Ubisoft® reports first half 2008-09 results

- **Sales[1] up 32%**
- **Strong increase in profitability:**
  - **Current operating income[2]: 9.6% of sales**
  - **Net income: €24 million**
- **2008-09 targets confirmed**

Paris, November 26, 2008 – Today, Ubisoft released its results for the six months ended September 30, 2008.

Key financial data

In € millions	H1 2008-09	%	H1 2007-08	%
Sales	344.5		261.4	
Gross profit	201.6	*58.5%*	167.6	*64.1%*
R&D expenses	(60.7)	*17.6%*	(81.3)	*31.1%*
SG&A expenses	(107.9)	*31.3%*	(77.2)	*29.5%*
Current operating income before stock-based compensation	33.0	*9.6%*	9.1	*3.4%*
Operating income	24.7	*7.2%*	12.5	*4.8%*
Net income	24.0	*7.0%*	30.6	*11.7%*
Diluted earnings per share (in €)	0.48*		0.64*	
Diluted earnings per share before non-recurring items and stock-based compensation (in €)	0.53*		0.10*	
Cash flows from R&D investments	155.1**		133.0**	
Net cash	72.3		18.7	

* Before the November 14, 2008 two-for-one stock split.
** Including royalties and excluding future commitments.

Yves Guillemot, chief executive officer at Ubisoft, stated: *"Our strong first-half growth fueled a sharp rise in profitability. Based on our initial sales figures for the third fiscal quarter and thanks to the diversity of our game line-up, we are confident that we will be able to achieve the targets that we recently raised for full-year 2008-09, despite a highly competitive environment marked by the launch of numerous high-quality games. In addition, consoles are continuing to record robust sales levels, which represents a very positive sign for the video games industry for 2009."*

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[1] Sales figures for first-half 2008-09 were released on October 23, 2008.
[2] Before stock-based compensation.

Main income statement items

Sales for the first six months of 2008-09 came to €344.5 million, up 31.8%, or 38.3% at constant exchange rates. This performance was notably driven by the strong increase posted by both casual games, which represented 35.4% of total sales compared with 14.5% in the same period of 2007-08 and the distribution business, 12.4% of total sales versus 4.8%.

As mentioned in our first-half 2008-09 sales release, this product mix has a significant impact on the structure of Ubisoft's income statement. Casual games generate lower gross margins than traditional games and require less R&D expenditure but have higher marketing costs. The distribution business has low gross margins but requires no R&D expenditure and in certain cases no marketing costs.

As a result of this product mix, gross profit – which amounted to €201.6 million in the first six months of 2008-09 versus €167.6 million in first-half 2007-08 – represented a lower percentage of sales than in the prior-year period, coming in at 58.5% compared with 64.1%. However, within each business segment (back catalog, casual games, distribution, franchises, new releases etc.) gross profit was either stable or up on first-half 2007-08.

Current operating income before stock-based compensation totaled €33.0 million (9.6% of sales) versus €9.1 million (3.4% of sales) recorded in first-half 2007-08. This rise was attributable to a combination of the following factors:

- The €34.0 million increase in gross profit
- A significant reduction in R&D expenses due to sales growth and the product mix effect. These expenses represented 17.6% of sales in first-half 2008-09 (€60.7 million), down from 31.1% (€81.3 million) in the same period of 2007-08
- A rise in SG&A expenses to 31.3% of sales (€107.9 million) from 29.5% in first-half 2007-08 (€77.2 million), which partially offset the two positive impacts above. Variable marketing expenses increased significantly to 15.0% of sales (€51.7 million) from 11.5% (€30.0 million) as a result of the product mix. As a percentage of sales, structure costs decreased to 16.3% (€56.2 million) from 18.7% (€47.2 million) in first-half 2007-08, reflecting the group's strong sales growth

Ubisoft ended the period with operating income of €24.7 million compared with €12.5 million in first-half 2007-08. The first-half 2008-09 figure includes stock-based compensation amounting to €8.1 million (versus €4.0 million in the corresponding prior-year period). The first-half 2007-08 figure included a €7.5 million gain resulting from the favorable outcome of a lawsuit.

Net financial income came to €11.9 million (versus €12.6 million in first-half 2007-08), breaking down as follows:

- €1.7 million in financial income compared with €0.6 million in financial charges in first-half 2007-08
- €1.7 million in foreign exchange gains against €2.3 million in foreign exchange losses for the first six months of 2007-08
- An €8.5 million positive impact arising from Calyon's sale of the remaining Ubisoft shares it held through the Equity Swap[3]. Net financial income for first-half 2007-08 included a €15.5 million positive impact from the Equity Swap

As a reminder, in first-half 2007-08 Ubisoft recorded €14.8 million under "Net gain from operations of discontinued business segment" when Calyon sold 4.2 million of the total 13.4 million Gameloft shares.

