

INTERIM REPORT January–September 2005



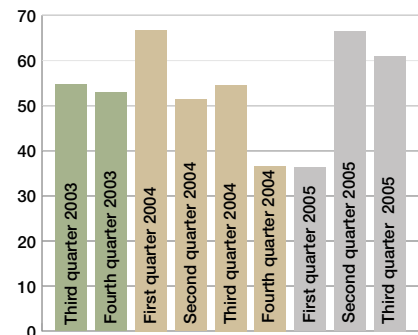
Digital Illusions CE AB (publ)

Continued success for Battlefield 2

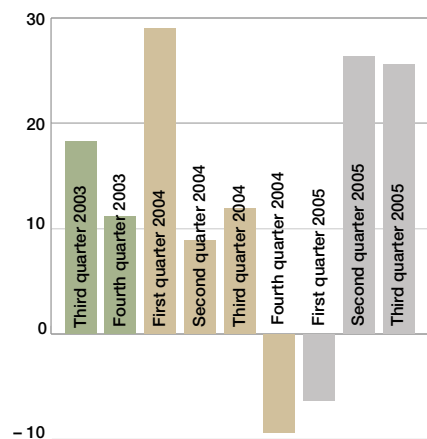


- Net revenues for the first nine months 2005 amounted to SEK 163.9m representing a decrease of 5 percent compared with same period 2004 (SEK 172.8m). Total operating revenues amounted to SEK 164.7m (SEK 177.1m).
- Profit after financial items for the first nine months 2005 amounted to SEK 45.7m, implying a decline of 8 percent compared with 2004 (SEK 49.8m).
- Profit after tax for the first nine months 2005 amounted to SEK 32.9m (SEK 35.6m), representing SEK 3.25 per share (SEK 3.54).
- Net revenues for the third quarter 2005 amounted to SEK 61.3m, thus achieving an increase of 12 percent compared with the same period 2004 (SEK 54.6m). Profit after financial items for the period July–September 2005 amounted to SEK 25.6m, thereby increasing by SEK 13.7m compared with the same period 2004 (SEK 11.9m).
- Royalties stood for 50 percent of Digital Illusions' revenues in the first nine months 2005. Royalty income for the third quarter 2005 amounted to SEK 36.8m and represented 60 percent of the Company's revenues.
- Sales of Battlefield 2, which was launched at the end of June 2005, have continued to be very good. Up to the end of September, the game has sold 1,630,000 units, and products in the Battlefield series have sold an overall total of more than 6.8 million units.

Net Revenues – SEK m



Profit after financial items – SEK m



Graphs are adjusted according to IFRS

Financial comments

Net revenues for the first nine months 2005 amounted to SEK 163.9m (SEK 172.8m). Total operating revenues amounted to SEK 164.7m (SEK 177.1m), representing a decline of 7 percent compared with the same period 2004. The strong revenues during the second and third quarters 2005 are primarily attributable to Digital Illusions' bestselling Battlefield 2, which was launched in June 2005. That revenues nonetheless declined in the first nine months of the year compared with the same period 2004 is mainly related to lower project revenues. The pre-tax profit margin for the first nine months 2005 was 28 percent (29 percent).

Net revenues for the third quarter amounted to SEK 61.3m (SEK 54.6m). Total operating revenues were SEK 61.4m (SEK 55.6m), representing an increase of 11 percent compared with the same period

last year. The increase in revenues in the third quarter 2005 is primarily related to royalty revenues from Battlefield 2, which has continued to experience good sales since its launch at the end of June. The older Battlefield products also sold well in the third quarter, particularly in view of a completely new version of the game being simultaneously available in the market. The pre-tax profit margin for the period was 42 percent (22 percent).

Operating costs for the first nine months 2005 fell by 6 percent compared with the same period 2004, and costs decreased by 15 percent in the third quarter compared with the same quarter last year. The lower costs are due partly to a decrease in personnel, which is to some extent related to the closing down of the New York office, and partly due to costs related to the move of the Gothenburg office having burdened the third quarter 2004. Further, the company

has not worked with subcontractors to the same extent as during 2004.

Digital Illusions recruited several people at the end of the third and beginning of the fourth quarters. This recruitment process is part of the new expansive phase that the Company has started and will continue during the remainder of 2005 and in 2006. Digital Illusions will also broaden its cooperation with subcontractors for graphic production during the remaining part of the year. This implies that costs will increase in the fourth quarter compared with the third quarter 2005.

Financial items for the first nine months 2005 amounted to approximately SEK 3.0m, consisting of yield on the Company's cash assets as well as financial currency effects during the period.

Digital Illusions is reporting as per IFRS as of January 1, 2005. Comparative figures for the first nine months and third quarter





2004 have been adjusted so that they comply with IFRS. Further details are set out in the table on page 6.

The Company's liquid funds amounted to SEK 138.4m as at September 30, 2005 which is slightly higher than the level of SEK 131.5m as at December 31, 2004.

Project and royalty revenues

50 percent (SEK 81.9m) of Digital Illusions' revenues came from royalties in the first nine months 2005. In the third quarter 2005, royalties represented 60 percent of revenues (SEK 36.8m) – generated primarily by the Battlefield 2 game.

Project revenues represented SEK 82.0m (50 percent) of revenues for the first nine

months 2005, and SEK 24.5m (40 percent) for the third quarter.

