to 15% for the same period of the prior fiscal year.

**The consolidated gross margin** was € 268.9 million, up 16.4% from the same period of the prior fiscal year. As a percentage of revenue, gross margin dropped 2.7 points. This was due to the major change in the PC/console product mix, particularly in the United States. Accordingly, during the same period of the prior fiscal year, there was a very strong concentration in PC products (61% of revenue for the six-months period ending December 31, 2001, compared to only 39% the six-months period ending December 31, 2002). However, this change was offset by an increase in per-product gross margins (mainly due to the mix of next-generation / last generation consoles) and a small increase of published products compared to products distributed, particularly in Europe.

Research and development expenses amounted to € 85.9 million, an increase of € 22.9 million (36.3%) compared to the same period of the prior fiscal year. This increase was due to:

- € 8.5 million of expenses to integrate Eden and Shiny Entertainment, which were acquired during the second half of prior fiscal year,
- approximately € 5.5 million of increased investment in US studios, which was partially offset by a reduction of roughly € 2 million in expenses in the European studios, and
- approximately € 10 million of increased write-down of prepaid royalties on development advances and game catalogues.

**Marketing and distribution expenses** amounted to € 122.7 million, up from € 104.8 million for the same period of prior fiscal year, or an improvement of 1.1 points in relative terms (23.7% of revenue versus 24.8% for the same period of the prior fiscal year). This change was due to the efforts to streamline marketing and distribution structures, especially in Europe, where the increase as a percentage of revenue reached 2.6 points compared to the same period of the prior fiscal year.

**General and administrative expenses** amounted to € 46.2 million and are equivalent to the same period of the previous year, but decrease of 2.3 points compared to net revenue, thanks to the effects of the restructuring in the Group, and in particular, in Europe.

**The consolidated operating income** of € 14.1 million represented 2.7% of revenue, compared with € 16.0 million or 3.8% of revenue for the same period of the previous year. This change was due to the following factors:

- a 2.8-point reduction in the gross margin,
- a 1.7-point increase in research and development expenses,
- a 1.1-point reduction in marketing and distribution expenses, and
- a 2.3-point reduction in general and administrative expenses.

## OTHER INCOME STATEMENT ITEMS

The consolidated financial loss increased from € 11.2 million to € 11.9 million as of December 31, 2002, primarily due to a reduction in revenue from exchange rate differentials and an increase in interest expense on loans as a result of higher average debt compared to the same period of the previous year.

Consolidated entities reported earnings from current business of € 2.2 million, or 0.4% of revenue, versus € 4.8 million, or 1.1% of revenue, for the same period of the previous year.

Non recurring items amounted to a net loss of € 2.7 million, versus a € 25.7 million profit for the same period of the prior fiscal year, as follows:

(€ millions)	December 31, 2002 (6 months)	December 31, 2001 (6 months)
Gain (loss) on sale of capital assets	0.3	(0.4)
Close down of activities and restructuring expenses	(20.9)	(6.5)
Write-down of fixed asset	(3.2)	-
Write-down of receivables	-	(6.5)
Capital gain from the repurchase of convertible bonds	21.8	46.4
Restatement of advances to developers (previous year)	-	(5.9)
Other non-recurring gain (loss)	(0.7)	(1.4)
<b>Total</b>	<b>(2.7)</b>	<b>25.7</b>

The restructuring and close down of activities as of December 31, 2002 consisted of:

- a € 10.5 million provision for restructuring the Group's operations in France,
- various costs for restructuring and closing of operations (€ 10.4 million), including in particular € 5.8 million of write-down of production assets due to halting game production after a reduction in the Group's European publishing structure, and € 2.0 million in expenses for restructuring other European entities in the Group (in Germany and the UK),

Depreciation on fixed assets (€ 3.2 million) relates to restructuring of some development studios, or to non-strategic activities.

The convertible bond repurchase generated a net profit of € 21.8 million after taking into consideration the amortization of the redemption premiums on the repurchased bonds, the effects of the termination of the redemption premium hedge instruments and the fees and expenses related to the repurchase.

Tax expenses for the period amounted to € 18.7 million versus € 2.2 million for the same period of the prior fiscal year. These expenses consisted primarily of depreciation of deferred tax assets (€ 10 million) with no impact on cash flow.

After taking into account the financial results of entities consolidated by the equity method and the amortization of goodwill, the consolidated net loss amounted to € 34.1 million, compared with a profit of € 16.9 million for the same period of the previous year.

After adjustments to reflect minority interests in subsidiaries, the Group had a net loss of € 37.4 million, compared with a profit of € 15.8 million for the same period of the previous year.

# 3. CONSOLIDATED BALANCE SHEET ON DECEMBER 31, 2002

Balance sheet items on December 31, 2002

(€ millions)	December 31, 2002	June 30, 2002
Shareholders' equity	162.9	209.9
Minority interests	10.8	8.5
Contingency and loss provisions	20.3	12.3
Debt	515.1	577.7
Cash and cash equivalents	47.8	41.0
Working capital and other assets and liabilities, net	112.6	169.5
Goodwill	266.9	291.7
Intangible assets	248.1	264.0
Other fixed assets	33.7	42.2

**Consolidated shareholders' equity** was € 162.9 million on December 31, 2002 versus € 209.9 million on June 30, 2002. The following changes in shareholders' equity were recorded during the period:

<b>Consolidated shareholders' equity as of June 30, 2002</b>	<b>209.9</b>
Net income after minority interests	-37.4
Disposals of treasury shares, net of tax	11.4
Exercise of stock-options	0.6
Movement on foreign-exchange conversion reserve and other reserves	-21.6
<b>Consolidated shareholders' equity as of December 31, 2002</b>	<b>162.9</b>

The movement on the conversion reserve (€-21.2 million) is primarily due to the dollar's fall against the euro during the period.

**Net financial debt** amounted to € 515.1 million on December 31, 2002 (€ 577.7 million on June 30, 2002), including € 378.1 million represented by 2004 and 2005 convertible bonds (€ 434.1 million on June 30, 2002). Cash balances amounted to € 47.8 million on December 31, 2002 versus € 41.0 million on June 30, 2002.

Net financial debt totaled € 467.3 million on December 31, 2002 compared with € 536.7 million on June 30, 2002, i.e. a decrease of € 69.4 million. Including repurchases made in January 2003, the net financial debt stands at € 427.7 million.

The Group held **4.3 million of its own shares as of December 31, 2002**, shown as a reduction of the shareholders' equity.

**Goodwill** amounted to € 266.9 million on December 31, 2002 as compared with € 291.7 million on June 30, 2002. This € 24.8 million decrease is due to amortization during the period of € 14.9 million and the decline in value of the US dollar in relation to the euro (accounting for € 9.9 million).

The value of **intangible assets** fell to € 248.1 million on December 31, 2002 from € 264.0 million on June 30, 2002, primarily from the effect of currency fluctuations and purchases of game software.

**Working capital and other assets and liabilities, net** declined by € 56.9 million. Most of the components making up this item either did not change or changed favorably.

## 4. HIGHLIGHTS SINCE DECEMBER 31, 2002

In January 2003, the Group repurchased 700,374 OCEANE 2000-2005. This repurchase will generate a net profit of € 15.5 million during the second half of the financial year.

On January 7, 2003, Management and the Workers Council (Comité d'Entreprise) entered into a new step ("Livre III") of the restructuring plan negotiated in France ("Plan de sauvegarde de l'emploi des sociétés françaises de l'UES Infogrames Entertainment"). The report of the Workers Council is expected for the second part of the 2003 fiscal year.

## 5. PROSPECTS FOR THE FUTURE

The second half of fiscal year will be notably marked by the release of "Enter the Matrix™", a major product developed by Shiny Entertainment studio. The release is scheduled to coincide with the release of movie-the film "The Matrix Reloaded™" on May 15, 2003. The release of this title will be associated with the second-half release of several major titles such as Unreal II: The Awakening, Racing Evoluzione (number one in Xbox sales in Germany and France at the beginning of February), Dungeons and Dragons and V-Rally 3 for Xbox and GameCube. It will be boosted by sales from across the catalogue.