[3] Transaction entered into with Calyon on September 30, 2003.

Net income for the first six months of 2008-09 totaled €24.0 million compared with €30.6 million in first-half 2007-08. Diluted earnings per share[4] amounted to €0.48 versus €0.64. Excluding non-recurring items (i.e. the impact of the Gameloft share sale, the Equity Swap, the lawsuit, stock-based compensation and other factors), the net income figure would amount to €26.3 million and diluted earnings per share[4] would represent €0.53, compared with net income of €4.7 million for first-half 2007-08 and €0.10 per share.

Main cash flow statement and balance sheet items

Cash flows from operating activities came to a negative €68.9 million (versus a negative €42.6 million in first-half 2007-08), reflecting cash flow from operations amounting to a negative €52.6 million (compared with a negative €25.7 million in first-half 2007-08) and a €16.3 million increase in working capital requirement (on par with the rise in the first six months of 2007-08). These figures are the result of the traditionally seasonal nature of the company's business as sales in the first half of the year represent less than a third of the annual total, and were particularly high at the end of September, whereas R&D cash flows – which are still increasing – are more evenly spread over the whole fiscal year.

At September 30, 2008 Ubisoft had a net cash position of €72.3 million compared with €149.5 million at March 31, 2008. The main movements during the period were as follows:

- The negative €68.9 million in cash flows from operating activities
- €12.3 million in purchases of tangible and intangible assets
- Business acquisitions totaling €6.7 million
- Proceeds from the issue of capital totaling €10.8 million following the exercise of stock options and employee rights issues
- A €0.2 million effect from exchange rate fluctuations

Outlook

Third-quarter business review and confirmation of 2008-09 guidance

The third quarter of fiscal 2008-09 began against a backdrop of sustained market growth in terms of both console and games sales. The early part of this quarter was also marked by intense competition with numerous high-quality game releases as well as numerous sales promotions. In this environment, sales have begun solidly for Ubisoft's Rayman Raving Rabbids® TV Party and casual games are outperforming expectations while Tom Clancy's End War™ got off to a slower start. As already announced, Far Cry® 2 has a solid performance in Europe and a softer one in North America. Shaun White Snowboarding turned in a solid early performance in North America, notably on the Wii™, while reporting a slower performance in Europe. At the same time, the initial indications for Prince of Persia® are very encouraging one week ahead of the game's release. Consequently, the company is confident that it will be able to achieve its recently raised targets: sales of approximately €500 million for the third fiscal quarter and around €1,050 million for full-year 2008-09, as well as current operating income before stock-based compensation representing at least 13% of sales.

[4] Before the November 14, 2008 two-for-one stock split.

Recent highlights

Ubisoft acquires the assets of Massive Entertainment®: Created in 1997, Massive Entertainment employs over 120 developers and was ranked as one of the top 50 best game studios in the world by Game Developers Research in 2008. The studio is world-renowned for its expertise in the RTS genre and for the quality of its innovative proprietary technologies. World in Conflict® was acclaimed by critics, receiving the Best Strategy Game of E3 2007 award, as well as being named Best Online Multiplayer Game of 2007 by IGN, and Most Innovative Game of 2007 by Gamespot, among many other awards.

FarCry® 2: Released for the Xbox 360™, PLAYSTATION®3 and PC, FarCry® 2 reached one million units sell-through worldwide in less than 3 weeks of availability at retail.

Two-for-one stock split: On November 14, 2008 Ubisoft carried out a two-for-one stock split. At that date the number of shares making up Ubisoft's capital totaled 93,403,910, each with a par value of €0.0775.

Acquisition of Hybride Technologies: Created over 15 years ago, Hybride is based near Montreal and employs 80 team members. The studio specializes in the creation of visual effects for cinema, television and advertising and its many projects include the movies 300, Frank Miller's Sin City, and Journey to the Center of the Earth. Ubisoft and Hybride will work closely together to share technology and develop tools in order to optimize the creation of both video games and special effects, offering gamers visual experiences that rival those of the cinema. At the same time, Hybride will continue to work actively with its movie partners while also bringing its expertise to leverage Ubisoft's intellectual property in the cinema industry.

Ubisoft opens two new studios: one in Kiev and one in Sao Paulo. The Kiev studio expects to build up a fifty-person team over the coming twelve months and staff numbers at the Sao Paolo studio are scheduled to reach 200 in the next four years.

