



UBISOFT™

## 2004-2005 Annual Results

June 16, 2005

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## Disclaimer

This statement may contain financial data evaluated, information on future projects and transactions and on future economic results/performance. Such valuations are provided for estimation purposes only. They are subject to market risks and uncertainties and may vary significantly with the actual results that shall be published. The financial data evaluated have been presented to the Board of Directors and have not been audited by the Auditors.

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## Overview

- The year's achievements in review
- Excellent annual results
- Value creation strategy
- Our plans for the future

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## The year's achievements in review

- Creation of a new brand
- Strong growth of development studios: +39%
- New market share gains
- Above-target net income
- Substantial cash generation
- Strengthening of Ubisoft's label driven by the quality of its games

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## Excellent annual results

- Sales\*: +8% up at 538M€
- Record gross margin: 66.5%
- Operating income: 41.4M€
- Net income\*\*: 27.2M€, above target
- Free cash flow: 50.6M€
- Solid and stronger balance sheet:  
25% gearing

\* At constant exchange rates

\*\* Before goodwill amortization

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## Substantial improvement of profitability

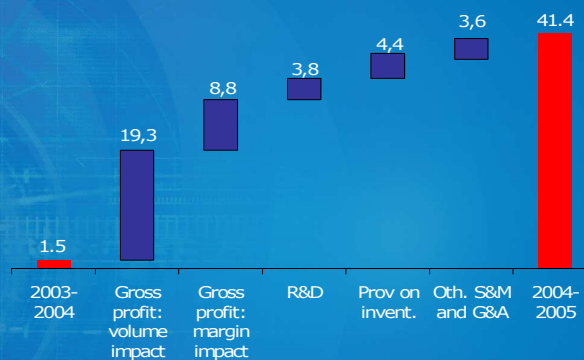
In millions of euros	2005-2004		2004-2003	
	M€	%	M€	%
Sales	538.0	100.0	508.4	100.0
Cost of sales	180.0	33.5	178.5	35.1
Gross profit	358.0	66.5	329.9	64.9
R&D	157.6	29.2	161.4	31.8
Sales & Marketing, G&A	159.1	29.6	167.0	32.8
Operating income	41.4	7.7	1.5	0.3

- Decline in operating expenses with strong sales growth

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## Strong operating income growth

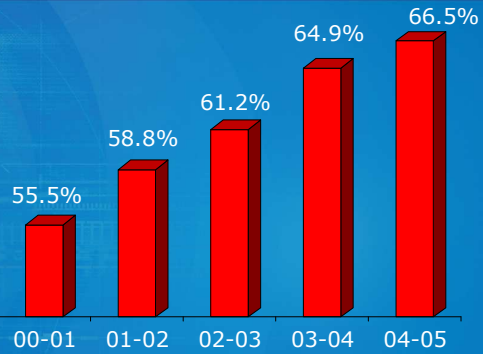


- Sales volume growth, together with:
  - ✓ Gross margin improvement
  - ✓ Decrease in R&D expenses primarily driven by external games
  - ✓ Positive impact of provisions for inventories
  - ✓ Decline in other external expenses

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## Record gross margin



➤ Gross margin: +1.6 pt

✓ Success of blockbusters

- Increase in average sales volume by game:  
→ higher discount from console manufacturers and fewer returns

- Improved sales management  
better sales forecasts  
→ fewer returns, lower inventories



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## Growth targeted investments

In million euros	2004-2005	2003-2004
R&D expenses (French GAAP):		
<b>Depreciation of internal games</b>	<b>99.6</b>	<b>98.4</b>
Depreciation of external games and royalties	58.0	63.0
Total	157.6	161.4

<b>Work in progress</b>	<b>100.0</b>	<b>79.8</b>
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- R&D: priority to internal studios
- Investments in internal development: +25%



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## Pro forma operating income at the high end of guidance

In million euros	French GAAP		Pro forma	
	04-05	03-04	04-05	03-04
EBITDA	160.8	130.0	61.0	50.2
EBITDA margin	29.9%	25.6%	11.3%	9.9%
<b>Operating income</b>	<b>41.4</b>	<b>1.5</b>	<b>41.1</b>	<b>20.1</b>
Operating margin	7.7%	0.3%	7.6%	4.0%

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## Above target net income

In million euros	French GAAP		Pro forma	
	04-05	03-04	04-05	03-04
Financial income	-11.7	-12.1	-11.7	-12.1
Non recurrent profit	0.2	8.9	0.2	8.9
Corporation taxes	-2.8	-1.4	-2.7	-8.2
<b>Net income before goodwill</b>	<b>27.2</b>	<b>-3.0</b>	27.0	8.8
<b>EPS before goodwill (€)*</b>	<b>1.53</b>	-0.17	<b>1.52</b>	0.50