The Group confirms its goal of revenue for the year 2002/2003 of € 880 million, using a 1.00 euro/dollar exchange rate.

# Consolidated financial statements

# CONSOLIDATED STATEMENTS OF OPERATIONS

(€ millions, except share and per share amounts)	December 31, 2002 (6 months)	December 31, 2001 (6 months)	June 30, 2002 (12 months)
Revenue, net	517.4	422.1	770.1
Cost of revenue	(248.5)	(191.1)	(379.0)
Gross profit	268.9	231.0	391.1
Research and development expenses (a)	(85.9)	(63.0)	(145.3)
Selling and distribution expenses	(122.7)	(104.8)	(196.4)
General and administrative expenses	(46.2)	(47.2)	(82.9)
<b>Income (loss) from operations (a) (b)</b>	14.1	16.0	(33.5)
Financial (expense) income, net	(11.9)	(11.2)	(24.5)
<b>Current income (loss) before non-recurring income (loss), tax, share of net income (loss) of equity method investments, and amortization of goodwill</b>	2.2	4.8	(58.0)
Non-recurring income (loss), net (a)	(2.7)	25.7	7.2
Taxation (provision) benefit	(18.7)	(2.2)	5.7
<b>Net income (loss) before share of net income (losses) of equity method investments and amortization of goodwill</b>	(19.2)	28.3	(45.1)
Share of net income (loss) of equity method investments	-	-	(0.5)
Amortization of goodwill	(14.9)	(11.4)	(36.7)
<b>Net income (loss) before minority interests</b>	(34.1)	16.9	(82.3)
Minority interests	3.3	1.1	(2.9)
<b>Net income (loss)</b>	(37.4)	15.8	(79.4)
Net income (loss) per share, not diluted	(0.36)	0.17	(0.81)
Net income (loss) per share, fully diluted (c)	(0.36)	0.19	(0.81)
Weighted average number of shares outstanding, not diluted (c)	103,369,973	93,503,436	97,635,363
Weighted average number of shares outstanding, fully diluted (c)	123,244,745	116,606,382	118,576,306

(a) The Group has decided not to distinguish exceptional depreciation of royalty advances from operating one. All depreciation not related to closing down of activities are considered as operating ones (see notes 1.L and 1.Z).

(b) Excluding depreciation of royalty advances, operating income (loss) would amount to € 37.5 million, € 31.2 million and € 0.1 million respectively as of December 31, 2002, 2001 and June 30 2002.

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

# CONSOLIDATED BALANCE SHEETS

(€ millions)	December 31, 2002	June 30, 2002	December 31, 2001
Goodwill, net	266.9	291.7	247.5
Intangible assets, net	248.1	264.0	299.8
Property and equipment, net	26.7	33.1	36.4
Investments	7.0	9.1	40.0
<b>Total fixed assets</b>	<b>548.7</b>	<b>597.9</b>	<b>623.7</b>
Inventories	69.5	69.4	77.0
Royalty advances and prepaid license fees	74.9	77.5	100.8
Trade receivables, net	144.2	141.7	179.1
Other assets	88.8	141.5	150.0
Marketable securities	2.8	13.3	5.7
Cash	45.0	27.7	83.3
<b>Total current assets</b>	<b>425.2</b>	<b>471.1</b>	<b>595.9</b>
<b>Total assets</b>	<b>973.9</b>	<b>1,069.0</b>	<b>1,219.6</b>
Capital stock	67.3	67.2	63.6
Additional paid-in capital	493.0	492.7	491.8
Retained (deficit) earnings	(397.4)	(350.0)	(202.6)
<b>Total stockholders' equity</b>	<b>162.9</b>	<b>209.9</b>	<b>352.8</b>
Minority interests	10.8	8.5	11.8
Contingency and loss provisions	20.3	12.3	10.9
Long-term debt	460.0	532.4	496.9
<b>Total long-term liabilities</b>	<b>480.3</b>	<b>544.7</b>	<b>507.8</b>
Short term debt	55.1	45.3	54.5
Trade accounts payable	234.1	211.7	249.7
Other short-term liabilities	30.7	48.9	43.0
<b>Total short-term liabilities</b>	<b>319.9</b>	<b>305.9</b>	<b>347.2</b>
<b>Total minority interests, liabilities and stockholders' equity</b>	<b>973.9</b>	<b>1,069.0</b>	<b>1,219.6</b>

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(€ millions, except share amounts)	Number of shares of Capital Stock	Number of shares outstanding	Capital Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total stock holder equity
<b>Balance as of June 30, 2001</b>	<b>88,560,319</b>	<b>88,410,893</b>	<b>54.0</b>	<b>423.5</b>	<b>(223.6)</b>	<b>253.9</b>
Net income (loss) for the period	-	-	-	-	(79.4)	(79.4)
Unrealized foreign exchange income (loss), net	-	-	-	-	(60.3)	(60.3)
Comprehensive income (loss), net (a)	-	-	-	-	-	(139.7)
Acquisition of Eden Studios	587,064	587,064	0.4	3.1	-	3.5
Merger with Interactive Partners	15,530,558	15,530,558	9.5	66.4	-	75.9
Treasury shares from Interactive Partners merger	-	(16,067,996)	-	-	(91.6)	(91.6)
Interactive Partners interim income	-	-	-	-	4.6	4.6
One for twenty capital stock dividend	5,218,700	4,950,300	3.1	(3.1)	(0.3)	(0.3)
Stock options and Employees Savings Plan	343,440	343,440	0.2	1.6	-	1.8
(Acquisition) / disposal of treasury shares	-	10,856,427	-	-	122.8	122.8
Disposal of Canal+ Multimedia	-	-	-	1.2	-	1.2
Hasbro interactive purchase price adjustment	-	(1,760,169)	-	-	(24.9)	(24.9)
Other	-	(8,914)	-	-	2.7	2.7
<b>Balance as of June 30, 2002</b>	<b>110,240,081</b>	<b>102,841,603</b>	<b>67.2</b>	<b>492.7</b>	<b>(350.0)</b>	<b>209.9</b>
Net income (loss) for the period	-	-	-	-	(37.4)	(37.4)
Unrealized foreign exchange income (loss), net	-	-	-	-	(21.2)	(21.2)
Comprehensive income (loss), net (a)	-	-	-	-	-	(58.6)
Stock options and Employees Savings Plan	202,688	202,688	0.1	0.5	-	0.6
(Acquisition) / disposal of treasury shares	-	3,104,676	-	-	11.4	11.4
Other	-	-	-	(0.2)	(0.2)	(0.4)
<b>Balance as of December 31, 2002</b>	<b>110,442,769</b>	<b>106,148,967</b>	<b>67.3</b>	<b>493.0</b>	<b>(397.4)</b>	<b>162.9</b>

(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).