Ubisoft acquires its first development studio in India, based in Pune: Set up in late 2006 by Gameloft, this studio has a team of 120 developers and testers who will initially focus on porting titles to handheld consoles and will reinforce Ubisoft's testing teams. The goal is to become 200-people strong in 12 months' time and to reach a team of 500 in the coming years.

Financial calendar

Release	Date
Third-quarter 2008-09 sales	January 21, 2009

This date is subject to change and will be confirmed at a later stage.

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Disclaimer

This statement may contain estimated financial data, information on future projects and transactions and future business results/performance. Such forward-looking data are provided for estimation purposes only. They are subject to market risks and uncertainties and may vary significantly compared with the actual results that will be published. The estimated financial data have been presented to the Board of Directors and have not been audited by the Statutory Auditors. (Additional information is specified in the most recent Ubisoft Registration Document filed on July 25, 2008 with the French Financial Markets Authority (*l'Autorité des marchés financiers*)).

About Ubisoft

Ubisoft is a leading producer, publisher and distributor of interactive entertainment products worldwide and has grown considerably through a strong and diversified line-up of products and partnerships. Ubisoft is present in 28 countries and has sales in 55 countries around the globe. It is committed to delivering high-quality, cutting-edge video game titles to consumers. For the 2007-08 fiscal year Ubisoft generated sales of €928 million. To learn more, please visit www.ubisoftgroup.com.

Consolidated income statement

In thousands of euros	**09.30.08**	**09.30.07**
Revenue	**344,468**	**261,393**
Other operating income	104,041	89,871
Cost of sales	-157,258	-105,545
Changes in inventories of finished goods and work in progress	14,345	11,767
Employee benefits expense	-111,949	-93,733
Other operating expenses	-105,130	-78,844
Taxes and duties	-3,020	-2,120
Depreciation and amortization	-59,530	-77,646
Provisions	-1,106	-136
Operating profit (loss) from continuing operations	**24,860**	**5,007**
Other operating income and expenses	-172	7,507
Operating profit (loss)	**24,688**	**12,514**
Income from cash and cash equivalents	3,920	1,037
Gross borrowing cost	-1,639	-1,489
Net borrowing cost	**2,281**	**-452**
Financial income	18,013	21,928
Financial expenses	-8,394	-8,889
Net financial income	**11,900**	**12,587**
Share of profit of associates	190	-42
Income tax	-12,750	-9,273
Gain (loss) on the disposal of discontinued operations	-	14,827
Profit (loss) for the period	**24,028**	**30,613**
Minority interests	-	-
Group Result	**24,028**	**30,613**
Basic earnings per share from continuing operations	0,52	0,35
Diluted earnings per share from continuing operations	0,48	0,33
Basic earnings per share from discontinued operations	-	0,32
Diluted earnings per share from discontinued operations	-	0,31
Weighted average number of shares in issue (before 2-for-1 stock split)	46,617	45,684
Diluted weighted average number of shares in issue (before 2-for-1 stock split)	49,578	47,342

Consolidated Balance sheet

ASSETS In thousand of euros		Net 09.30.08	Net 03.31.08
Goodwill		94,329	84,376
Other intangible assets		498,817	398,378
Property, plant and equipment		25,984	22,480
Investments in associates		518	328
Other financial assets		3,056	2,517
Deferred tax assets		16,884	21,684
	Non-current assets	639,588	529,763
Inventory		55,972	39,879
Trade receivables		109,737	84,226
Other receivables		98,162	91,683
Other current financial assets		30,904	64,342
Current tax assets		13,341	11,146
Cash and cash equivalents		125,215	228,913
	Current assets	433,331	520,189
Total assets		**1,072,919**	**1,049,952**

LIABILITIES AND EQUITY In thousand of euros		30.09.08	31.03.08
Capital		7,236	7,165
Premiums		478,363	459,457
Consolidated reserves		187,293	57,685
Consolidated earnings		24,028	109,844
	Equity (Group share)	696,920	634,151
Minority interests			
	Total Equity	696,920	634,151
Provisions		2,015	1,861
Employee benefit		1,855	1,699
Long-term borrowings		23,336	23,323
Deferred tax liabilities		36,321	43,990
	Non-current liabilities	63,527	70,873
Short-term borrowings		29,538	56,097
Trade payables		171,903	177,903
Other liabilities		95,497	95,505
Current financial liabilities		585	1,353
Current tax liabilities		14,949	14,070
	Current liabilities	312,472	344,928
Total liabilities and equity		**1,072,919**	**1,049,952**