- Stable financial income:
  - ✓ Exchange losses: 0.5 M€ vs 1.7 M€ in 03-04
  - ✓ Absence of non-recurring items
- Normalized tax rate: 34% after restating for the following non-recurring items:
  - ✓ Capitalization of tax credits: 3.9 M€
  - ✓ Tax credits on depreciation of business assets: 2.5M€
  - ✓ Research tax credits : 0.8M€

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## Substantial generation of cash flow

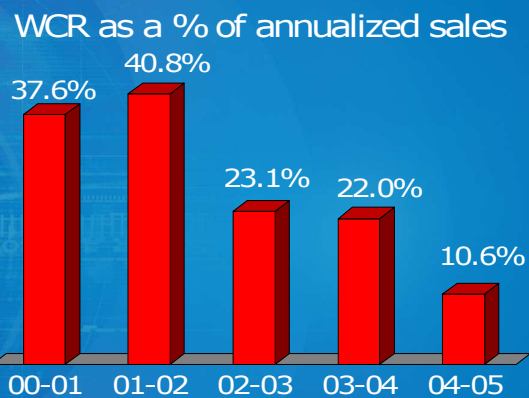
In million euros	2004-2005	2003-2004
Cash flow from operating activities	25.1	39.8
Change in WCR	33.4	31.1
Cash flow from operations	58.4	70.9
Net investments	-7.8	-11.5
<b>Free cash flow</b>	<b>50.6</b>	<b>59.4</b>
Net acquisitions	-19.4	-8.3
Capital increase	6.6	0.6
Net debt reduction	37.8	51.7

- Free cash flow:
  - ✓ 50.6M€ after investments in internal development up 20M€
  - ✓ 110M€ in 2 years

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## WCR under control

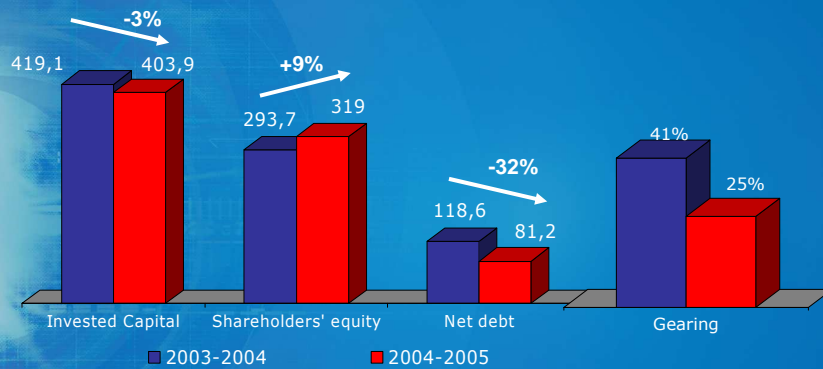


- Improved inventory : -38%
- Accounts receivables reflecting strong growth in Q4

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## Robust balance sheet further strengthened



- Decrease in fixed assets reflecting:
  - ✓ WCR and intangible assets under control
- Net debt halved in 2 years

<sup>15</sup> \*Invested Capital = Fixed Assets + WCR



## Potential strengthening of the balance sheet

- Net debt as of March 31, 2005: 81.2M€
- Potential resources:
  - ✓ 2005 Convertible bonds: 25M€  
(exercise price: 31.71€)
  - ✓ BSA\* May 2006: 1.04 millions of shares at 28€
  - ✓ 2006 OCEANE: 92M€  
(exercise price: 45.8€)
  - ✓ 2008 OBSAR: 55M€  
(exercise price : 38.5€)

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## Impact of transition to IFRS standards

In million euros		Shareholders' equity 03/31/04	Net income 04-05	Annual Changes	Shareholders' equity 03/31/05
French GAAP		293.6	20.0	5.5	319.1
Goodwill	IFRS 3	0.0	7.2	0.0	7.2
Foreign exchange rate changes	IAS 21	-14.6	0.0	-3.1	-17.7
Equity swap	IAS 32-39	1.0	5.8	0.0	6.8
CB, OCEANES, OBSAR	IAS 32-39	4.5	-2.0	0.0	2.5
Other adjustments	IAS 32-39 and others	0.2	-1.2	0.5	-0.9
Total		-9.3	9.8	-2.6	-2.1
IFRS before stock-based compensation		284.3	29.8	2.9	317.0
Stock-based compensation	IFRS 2		-3.6		

17 \*non audited IFRS accounts



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## Ubisoft, a growth stock

### ➤ **Strong and steady growth**

- ✓ FY04-05 Revenues: 538M€ (x5.6 in 7 years)
- ✓ Operating income: 41.4M€ (x5.1 in 7 years)
- ✓ 9 multimillion-selling brands in 2004 (vs. 1 in 1998)
- ✓ 2,300 employees in production (vs. 700 in 1998)