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(€ millions)	December 31, 2002 (6 months)	December 31, 2001 (6 months)	June 30, 2002 (12 months)
<b>OPERATING ACTIVITIES:</b>			
Net income (loss)	(37.4)	15.8	(79.4)
Share of net income (loss) of equity method investments	-	-	0.5
Minority interests	3.3	1.1	(2.9)
Amortization of goodwill	14.9	11.4	36.7
Depreciation and amortization of intangible and tangible assets	21.8	13.2	33.0
Loss (Gain) on the sale of property, equipment and intangible assets	(0.1)	0.4	1.6
Loss (gain) on the sale of investments	(0.1)	-	2.5
Gain on buyback of convertible bonds	(21.8)	(46.4)	(48.0)
Deferred tax provision	16.5	3.6	(0.4)
Amortization and depreciation of royalty advances and prepaid license fees	44.5	40.2	118.8
Other provisions	16.3	(3.6)	3.5
<b>Net cash provided by (used in) operating activities before working capital changes</b>	<b>57.9</b>	<b>35.7</b>	<b>65.9</b>
Changes in working capital requirements :			
Decrease (increase) in inventories	(4.2)	(4.4)	4.2
Payments of royalty advances and license fees	(44.2)	(49.8)	(125.4)
(Increase) decrease in trade receivables	(3.2)	(69.8)	(49.7)
(Decrease) increase in accounts payable and other short-term liabilities	5.7	15.0	21.6
Other	16.0	(2.7)	(24.1)
<b>Net cash provided by (used in) operating activities (1)</b>	<b>28.0</b>	<b>(76.0)</b>	<b>(107.5)</b>
<b>INVESTING ACTIVITIES:</b>			
Purchases of intangible assets	(11.5)	(11.5)	(19.6)
Purchases of property and equipment	(3.7)	(7.5)	(11.2)
Proceeds from sale of property and equipment and intangible assets	4.2	-	0.2
Other investment purchases	0.3	(13.5)	(5.6)
Purchases of businesses, net of cash acquired	(8.9)	9.8	(30.0)
<b>Net cash used in investing activities</b>	<b>(19.6)</b>	<b>(22.7)</b>	<b>(66.6)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of capital stock	0.6	1.7	1.5
Buyback of convertible bonds 2000/2005	(5.2)	(54.4)	(55.9)
Proceeds from disposal of financial instruments	8.7	-	-
Proceeds from disposal of treasury shares	2.2	91.9	91.8
Repayments of other debt, net	29.3	69.2	126.1
Repayments (borrowings) of other debt, net	(37.0)	(25.2)	(48.9)
<b>Net cash (used in) provided by financing activities</b>	<b>(1.4)</b>	<b>83.2</b>	<b>114.7</b>
Foreign currency exchange rate changes on cash and cash equivalents	(0.7)	(0.4)	(0.6)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>6.3</b>	<b>(15.9)</b>	<b>(60.0)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
	<b>Decembre 31, 2002</b>	<b>Decembre 31, 2001</b>	<b>June 30, 2002</b>
Beginning of year	35.8	95.8	95.8
End of year (a)	42.1	79.9	35.8
Movement	6.3	(15.9)	(60.0)
<b>a) CASH AND CASH EQUIVALENTS – end of year which :</b>			
Cash	45.0	83.3	27.7
Marketable securities	2.8	5.7	13.3
Bank overdrafts	(5.7)	(9.1)	(5.2)
Total	42.1	79.9	35.8
<i>Other information</i>			
Interest paid	(13.9)	(9.9)	(18.4)
Taxes paid	(0.8)	(0.3)	(0.2)
Purchase of companies through issuance of new shares or exchange of shares	-	75.9	79.4
Capital increase through debt conversion	-	-	-

(1) Net cash provided by operating activities before financial costs and non recurring items amounts to € 48 million, € - 57 million and € - 80 million respectively as of December 31, 2002, 2001 and June 30, 2002.

# 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"). 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 2002 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. The exclusive control is the result of both direct and indirect detention of the majority of voting rights in each subsidiary. None of these exclusive controls is presumed since the Group has held directly or indirectly in each subsidiary more than 40% of the voting rights for more than two years now and at the same time no partner or other shareholder has held a larger proportion of voting rights than the group.

Investments in which the Group has an equity interest of 20% to 40% 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 here above.

All transactions between fully consolidated entities have been eliminated. See Note 27 for a list of the Group's fully consolidated entities at December 31, 2002 and June 30, 2002.

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, 2002 have been prepared in euro.

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

### 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 translated 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, which is 10 years unless otherwise specified. 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 analyzing 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 commencing upon the product release date (generally 1 to 3 years).

### 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. IMMOBILISATIONS CORPORELLES

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

- Building . . . . . 25 years
- Computer equipment . . . . . 1 to 3 years
- Furniture and fixtures (including leasehold improvements) and other equipment . . . . . 3 to 10 years

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 analyzing 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. After recording this impairment, the asset appears on the balance sheet for its net value. If this asset is amortizable, amortization is recorded on the basis of the new net book value and the remaining estimated useful life of the asset.

## 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 and recorded to stockholders' equity.

## 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 are recorded to "Research and development expenses" in the consolidated statements of operations. Nevertheless, when they result from a closing down of activities, they are recorded as non recurring items.

## 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. CONTINGENCY AND LOSS PROVISIONS

Since July 1, 2002, the Group applies the new Regulation of Comité de la Réglementation Comptable related to liabilities (“Regulation 2000-06 / Avis CNC 00-01”). The implementation of this new regulation had no impact on the consolidated accounts.

## P. 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.

## Q. 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.

## R. 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. The Group recorded depreciation of royalty advances for € 23.4 million as per December 31, 2002, € 15.2 million and € 33.6 million respectively as per December 31, 2001 and as per June 30, 2002.

## S. 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.

## T. TAXATION

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

Deferred taxes are calculated using the inter-period 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.

## U. 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.

## V. 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.

## W. 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.

## X. 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.

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.

## Y. PENSION AND OTHER BENEFIT PLANS

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.

## Z. RECLASSIFICATIONS

Since June 30, 2002, the Group has decided not to distinguish any longer exceptional depreciation of royalty advances from operating one (Note 1.L). Thus, starting fiscal year 2002, all depreciation of royalty advances is recorded in "Research and Development expenses" in the statements of operations (except when resulting of the closing down of activities). In order to make comparisons with previous fiscal years, exceptional depreciation of royalty advances as per December 31, 2001 has been restated as operating depreciation, as follows:

	December 31, 2001 (6 months)
Operating Income as previously released	20.8
Exceptional depreciation reclassified	(4.8)
Operating Income after reclassification	16.0
Non-recurring income previously released	20.9
Exceptional depreciation reclassified	4.8
Non-recurring (loss) income after reclassification	25.7

## 2. ACQUISITIONS

### A. ACQUISITIONS DURING THE PERIOD ENDED DECEMBER 31, 2002

No acquisition was made over the period ending December 31, 2002.

### B. ACQUISITIONS DURING THE FISCAL YEAR ENDED JUNE 30, 2002

#### ACQUISITION OF EDEN STUDIOS BY INFOGRAMES ENTERTAINMENT SA THROUGH ISSUANCE OF NEW SHARES

On May 29, 2002, General Stockholders Meeting approved the acquisition by Infogrames Entertainment SA of a 80.2% stockholding in Eden Studios SA, a development studio based in Lyon, France, bringing total stockholding of the Group in this company at 100%. This acquisition was executed for a consideration of 587,084 Infogrames Entertainment SA newly issued shares.

The net acquisition price of this 80.2% complementary stockholding amounts to € 3.5 million, considering current share price on May 29, 2002.

Total acquisition cost amount to € 10.4 million, including acquisition fees. Eden Studios is consolidated from June 1, 2002 using the purchase method of accounting. Goodwill amounts to € 8.3 million and is amortized over 10 years.

Acquisition cost of € 10.4 million has been split as follows :

(€ million)	
Fair value of assets and liabilities acquired (1)	2.1
Goodwill	8.3
Acquisition cost	10.4

The fair value of assets and liabilities acquired includes research and development expenses related to videogames in progress for € 0.8 million, which have been charged to income as of June 30, 2002 and included in "Goodwill amortization".

The acquisition contract signed between the parties includes a complementary price adjustment to be paid by Infogrames Entertainment SA based on the net revenues from future games developed by Eden Studios, over the next 5 years, as soon as a minimum level of revenue is achieved with these games. The complementary price, if any, is payable in cash or in Infogrames Entertainment shares up to 50% of each amount due.

#### ACQUISITION OF SHINY ENTERTAINMENT INC.

On April 30, 2002, Infogrames Inc. has acquired 100% of Shiny Entertainment, a development studio based in California, United States. Acquisition cost amounts to \$ 59.2 million (€ 65.7 million), including \$ 49.8 million for acquisition of the shares, \$ 1.0 million in acquisition fees and miscellaneous and \$ 8.4 million in restructuring costs. Shiny Entertainment has been consolidated from May 1, 2002 using the purchase method of accounting. A goodwill of € 54.8 million has been recognized and is amortized over 10 years.