Cash flow statement for comparison with other industry players

In thousands of euros	09.30.08	09.30.07
Consolidated earnings	24,028	30,613
+/- Share of profit of associates	-190	-499
+/- Gains / losses on the disposal of discontinued operations	-	-14,287
+/- Amortization of games software	51,489	69,386
+/- Other amortization	8,041	8,260
+/- Provisions	1,054	-1,120
+/- Cost of share-based payments	8,142	4,065
+/- Gains / losses on disposals	172	67
+/- Other income and expenses	5	-748
+/- Costs of internal development and license development	-145,327	-121,481
Cash flows from operating activities	**-52,586**	**-25,744**
Inventory	-14,345	-10,518
Trade receivables	-21,021	30,579
Other assets	40,828	-17,786
Trade payables	-9,375	-24,103
Other liabilities	-12,430	4,890
+/-Change in working capital from operating activities	**-16,343**	**-16,938**
TOTAL CASH GENERATED BY OPERATING ACTIVITIES	**-68,929**	**-42,682**
- Payments for the acquisition of property, plant and equipment and other intangible assets	-12,292	-7,963
+ Proceeds on the disposal of intangible assets and property, plant and equipment	23	85
+/-Proceeds / payments for the acquisition / disposal of financial assets	-22,977	-10,320
+/- Other cash flows generated (used) by investing activities	-	-35
+ Repayment of loans and other financial assets	22,119	10,361
+ Proceeds from the disposal of discontinued operations	-	25,110
+/- Partial disposal of associates [1]	-5,880	-16,937
CASH USED BY INVESTING ACTIVITIES	**-19,007**	**301**
Cash flows from financing activities		
+ New finance leases	-	24
+ New medium and long-term borrowings	-	-
- Repayment of finance leases	-29	-34
- Repayment of borrowings	-662	-
+ Proceeds from shareholders in capital increases	10,835	5,658
+/- Sales of stock	182	-48
+/- Other flows	-	-
CASH GENERATED (USED) BY FINANCING ACTIVITIES	**10,326**	**5,600**
Net change in cash and cash equivalents	**-77,610**	**-36,781**
Cash and cash equivalents at the beginning of the fiscal year	173,181	78,653
Impact of translation adjustments	160	783
Cash and cash equivalents at the end of the fiscal year	**95,731**	**42,655**

[1] Including cash in companies acquired and disposed of	-900	-521

Consolidated cash flow statement

In thousands of euros	09.30.08	09.30.07
Cash flows from operating activities		
Consolidated earnings	24,028	30,613
+/- Share of profit of associates	-190	-499
+/- Gains / losses on the disposal of discontinued operations	-	-14,287
+/- Depreciation and amortization	59,530	77,646
+/- Provisions	1,054	-1,120
+/- Cost of share-based payments	8,142	4,065
+/- Gains / losses on disposals	172	67
+/- Other income and expenses calculated	5	-748
+ Interest paid	1,639	1,371
+ Income tax paid	12,811	1,600
Inventory	-14,345	-10,518
Trade receivables	-21,021	30,579
Other assets	40,828	-17,786
Trade payables	-9,375	-24,103
Other liabilities	-12,430	4,890
+/-Change in working capital from operating activities	**-16,343**	**-16,938**
TOTAL CASH FLOW GENERATED BY OPERATING ACTIVITIES	**90,848**	**81,978**
- Interest paid	-1,639	-1,371
- Income tax paid	-12,811	-1,600
NET CASH GENERATED BY OPERATING ACTIVITIES	**76,398**	**78,800**
- Payments for the acquisition of intangible assets and property, plant and equipment	-157,619	-129,445
+ Proceeds from the disposal of intangible assets and property, plant and equipment	23	85
- Payments for the acquisition of financial assets	-22,977	-10,320
+/- Other cash flows from investing activities	0	-35
+ Repayment of loans and other financial assets	22,119	10,361
+ Proceeds from the disposal of discontinued operations	-	25,110
+/- Changes in scope (1)	-5,880	-16,937
CASH USED BY INVESTING ACTIVITIES	**-164,334**	**-121,180**
Cash flows from financing activities		
+ New finance leases	-	24
+ New medium and long-term borrowings	-	-
- Repayment of finance leases	-29	-34
- Repayment of borrowings	-662	-
+ Proceeds from shareholders in capital increases	10,835	5,658
+/- Sales / purchases of own shares	182	-48
+/- Other flows	-	-
CASH GENERATED (USED) BY FINANCING ACTIVITIES	**10,326**	**5,600**
Net change in cash and cash equivalents	**-77,610**	**-36,781**
Cash and cash equivalents at the beginning of the fiscal year	173,181	78,653
Impact of translation adjustments	160	783
Cash and cash equivalents at the end of the fiscal year	**95,731**	**42,655**
(1) Including cash in companies acquired and disposed of	-900	-521