### ➤ **Rising industry leader**

- ✓ 5th independent editor in the USA (18<sup>th</sup> in 1998)
- ✓ 2th independent editor in UK (8<sup>th</sup> in 1998)

### ➤ **Global presence**

- ✓ Direct sales force in 21 countries (vs. 10 in 1998)
- ✓ Distribution network covering 55 countries (vs. 37 in 1998)

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Create high-quality games  
that will become  
strong entertainment brands

→ Recurrent net revenues and profits

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## Creating high-quality games

### ➤ What is needed:

- ✓ Great talents
- ✓ Anticipation of consumer preferences
- ✓ Necessary time (man-months)

### ➤ Ubisoft: ideally positioned

- ✓ 2,300 experienced professionals in our studios
  - Continual training (Ubisoft Campus in Montreal...)
- ✓ Consumer-centric organization
  - Seasoned teams dedicated to sharing knowledge of our consumers (focus groups, studies...) to studios & business units
- ✓ Low production costs provide competitive advantage
  - Studios worldwide including in lower cost countries

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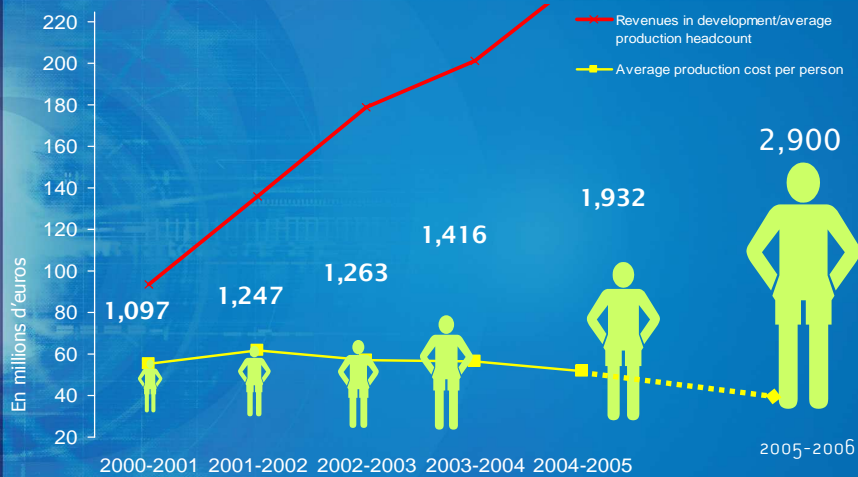


## Internal studios: worldwide presence

- 2<sup>nd</sup> internal production workforce in the video game industry
- 13 development studios in 9 countries



## Constantly improving cost structure



➤ Our objective: hire 600 new employees per year



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A quality game

=

a great game experience  
whose subject matter appeals  
to consumers



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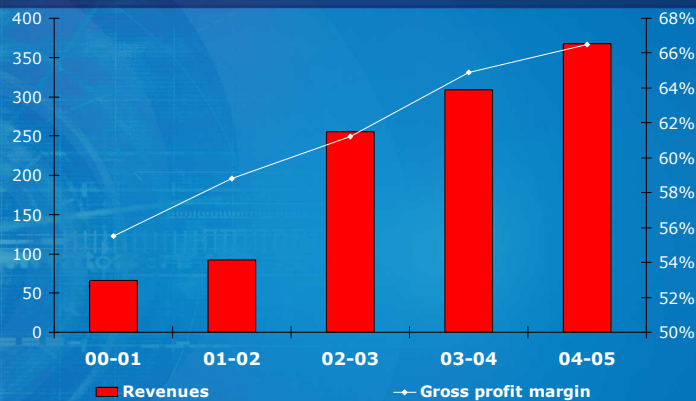
## Appealing subject matters

- Ideas come from original brands, Hollywood and sports
  - ✓ Tom Clancy's Splinter Cell
  - ✓ Tom Clancy's Ghost Recon
  - ✓ Prince of Persia
  - ✓ Brother in Arms
  - ✓ Peter Jackson's King Kong
  - ✓ And 1 Street Ball
  - ✓ ... and much more
- And the entertainment industry builds on video-game brands as well

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## Success of brand strategy (1/2)



# of brands	3	4	5	7	8
% of total revenues	26%	25%	57%	61%	65%

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## Success of brand strategy (2/2)

	2002		2004		Q1 2005
USA	#9	→	#7	→	#5
Canada	#6	→	#4	→	#4
UK	#9	→	#4	→	#2
Germany	#4	→	#3	→	#3
France	#4	→	#3	→	#2