The acquisition cost has been split as follows:

(€ million) - At April 30, 2002 €/ \$ exchange rate	
Fair value of assets and liabilities acquired (1)	10.9
Goodwill	54.8
Acquisition cost	65.7

The fair value of assets and liabilities acquired includes an intangible asset of \$ 2.7 million (€ 3.0 million) representing the right acquired for the "Matrix" license (which is amortized over the useful life of the license) and research and development expenses related to in-progress game development for \$ 7.4 million (€ 8.3 million) which have been fully charged to income as of June 30, 2002 in "Goodwill amortization".

#### ACQUISITION OF 37,5% STOCKHOLDING IN OZISOFT THROUGH REMITTANCE OF TREASURY SHARES

On April 15, 2002, the Group has acquired a complementary stockholding of 37.5% in Ozisoft Pty Ltd, for a consideration of 400,000 treasury shares, in order to reach a 100% stockholding in this subsidiary in charge of Group products distribution in Australia. Acquisition cost for this complementary stockholding amounts to € 4.3 million, including acquisition fees. A goodwill of € 4.3 million has been recognized and is amortized over 10 years.

#### 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.

This additional acquisition led to the recording of goodwill in the amount of € 0.1million and is amortized over 10 years.

## C. 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. \$ ("\$\$") 100.0 million comprised of: \$ 5.0 million in cash; \$ 94.0 million in shares of IESA capital stock (based on a defined per share common stock valuation computation); and \$ 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 (€ 4.4 million),
- the return of 1,760,169 Infogrames Entertainment shares from Hasbro to the Group, i.e. the equivalent of € 24.9 million.

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

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 € 105.8 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)	(30.5)
Goodwill (2)	136.3
Net purchase price	105.8

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

Trademarks	3.7
Game catalogs	5.9
Licenses	2.8
Total	12.4

((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% 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 € 0.6 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 € 18.1 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.

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

No acquisition was made over the period ending December 31, 2002.

**E. PRO FORMA OPERATING RESULTS**

No pro forma financial statement was calculated since the impact of the acquisitions executed during fiscal year 2002 were not material.

**3. GOODWILL**

Goodwill consists of the following:

Acquisition	December 31, 2002			June 30, 2002		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Infogrames Interactive, Inc.	129.7	(16.8)	112.9	133.1	(12.7)	120.4
Infogrames, Inc.	119.3	(34.5)	84.8	125.4	(29.7)	95.7
Shiny Entertainment, Inc.	47.1	(3.2)	43.9	49.5	(1.1)	48.4
Paradigm Entertainment	16.8	(4.1)	12.7	17.3	(3.3)	14.0
Eden Studio	8.3	(0.5)	7.8	8.3	(0.1)	8.2
Others	6.3	(1.5)	4.8	6.3	(1.3)	5.0
<b>Total</b>	<b>327.5</b>	<b>(60.6)</b>	<b>266.9</b>	<b>339.9</b>	<b>(48.2)</b>	<b>291.7</b>

Each goodwill is amortized over a 10 years period, except for the goodwill of Infogrames Interactive Inc. which is being amortized over 15 years (minimum length of the license).

The Group recorded € 14.9 million, € 11.4 million and € 27.7 million of amortization expense on goodwill in the consolidated statements of operations for the periods ended December 31, 2002 and 2001 and fiscal year ended June 30, 2002 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 7.5 million euros, 8.8 and 32.5 million euros, for the periods ended December 31, 2002 and 2001 and the fiscal year ended June 30, 2002 (1) respectively. In the same period, consolidated equity and goodwill, respectively would have been superior of 72.0, 100.8 and 79.5 million euros, respectively, on December, 31 2002 and 2001 and on June, 30, 2002.

(1) which includes an exceptional amortization amounted to 15.3 millions euros related to the amortization of the Infogrames Studio Ltd (ex-Gremlin PLC) goodwill to take into account the restructuring decided during the fiscal year ended June 30, 2002.

## 4. INTANGIBLE ASSETS

Intangible assets consist of the following:

(€ millions)	June 2002	Business Acquisitions	Acquisitions	Disposals	Other	December 31, 2002
Non amortizable items:						
Market share	206.9	-	-	-	(8.7)	198.2
Trademarks	21.5	-	-	-	(1.0)	20.5
<b>Total non amortizable items (I)</b>	<b>228.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9.7)</b>	<b>218.7</b>
Amortizable items:						
Game catalogs	28.7	-	-	-	(1.0)	27.7
Licences	5.3	-	-	-	(0.3)	5.0
Software	46.8	-	11.5	-	(2.0)	56.3
Other	8.9	-	-	-	(8.0)	0.9
Total amortizable items	89.7	-	11.5	-	(11.3)	89.9
Amortization	(54.1)	-	(17.2)	0.7	10.1	(60.5)
<b>Total II</b>	<b>35.6</b>	<b>-</b>	<b>(5.7)</b>	<b>0.7</b>	<b>(1.2)</b>	<b>29.4</b>
<b>Total I+II</b>	<b>264.0</b>	<b>-</b>	<b>(5.7)</b>	<b>0.7</b>	<b>(10.9)</b>	<b>248.1</b>

The Group recorded € 17.2 million, € 7.8 million and € 30.5 million (including € 9.0 million of in-process research and development cost acquired) of amortization expense on amortizable intangible assets in the consolidated statements of operations for the periods ended December 31, 2002 and December 31, 2001 and the fiscal year ended June 30, 2002, respectively.

The other changes are mainly due to the impact of exchange rate fluctuation.

## 5. PROPERTY AND EQUIPMENT

Property and equipment and their movements during the period ending on December 31, 2002, consist of the following:

(€ millions)	June 30, 2002	Business Acquisitions	Property and Equipment Additions	Sales and Disposals	Other	December 31, 2002
Land	1.8	-	-	(1.0)	-	0.8
Building	18.2	-	1.0	(2.5)	(0.8)	15.9
Computer equipment	35.4	-	1.6	(5.7)	(0.2)	31.1
Furniture and fixtures (including leasehold improvements) and other equipment	18.2	-	1.2	(1.1)	(0.9)	17.4
Total gross value	73.6	-	3.8	(10.3)	(1.9)	65.2
Accumulated depreciation	(40.5)	-	(5.2)	6.7	0.5	(38.5)
Total net value	33.1	-	(1.4)	(3.6)	(1.4)	26.7

The Group recorded approximately € 5.2 million, € 5.3 million and € 11.4 million of depreciation expense on property and equipment in the consolidated statements of operations, for the periods ended December 31, 2002 and 2001 and the fiscal year ended June 30, 2002, respectively.

Other movements are mainly related to reclassification and exchange rate fluctuations.

## 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.

Future minimum annual payments under the Group 's operating leases are as follow:

(€ million)	
December 31, 2003	11.8
December 31, 2004	11.4
December 31, 2005	10.6
December 31, 2006	10.1
December 31, 2007	8.0
thereafter	14.9
<b>Total</b>	<b>66.8</b>

Total rent of the Group for the 6 months period ended on December 31, 2002 amounts to 6.9 million euros.

## 7. INVESTMENTS

Investments consist of the following:

(€ millions)	December 31, 2002	June 30, 2002
Investments accounted for under the cost method of accounting (1)	4.0	4.6
Investments accounted for under the equity method of accounting (2)	0.1	0.1
Loans	0.6	1.5
Deposits	2.2	2.6
Other	0.1	0.3
<b>Total</b>	<b>7.0</b>	<b>9.1</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, 2002, and June 30, 2002 are as follows:

(€ millions)			December 31, 2002			June 30, 2002	
Investment	States	% Ownership	Gross Value	Provision	Net Booked Value	Fair Value (a)	Net Booked Value
OddWorld	United States	(b)	6.7	(3.4)	3.3	N/A	3.5
I Phone	United Kingdom	20.0 %	1.7	(1.7)	-	N/A	0.0
Games.com	United States	100.0 %	11.7	(11.7)	-	N/A	0.0
Other	Miscellaneous	Miscellaneous	1.3	(0.6)	0.7	N/A	1.1
			<b>21.4</b>	<b>(17.4)</b>	<b>4.0</b>		<b>4.6</b>

(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.

(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, 2002			June 30, 2002		
Investment	Equity %	Book Value	Group Share of Income (loss) for the Year	Equity %	Book Value	Group Share of Income (loss) for the Year	
Sunflowers	30.0	0.1	-	30.0	0.1	0.4	
<b>Total</b>		<b>0.1</b>	<b>-</b>		<b>0.1</b>	<b>0.4</b>	

## 8. INVENTORIES

Inventories consist of the following:

(€ millions)	December 31, 2002	June 30, 2002
Finished goods	77.3	79.6
Raw materials and supplies	-	0.2
Total gross value	77.3	79.8
Less: Provisions for obsolescence reserve	(7.8)	(10.4)
Total	69.5	69.4

The Group's obsolescence reserve are analyzed as follows:

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (12 months)
Balance at beginning	10.4	49.7
Additions	12.0	12.4
Business acquisitions	-	-
Write-offs and recoveries	(10.5)	(27.4)
Provision cancelled and other	(3.9)	(20.9)
Foreign exchange rate impact	(0.2)	(3.4)
Balance at end	7.8	10.4

## 9. ROYALTY ADVANCES AND PREPAID LICENSE FEES

Royalty advances and prepaid license fees changes are as follows:

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (12 months)
Balance at beginning	181.0	169.5
Payment of royalty advances and license fees	44.2	125.4
Amortization of royalty advances and license fees	(15.3)	(85.4)
Business acquisitions	-	-
Advances cancelled and other	(34.0)	(5.3)
Foreign exchange rate impact	(3.8)	(23.2)
<b>Total gross value</b>	<b>172.1</b>	<b>181.0</b>
Less: Balance at beginning	(103.5)	(77.1)
Additions, net	(23.4)	(33.6)
Business acquisitions	-	-
Provision cancelled and other	28.3	5.3
Foreign exchange rate impact	1.4	1.9
Provision for the fiscal year-end	(97.2)	(103.5)
Net value at beginning	77.5	92.4
Net value at end	74.9	77.5

The split short term/long term for royalty advances and prepaid license fees are analyzed as follows:

(€ millions)	December 31, 2002	June 30, 2002
Short term	56.9	64.5
Long term	18.0	13.0
<b>Total</b>	<b>74.9</b>	<b>77.5</b>

## 10. TRADE RECEIVABLES

Trade receivables consist of the following:

(€ millions)	December 31, 2002	June 30, 2002
Gross value	175.4	175.1
Less: Provisions for bad debts, sales returns, and other allowances	(31.2)	(33.4)
Total	144.2	141.7

Provisions for bad debts are analyzed as follows :

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (12 months)
Balance at beginning	33.4	53.4
Additions	6.2	13.6
Business acquisitions	-	-
Write-offs and recoveries	(3.7)	(6.4)
Advances cancelled and other	(3.5)	(21.5)
Foreign exchange rate impact	(1.2)	(5.7)
Balance at end	31.2	33.4

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, 2002 and fiscal year 2002 represented 14.6 % and 14.9 % respectively. Trade receivables due from one single customer was 11.9 % and 12.8 % of trade receivables at December 31, 2002, and June 30, 2002, respectively.

All trade receivables have maturity less than one year.

## 11. OTHER ASSETS

Other assets consist of the following:

(€ millions)	December 31, 2002	June 30, 2002
Bond redemption premiums (see Note 15)	24.8	58.3
Prepaid expenses	14.0	11.1
Bond issue costs	3.5	4.9
Sales tax receivable	10.6	13.6
Other receivables	13.0	14.3
Deferred tax assets (see Note 21)	22.9	39.3
<b>Total</b>	<b>88.8</b>	<b>141.5</b>

At December 31, 2002, other assets have maturities of less than one year, except for bond redemption premium and bond issue costs.

## 12. STOCKOLDERS' EQUITY

### CAPITAL STOCK

At December 31, 2002 and June 30, 2002, there were 110,442,769 and 110,240,081 shares, respectively, of IESA capital stock issued and 106,148,967 and 102,841,603 shares, respectively, outstanding, with a nominal value of € 67.3 million and € 67.2 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.

### 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 2002, 2001 and 2000.

### CAPITAL STOCK REPURCHASE PROGRAM – TREASURY SHARES

The Board of Directors is authorized, through June 2004, to repurchase up to 10.0% of the outstanding shares of IESA capital stock. 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 and the minimum selling price set at € 2.0.

As of June 30, 2002, the Group held 7,398,479 treasury shares, amounting to € 79.2 million, accounted for in deduction of "Retained earnings (deficit)" in the consolidated balance sheet.

During the period ended December 31, 2002, as part of the capital stock repurchase program, the Group sold 3,104,677 shares of its own shares from which 2,757,038 shares disposed were connected to the convertible bonds 2005 repurchase and 347,639 were used to cancel a trading debt.

These transactions had a positive impact of € 11.4 million on consolidated stockholders' equity as of December 31, 2002 (including a net loss of € - 6.3 millions).

As of December 31, 2002, the Group held 4,293,802 treasury shares, amounting to € 61.5 million accounted for in deduction of "Retained earnings (deficit)" in the consolidated balance sheet.

### WARRANTS ISSUED TO HASBRO, INC.

In connection with the Hasbro Interactive acquisition, the stockholders' meeting held on January 23, 2001 authorized the issuance of 1,500,000 warrants in favor of Hasbro Inc. to subscribe 1,575,000 shares of Infogrames Entertainment SA capital stock for a price of € 19.19 per share, representing, at December 31, 2002, 1.2% of Infogrames Entertainment SA fully diluted capital stock.

The exercise of the warrant is subject to certain assumptions in the control of the company. The maturity of the warrant will be January 26, 2004. None of them have been exercised.

### 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 of the Group that already owns more than 10.0% of IESA capital stock. See Note 18 for disclosures related to IESA capital stock options.

### 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, 2002	June 30, 2002
Unrealized foreign exchange income (loss), net	(72.5)	(51.3)
Deduction of goodwill	(171.7)	(171.7)
Total	(244.2)	(223.0)

## 13. MINORITY INTERESTS

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

(€ millions)	December 31, 2002	June 30, 2002
Balance at beginning	8.5	12.0
Issuance of capital stock	-	0.2
Business acquisition / disposal	-	0.3
Unrealized foreign exchange income / (loss)	(0.9)	(1.1)
Other changes	(0.1)	-
Comprehensive income / (loss)	3.3	(2.9)
Balance at closing	10.8	8.5

## 14. CONTINGENCY AND LOSS PROVISIONS

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

(€ million)	June 30, 2002	Business acquisitions	Allowances	Reversals (used)	Reversals (not used)	Other	December 31, 2002
Restructuring	3.1	-	10.6	(1.7)	-	-	12.0
Other	9.2	-	6.7	(6.0)	-	(1.6)	8.3
<b>Total</b>	<b>12.3</b>	<b>-</b>	<b>17.3</b>	<b>(7.7)</b>	<b>-</b>	<b>(1.6)</b>	<b>20.3</b>
Effect (net of expenses offset):			<b>9.6</b>				
		Operating	0.2				
		Financing	(4.4)				
		Non-recurring	13.8				
			<b>9.6</b>				

(€ million)	June 30, 2001	Business acquisitions	Allowances	Reversals (used)	Reversals (not used)	Other	June 30, 2002
Restructuring	15.2	-	2.5	(15.2)	-	0.6	3.1
Other	6.1	(0.2)	8.0	(2.1)	-	(2.6)	9.2
<b>Total</b>	<b>21.3</b>	<b>(0.2)</b>	<b>10.5</b>	<b>(17.3)</b>	<b>-</b>	<b>(2.0)</b>	<b>12.3</b>
Effect (net of expenses offset):			<b>(6.8)</b>				
		Operating	(5.5)				
		Financing	7.5				
		Non-recurring	(8.8)				
			<b>(6.8)</b>				

## 15. DEBT

Debt consist of the following:

(€ millions)	December 31, 2002	June 30, 2002
2000 Convertible Bonds	253.8	309.1
1999 Convertible Bonds	124.3	125.0
Other borrowings	131.3	138.4
Bank overdrafts	5.7	5.2
Total	515.1	577.7
Less: Amounts maturing in less than one year (1)	(55.1)	(45.3)
Total long-term debt	460.0	532.4