➤ Ubisoft increases its market shares in key territories

Canada: Source AC Nielsen - all format-independent publishers  
USA: Source NPD - all formats for 2002 and 2004, consoles for Q1 2005 - independent publishers  
UK: Source Chart Track - all formats - independent publishers  
Germany: Source Media Control - all formats - independent publishers  
France: Source GfK - CA rating publication + distribution - all formats - independent publishers



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## 2005-2006 Outlook: French GAAP

- Revenues: 600M€ (+12%)
  - ✓ 1<sup>st</sup> quarter: 42 M€
  - ✓ 1<sup>st</sup> half: 155 M€
- Operating income > 55M€ (>+38%)
- Net income before goodwill and non recurrent items > 30M€
- Free cash flow > 40 M€
  - ✓ Investments in internal development: +25%

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At constant exchange rates



## Perspectives 2005-2006: IFRS

- Revenues: 600M€ (+12%)
- Current operating income > 52.5M€, before stock-based compensation
- Net income > 30M€, before stock-based compensation and the following items:
  - ✓ Positive impact due to equity swap 6M€ (\*)
  - ✓ Non-cash charge of 2M€ corresponding to the accounting of CB

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(\*) On the basis of market close on June 15: 40,66€



## 2005-2006 FY Blockbusters

### ➤ New sequels of established brands

- ✓ Rainbow 6: > 12m units sold, release Q2 05-06
- ✓ Prince of Persia: > 5m units sold, release Q3 05-06
- ✓ Ghost Recon: > 8m units sold, release Q3 05-06
- ✓ Splinter Cell: > 12m units sold, release Q4 05-06
- ✓ Brothers In Arms: >1.7m units sold, release Q3 05-06
- ✓ Far Cry Instinct: 1m units on PC, launch Q2 05-06
- ✓ ...

### ➤ New brands

- ✓ King Kong: release Q3 05-06
- ✓ And 1: release Q3 05-06
- ✓ 187 Ride or Die: release Q2 05-06
- ✓ Star Wars®: Revenge of the Sith™ : release Q1 05-06
- ✓ Heroes of Might & Magic : release Q4 05-06
- ✓ Blazing Angels – Squadrons of WWII : release Q3 05-06

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## Mid term perspectives

### 4 Year Plan

- ✓ Double revenues in a market growing at 40%
- ✓ Triple net income
- ✓ Generate 200M€ of free cash flow (excl. acquisitions)
- By developing our internal production studios:
  - ✓ Hire 600 new talents per annum
  - ✓ Continue to lower production costs
  - ✓ Raise level of teams' expertise
- By creating 3 new brands every two years
- By maintaining distribution and structure costs under control

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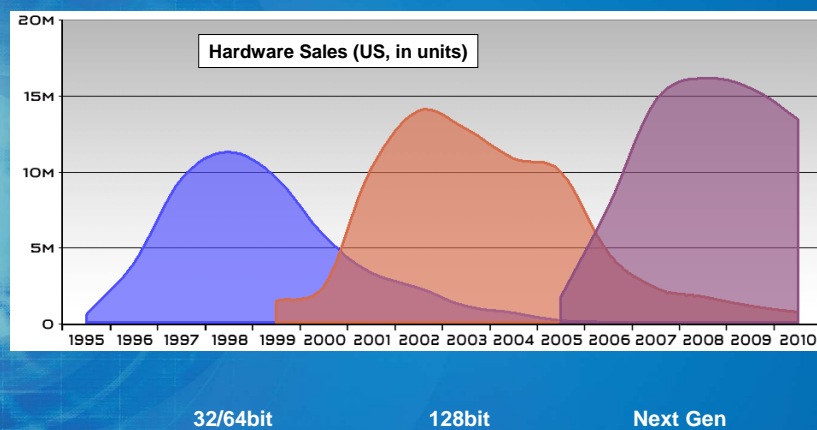
## Launch timeline



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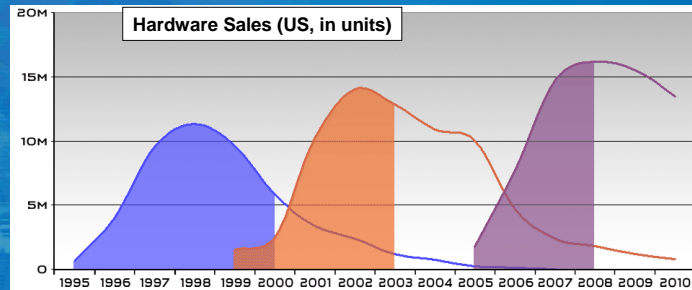
## 30% increase of the installed bases from one generation to the next



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## Faster growth every time



← 6 years →      128bit      Next Gen  
← 5 years →      32/64bit      ← 4 years →

- With every new cycle, one year reduction in timeframe to reach a 40m installed base in the US
- ✓ Each generation starts with a higher number of gamers

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