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

(€ millions)	December 31, 2002	June 30, 2002
Other borrowings	49.4	40.1
Bank overdrafts	5.7	5.2
Total	55.1	45.3

### OCEANE 2000

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). 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 1,05 share of IESA capital stock. 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, 2002, the Group bought back 1,199,587 “2000 convertible bonds” on the OTC market. As a result, this purchase led to a € 55.3 million decrease in borrowings and exceptional income of € 22.2 million (after amortization of the share of the redemption premium and the bond issue fees for the bonds purchased and the disposal gain of the hedging instruments and the associated out-of-pocket fees expenses). As of December 31, 2002, 5,504,093 (6,703,6807 were outstanding as of June 30, 2002) bonds were outstanding and none were eligible for redemption by the Group. By January 2003, the Group has bought back (mutual agreement) 700.374 “2000 convertible bonds”. This buy back will reduce debt by an additional € 32.3 million and create a profit of € 15.5 million, approximately in the second half of the fiscal year. As of January 31, 2003, there is no longer hedging instruments on the OCEANE 2000 redemption premium.

### OCEANE 1999

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). 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 5,25 shares of IESA capital stock. 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, 2002 1,323,080 (1,330,080 were outstanding as of June 30, 2002) bonds were outstanding and none were eligible for redemption by the Group. The movements over the period are not material. As of January 31, 2003, there is no longer hedging instruments on the OCEANE 1999 redemption premium.

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)	December 31, 2002	June 30, 2002
Fair value	261.4	317.3
Carrying amount	515.1	577.7

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

(€ millions)	
2003	55.1
2004	199.5
2005	254.9
2006	0.9
Thereafter	4.7
<b>Total</b>	<b>515.1</b>

The Group has stated that it intends to completely revise its financial structure in a manner that is still under examination or negotiation. This concerns convertible bonds maturing in 2004 and 2005 as well as other borrowings. This restructuring could lead to significant impacts, either favourable or not, on nature, maturi-

ty and portion between currencies of debts and any other components of Infogrames Entertainment SA and/or its subsidiaries' financial structure and equity. Consequently, the Group can deliver some pledges (see note 22). The Group reserves the right to buy more convertible bonds back during this fiscal year.

Other borrowings consist primarily of bank borrowings maturing between 2002 and 2005, which in some cases require that certain financial ratios be maintained. Failure to comply with these financial ratios may, at the option of the banks concerned, cause the terms and conditions of loans to be renegotiated or, if applicable, maturities to be accelerated. The maturity schedule of both short-term and long-term debts is done according to the initial contract or, if necessary, the renegotiated one if the Group estimates the maturity is not short term.

At December 31, 2002, other borrowings also include a revolving credit line from General Electric Capital Corporation for \$ 9.1 million (€ 8.7 million). This credit line was implemented on November 12, 2002 for a 30-month period and a maximum amount of \$50 million. It is part of the financial restructuring mentioned here above. It is classified as a short-term debt in the consolidated balance sheet.

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

(€ millions)	December 31, 2002	June 30, 2002
European Monetary Union currencies	494.4	559.7
U.S Dollars	17.8	15.0
Other currencies	2.9	3.0
Total	515.1	577.7

## 16. OTHER SHORT-TERM LIABILITIES

Other short-term liabilities consist of the following:

(€ millions)	December 31, 2002	June 30, 2002
Taxes and employee benefits payable	23.7	28.4
Deferred tax liabilities (note 21)	0.2	-
Deferred income	4.6	4.1
Former Shiny stockholders payable	-	8.9
Other	2.2	7.5
Total	30.7	48.9

# 17. 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 the internet operations (Game Nation). The Group's chief operating decision maker is considered to be the Group's Chief Executive Officer ("CEO"). The CEO reviews financial information presented on a consolidated basis accompanied by certain information about revenue by geographic domicile of the Group's subsidiaries for purpose of making operating decisions and assessing financial performance for its entertainment software operations. This segment has represented 99.9%, 99.8%, and 99.9% of the Group's consolidated revenue for the periods ended December 31, 2002 and 2001 and the fiscal year ended June 30, 2002, respectively.

Information regarding the Group's geographic locations and Game Nation is as follows:

(€ millions)	Entertainment Software Operations				Game Nation	Consolidation Eliminations	Total
	United States	Europe	Asia	Corporate			
<b>Period ended December, 31 2002</b>							
Revenue, net	340.9	184.0	28.1	13.1	0.3	(49.0)	517.4
Income (loss) from operations	21.1	(4.0)	(0.3)	(1.6)	(1.1)	-	14.1
Net income (loss) before minority interests	(1.1)	(31.5)	(0.4)	(2.3)	(2.1)	-	(37.4)
Long-lived assets (1)	473.8	52.7	9.2	5.8	0.2	-	541.7
<b>Period ended December 31, 2001</b>							
Revenue, net	286.5	141.1	18.9	14.0	0.8	(39.2)	422.1
Income (loss) from operations	36.7	(18.8)	(1.5)	(0.5)	0.1	-	16.0
Net income (loss) before minority interests	8.6	(30.5)	(1.7)	42.7	(3.3)	-	15.8
Long-lived assets (1)	506.2	64.5	5.4	6.9	0.7	-	583.7
<b>Year ended June 30, 2002</b>							
Revenue, net	498.8	291.5	39.9	24.5	0.7	(85.3)	770.1
Income (loss) from operations	7.8	(31.6)	(2.1)	(6.9)	(0.7)	-	(33.5)
Net income (loss) before minority interests	(40.9)	(63.7)	(4.5)	36.6	(6.9)	-	(79.4)
Long-lived assets (1)	513.1	58.0	9.6	7.9	0.2	-	588.8

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

(2) After reclassification of royalty advances depreciation reclassification (Note 1.2)

# 18. PAYROLL EXPENSE, WORKFORCE AND STOCK OPTIONS

## PAYROLL EXPENSE

The Group's payroll expense for the periods ended December 31, 2002 and 2001 and the fiscal year ended June 30, 2002 consisted of the following:

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (6 months)	December 31, 2001 (12 months)
Group officers and management	0.9	1.4	2.9
Other employees	66.7	63.8	129.8
Total	67.6	65.2	132.7

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 1,870, 2,049 and 1,981 persons respectively.

## 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, 2002 and June 30, 2002 is as follows:

Date of Grant	Exercise Price (1) (€ per share)	Options outstanding as of	
		December 31, 2002	June 30, 2002
December 16, 1996	2.83	-	220,838
June 6, 1997	4.27	26,250	26,250
October 7, 1997	4.23	259,875	259,875
February 3, 1998	5.64	869,400	894,600
October 16, 1998	7.81	270,864	270,864
March 15, 1999	11.07	61,950	61,950
October 1, 1999	13.52	1,277,850	1,458,450
October 30, 2000	20.90	21,000	21,000
October 24, 2001	7.60	892,500	892,500
October 24, 2001	13.52	135,188	135,188
March 15, 2002	11.10	120,000	120,000
November 7, 2002	2.56	1,090,000	-
November 7, 2002	2.69	553,875	-
<b>Total</b>		<b>5,578,752</b>	<b>4,361,515</b>

(1) Exercise prices and number of options have been restated to reflect all stock splits of IESA capital stock until December 31, 2002.

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

Number of Options (1)	December 31, 2002 (6 months)	June 30, 2002 (12 months)
Outstanding at beginning	4,361,515	3,655,902
Granted	1,643,875	1,147,688
Exercised	(202,688)	(164,018)
Cancelled due to departure	(223,950)	(278,057)
<b>Outstanding at end</b>	<b>5,578,752</b>	<b>4,361,515</b>

(1) Numbers of options have been restated to reflect all stock splits of IESA capital as of December 31, 2002.

## 19. FINANCIAL INCOME AND EXPENSES

The Group's investment income and expense for the fiscal periods ended December 31, 2002 (6 months), December 31, 2001 (6 months) and June 30, 2002 (12 months) were as follows:

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (6 months)	December 31, 2001 (12 months)
Realized foreign exchange gains	5.8	4.0	1.7
Realized foreign exchange loss	(3.6)	(1.2)	(2.7)
Interest income on marketable securities	0.8	0.4	1.6
Interest expense on convertible bonds and hedging instruments	(8.7)	(9.0)	(14.8)
Other interest expense on bank borrowings	(4.6)	(3.6)	(7.4)
Financial investment impairment	(0.3)	-	(4.0)
Other investment (expense) income, net	(1.3)	(1.8)	1.1
<b>Total</b>	<b>(11.9)</b>	<b>(11.2)</b>	<b>(24.5)</b>

## 20. NON-RECURRING INCOME AND EXPENSES

The Group's non-recurring income and expenses for the periods ended December 31, 2002 (6 months), December 31, 2001 (6 months) and June 30, 2002 (12 months) were as follows:

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (6 months)	December 31, 2001 (12 months)
(Loss) gain on sale of capital assets	0.3	(0.4)	(4.1)
Close down of activities	(0.9)	(2.9)	(4.5)
Restructuring expenses	(20.0)	(3.6)	(8.3)
Write-down of fixed assets	(3.2)	-	(5.4)
Write-down of account receivables	-	(6.5)	(6.5)
Gain from purchase of convertible bonds	21.8	46.4	46.0
Correction of royalty advances (prior year)	-	(5.9)	(5.9)
Other, net	(0.7)	(1.4)	(4.1)
<b>Non-recurring income (loss)</b>	<b>(2.7)</b>	<b>25.7</b>	<b>7.2</b>
Theoretical tax	(10.7)	(14.7)	(10.2)
<b>Non-recurring income (loss) before tax</b>	<b>(12.7)</b>	<b>11.0</b>	<b>(3.0)</b>

(1) After reclassification of royalty advances depreciation (note 1.Z)

## 21. TAXATION

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

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (6 months)	December 31, 2001 (12 months)
Net (loss) income from operations after financial result	2.2	4.8	(58.0)
Non recurring (loss) income	(2.7)	25.7	7.2
Net income (loss) before tax, share of net income (losses) of equity method investments and amortization of goodwill	(0.5)	30.5	(50.8)
Share of net income (losses) of equity method investments	-	-	(0.5)
Amortization of goodwill	(14.9)	(11.4)	(36.7)
<b>Net (loss) income before taxation</b>	<b>(15.4)</b>	<b>19.1</b>	<b>(88.0)</b>

(1) After reclassification of royalty advances depreciation (note 1.Z)

### TAX BENEFITS AND PROVISIONS

The components of net taxation (provision) benefit for the periods ended December 31, 2002 (6 months) and June 30, 2002 are analyzed as follows:

(€ millions)	December 31, 2002		June 30, 2002	
	Net Income (Loss) Before Taxation	Net Taxation Benefit (Provision)	Net Income (Loss) Before Taxation	Net Taxation Benefit (Provision)
French companies	(20.8)	(16.2)	(22.5)	8.8
Companies in other countries	5.4	(2.5)	(65.5)	(3.1)
Total	(15.4)	(18.7)	(88.0)	5.7
Net taxation (provision) benefit:				
Current (1)		(2.3)		5.3
Deferred		(16.4)		0.4
Total		(18.7)		5.7

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

The reconciliation between the theoretical Group tax provision calculated in accordance with usual tax rate applicable in France (34.33% in December 2002, and 34.33% in June 2001) and the effective tax expense is analyzed as follows :

(€ millions)	December 31, 2002	June 30, 2002
Net (loss) income before taxation	(15.4)	(88.0)
French statutory tax rate	34.33%	34.33%
Tax (provision) benefit computed at the Group's French statutory rate	(5.3)	30.2
- Amortization of non-deductible goodwill	4.8	(8.4)
- Other permanent differences	1.1	45.7
- Different tax rates (foreign countries)	0.6	1.9
- Cancellation, write-off of deferred tax and losses not recognized	16.5	(62.7)
- Other	1.0	(1.0)
Net tax (provision) benefit	18.7	5.7
<b>Effective Group tax rate (in %) (1)</b>	<b>-</b>	<b>6.5</b>

(1) The effective tax rate is computed by using the "Net tax (provision) benefit" and the "Net (loss) income before tax" of each fiscal year.

**DEFERRED TAX ASSETS AND LIABILITIES**

Balance sheet classifications:

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (12 months)
Deferred tax assets (net by subsidiary)	295.5	316.3
Valuation allowance	(272.6)	(277.0)
Deferred tax assets (see Note 11), net of valuation allowance	22.9	39.3
Deferred tax liabilities (see Note 16)	(0.2)	-
Total	22.7	39.3

(€ millions)	December 31, 2002 (6 months)	June 30, 2002 (12 months)
<b>Tax operating loss carry forwards</b>	<b>278.4</b>	<b>292.0</b>
Temporary differences – assets:		
Allowance for restructuring	4.0	6.3
Allowance for inventory obsolescence	2.8	6.1
Allowance for bad debts	10.7	11.0
Redemption premium amortization	4.2	-
Purchased research and development	-	3.0
Other	12.1	17.2
<b>Total temporary differences</b>	<b>33.8</b>	<b>43.6</b>
<b>Gross deferred tax assets</b>	<b>312.2</b>	<b>335.6</b>
Temporary differences – liabilities:		
Capitalized bond issue costs	(1.2)	(1.7)
Catalog depreciation	(2.2)	(3.6)
Royalty advances and prepaid license fees	(13.5)	(14.0)
<b>Gross deferred tax liabilities</b>	<b>(16.9)</b>	<b>(19.3)</b>
<b>Valuation allowance</b>	<b>(272.6)</b>	<b>(277.0)</b>
<b>Net taxation (provision) benefit</b>	<b>22.7</b>	<b>39.3</b>

As of December 31, 2002, 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.

The Group had net tax operating loss carry-forwards of approximately € 750.4 million and € 786.6 million, at December 31, 2002 and June 30, 2002, respectively, which will expire at various dates through 2020. The net tax operating loss carry-forwards may not be used to offset income taxes in other jurisdictions than the one where they were generated.

As of December 31, 2002, deferred tax assets are related to the tax areas where the Group companies have generated profit in previous years or where the Group is expecting non-recurring profit in the short-term.

## 22. 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 € 26.8 million and € 37.0 million at December 31, 2002 and June 30, 2002, respectively. This mainly regards purchase of products from consoles manufacturers.

As described in Note 1.X, the Group accounts for its benefit plan obligations as contributions are made. The Group estimated its off-balance sheet retirement benefit obligations were € 0.7 million at June 30, 2002

As described in note 15, the Group can, in the course of its financial restructuring, grant guarantees to some banks. At December 31, 2002, the Group has granted to General Electric Capital Corporation some guarantees on Infogrames Inc's receivables and inventories, on Reflections Interactive shares and Atari Interactive Inc, and, not in excess of \$ 25 million, on intellectual property rights owned by Infogrames Inc.

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, 2002, the group is not committed anymore under such agreement (€ 10.5 million committed at June 30, 2002).

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, 2002, assuming that all contractually specified milestones under such royalty-based development agreements are achieved, the Group was committed to make € 93.5 million (including € 39 million as short term commitments) of purchases under these agreements over the coming years (€ 75.6 million at June 30, 2002).

At December 31, 2002, the financing through receivables is unchanged compared to the situation as of June 30, 2002 (€ 12.5 million disposed, € 10.0 million received).

At December 31, 2002, no treasury shares were pledged. At June 30, 2002, 1.425.811 treasury shares were pledged.

## 23. RELATED PARTIES

No significant transaction with related companies was done during the period ending December 31, 2002.

## 24. 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, 2002, the Group had outstanding positions in the following financial hedging instruments:

(€ millions)	December 31, 2002		June 30, 2002	
	Nominal value	Fair value	Nominal value	Fair value
Long-term interest rate swaps – OCEANE 1999	-	-	215.0	(0.7)
Long-term interest rate swaps – OCEANE 2000	200.0	7.8	260.0	4.8
Foreign currency exchange contracts	-	-	114.3	(0.3)

**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, 2002 (Note 15), the Group sold part of its hedging swap during the period ended December 31, 2002 and the remaining part in January 2003.

The Group also decided to sell all of its hedging swap regarding the “1999 convertible bonds” during the period ended December 31, 2002.

All accounting consequences of these swaps disposals have been accrued for at December 31, 2002.

**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 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)	December 31, 2002	June 30, 2002
Description		
Forward purchase EUR / GBP	-	3.7
Forward purchase EUR / USD	-	106.3
Forward sale EUR / USD	-	4.3
Total	-	114.3

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

(€ millions)	December 31, 2002		June 30, 2002	
	Nominal value	Fair value	Nominal value	Fair value
OPTION EUR / USD – purchase put EUR / call USD	-	-	40.1	0.1
OPTION EUR / USD – purchase call EUR / put USD	-	-	-	-
OPTION EUR / USD – sale call EUR / put USD	19.1	(1.5)	116.6	(6.8)
OPTION EUR / USD – sale put EUR / call USD	19.1	-	40.1	-

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

Unrealized financial instruments loss were accrued for at December 31, 2002.

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.

## 25. LITIGATION

The Group is involved in a number of disputes and legal cases arising in the normal course of its business. Notwithstanding the final issue of such disputes and legal cases, the Group estimates that the commitments which may result from these actions should have no significant impact on its financial situation and its consolidated statements of operations.

## 26. SUBSEQUENT EVENTS

The main event that happened in January 2003 was the buyback of 700.374 "2000 convertible bonds". (see Note 15)

## 27. FULLY CONSOLIDATED ENTITIES

Company	Country	Percentage of control		Percentage of interest	
		12/31/2002	06/30/2002	12/31/2002	06/30/2002
A+ Multimedia Ltda	Portugal	100.00	100.00	100.00	100.00
Atari Interactive Inc	United States	100.00	100.00	100.00	100.00
California US Holdings Inc.	United States	100.00	100.00	100.00	100.00
Curved Logic Ltd	United Kingdom	100.00	100.00	100.00	100.00
Dynamic Systems GmbH	Austria	100.00	100.00	100.00	100.00
Eden Studios SAS	France	100.00	100.00	100.00	100.00
Infogrames Learning Ltd	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Learning Interactive Ltd	United Kingdom	100.00	100.00	100.00	100.00
Gamecity GmbH	Switzerland	90.00	90.00	90.00	90.00
Game Nation Ltd	United Kingdom	100.00	100.00	100.00	100.00
Gremlin Holding Ltd	United Kingdom	100.00	100.00	100.00	100.00
Gremlin Group Ltd	United Kingdom	100.00	100.00	100.00	100.00
Gremlin Interactive Australia Pty Ltd	Australia	100.00	100.00	100.00	100.00
Hartland Trefoil Ltd	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Interactive Inc	United States	100.00	100.00	100.00	100.00
Infogrames Interactive Ltd	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Interactive Direct Ltd	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Interactive GmbH	Germany	100.00	100.00	100.00	100.00
Infogrames Interactive Asia Pacific Pty Ltd	Australia	100.00	100.00	100.00	100.00
I-Music SARL	France	100.00	100.00	100.00	100.00
Infogrames Studio Asia Pty Ltd	Australia	100.00	100.00	100.00	100.00
Infogrames Asia Holding Pty Ltd	Australia	100.00	100.00	100.00	100.00
Infogrames Asia Pacific Pty Ltd	Australia	100.00	100.00	100.00	100.00
Infogrames Benelux BV	Netherland	100.00	100.00	99.99	99.99
Infogrames Castlefield Ltd	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Deutschland GmbH	Germany	100.00	100.00	100.00	100.00

Company	Country	Percentage of control		Percentage of interest	
		12/31/2002	06/30/2002	12/31/2002	06/30/2002
Infogrames do Brasil Ltda	Brazil	100.00	100.00	100.00	100.00
Infogrames Entertainment SA	France	100.00	100.00	100.00	100.00
Infogrames Entertainment GmbH	Germany	100.00	100.00	100.00	100.00
Infogrames España Unipersonal	Spain	100.00	100.00	100.00	100.00
Infogrames Europe SAS	France	99.99	99.99	99.99	99.99
Infogrames France SAS	France	100.00	100.00	100.00	100.00
Infogrames Hellas EPE	Greece	100.00	100.00	100.00	100.00
Infogrames Inc.	United States	88.21	88.32	88.21	88.32
Infogrames Interactive SA	France	99.97	99.97	99.96	99.96
Infogrames Israel Ltd	Israel	100.00	100.00	100.00	100.00
Infogrames Italia SPA	Italy	100.00	100.00	100.00	100.00
Infogrames Japan KK	Japan	100.00	100.00	100.00	100.00
Infogrames Korea Ltd	Korea	100.00	100.00	100.00	100.00
Infogrames Entertainment Ltd	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Melbourne House Pty	Australia	100.00	100.00	100.00	100.00
Infogrames Nordic AB	Sweden	100.00	100.00	100.00	100.00
Infogrames Norway	Norway	100.00	100.00	100.00	100.00
Infogrames Denmark	Denmark	100.00	100.00	100.00	100.00
Suomen Infogrames	Finland	100.00	100.00	100.00	100.00
Infogrames Studios Ltd.	United Kingdom	100.00	100.00	100.00	100.00
Infogrames UK	United Kingdom	100.00	100.00	100.00	100.00
Infogrames Videogames Deutschland GmbH	Germany	(1)	100.00	(1)	100.00
Infogrames Taiwan Ltd	Taiwan	100.00	100.00	100.00	100.00
IDRS SA	France	100.00	100.00	100.00	100.00
Infogrames Hudson KK	Japan	70.00	70.00	70.00	70.00
Microprose Software Ltd	United Kingdom	100.00	100.00	100.00	100.00
Microprose Ltd	United Kingdom	100.00	100.00	100.00	100.00
Mistic Logiciel Inc	Canada	100.00	100.00	100.00	100.00
Ocean International Ltd	United Kingdom	100.00	100.00	100.00	100.00
Ocean Holding Ltd	United Kingdom	100.00	100.00	100.00	100.00
Ocean Europe Ltd	United Kingdom	100.00	100.00	100.00	100.00
Maritquest Ltd	United Kingdom	100.00	100.00	100.00	100.00
Ocean Software Ltd	United Kingdom	100.00	100.00	100.00	100.00
Ocean Media Ltd	United Kingdom	100.00	100.00	100.00	100.00
Ozisoft Pty Ltd	Australia	100.00	100.00	100.00	100.00
Paradigm Entertainment Inc	United States	100.00	100.00	100.00	100.00
Spectrum Holobyte Japan KK	Japan	100.00	100.00	100.00	100.00
Stewart Holdings Ltd	United Kingdom	100.00	100.00	100.00	100.00
Welcom Media SA	France	99.96	99.96	99.92	99.92
<i>Sociétés mises en équivalence</i>					
Sunflowers	Germany	30.02	30.02	30.02	30.02

(1) The company had been absorbed by Infogrames Deutschland during the period ending December 31, 2002.

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

## Period from July 1, to December 31, 2002

Pursuant to article L. 232-7 of the French Companies Act (Code de commerce) , we have reviewed the accompanying half year consolidated financial statements of Infogrames Entertainment prepared in French euros , covering the period from July 1, to December 31, 2002 and verified the information contained in the half year management report.

The half year consolidated 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 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 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 2002 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 financial statements submitted to our review.

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

Lyon and Villeurbanne, February 12, 2003

The Statutory Auditors

Pin et Associés  
Jean-François PIN

Deloitte Touche Tohmatsu  
Joël JULLIEN      Alain DESCOINS

*Free translation of a French language original for convenience purpose only. Accounting principles and auditing standards and their application in practice vary among nations. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices utilized by the statutory auditors in France with respect to such financial statements included in a prospectus may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and the auditors' report of which a translation for convenience purpose only is presented in this document are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.*