The games sector is currently experiencing major changes in order to adapt to new technology when the next generation's consoles are launched on the market at the end of 2005 and in 2006. Digital Illusions continues to focus on developing technology and working processes adapted to the future games platforms. New technology and new tools are being produced within the framework of game projects for the next generation's platforms. This implies lower profit margins in the development projects over the next few years. The technology and tools being developed will however be able to be re-used in the production of subsequent games within the same platform generation.

The major part of Digital Illusions' income is generated in US dollars. Future contracted payments are hedged on a continuous basis for Swedish operations, where costs are incurred in Swedish kronor. Contracts for Digital Illusions' production in Canada are not normally hedged, in view of that revenues are met by costs in Canadian dollars. Possible future payment of royalties are not hedged by the company.

Contracted payments are hedged when new contracts are signed. Several contracts were signed in the winter of 2004 and spring 2005, and were thereby hedged at a lower dollar rate than that prevailing today, which in turn affects project revenues.

The positive effects of previous hedging, made at higher dollar levels than those prevailing today, will decline in tandem with the expiry of the hedging contracts.

The US dollar strengthened in the third quarter 2005 compared with average rate of the first half-year 2005. This has a positive effect on the portion of the Company's royalty revenues generated on the American market where sales take place in US dollars.

99.7 percent of net revenues in the first nine months 2005 came from projects with Electronic Arts.

Operations during the third quarter 2005

New premises

Digital Illusions plans for continued growth, and the number of employees will rise continuously during the forthcoming years. The Company therefore needs larger and more flexible premises. Digital Illusions signed a new lease in the summer of 2005, and the Stockholm office will move in June 2006 to what is known as "Glashuset" located at Slussen in Stockholm.

Costs related to the move in the amount of SEK 4-5 million are anticipated to burden the results of the second and third quarters 2006. Investments in the premises such as sound room, server room and similar areas, amounting to SEK 6 million, will be made in 2006 and depreciated over a period of 2 to 5 years. The Company's rental costs will increase as of January 1, 2007. Digital Illusions has provided a customary lease guarantee of SEK 8 million.

Products

Battlefield 2 for PC was released at the end of June 2005. An amazing 1,630,000 units have been sold to dealers up to the end of September.

About 45 percent of all Battlefield products are sold in North America, 45 percent in Europe, and the remainder in the rest of the world. Battlefield 2 is however different to the other Battlefield games by selling better in Europe than in the United States. In total, games in the Battlefield series have sold more than 6.8 million units.

In the end of October, Battlefield 2 Modern Combat for Xbox and Playstation 2 was released in USA. The release on other markets is planned for November 2005. During the first quarter 2006 the product will also be launched for Xbox 360.

Digital Illusions' games release plan

Title	Platform	Category	Date
BF 1942 The Complete Collection	PC	FPS**	Q4 2005
BF2 Modern Combat	PS2, Xbox	FPS**	Q4 2005
BF2 Special Forces	PC	FPS**	Q4 2005
BF2 Modern Combat	Xbox 360	FPS**	Q1 2006
Untitled	PC	FPS**	H1 2006
Untitled	PC	FPS**	H2 2006
Untitled	PC, PS3, Xbox 360, PS2*, Xbox*, PSP*	—	2006/2007
Untitled	PC, PS3, Xbox 360	Action	2007

* Development licensed to Electronic Arts UK

** FPS is an abbreviation for First Person Shooter



During the last quarter 2005 downloadable content for the Xbox version of Battlefield 2 Modern Combat will be launched.

During the fourth quarter 2005 another collection box is launched – Battlefield 1942: The Complete Collection. It consists of the Battlefield 1942 basic game, the Road to Rome and Secret Weapons expansion packs, as well as Battlefield Vietnam and the additional material released for Battlefield.

Battlefield 2's additional game for PC, Special Forces, will also be released during the fourth quarter of 2005. The product is expected to have good prerequisites to generate royalty revenues already in 2005.

Other items

Digital Illusions received the distinction *Best Use of Online* at the Develop Industry Excellence Awards 2005 – a European gala for the games sector. The awards ceremony was held at the end of August at the GDC fair in London. In addition to the *Best Use of Online* prize, Digital Illusions was also nominated in the category of *Industry Leader – Inhouse Development*.

Develop Industry Excellence Awards is the largest gala of its kind that identifies and awards prizes for creativity and talent among European games developers. A jury composed of 50 people designated the winners.

Significant events further to the end of the period

Contracts

Digital Illusions signed a contract in the middle of October for the development of a PC game in the Shooter category with the publisher Electronic Arts. The product will be developed at the Company's Stockholm office. The game is based on Digital Illusions' brand name and is planned to be launched in the fall of 2006.

The product is expected to have good prerequisites to generate revenues in the

form of royalties to the Company in 2006. Digital Illusions will receive a development budget from the publisher Electronic Arts to produce the game, the title of which has not been officially chosen for the time being.

Licensing

In the games sector, major games are released for all significant platforms simultaneously in order to achieve maximum coverage and revenues. Digital Illusions focuses on rapidly becoming one of the leading developers for the forthcoming generation's platforms – Xbox 360 from Microsoft and Playstation 3 from Sony. Digital Illu-

Games sales to retailers up to September 30, 2005

Title	Platform	Genre	Publisher	Launched	Games sold
RalliSport Challenge	Xbox	Racing	Microsoft	March 2002	900,000**
Battlefield 1942	PC	FPS*	EA	September 2002	2,150,000
Battlefield Road to Rome	PC	FPS*	EA	February 2003	640,000
Midtown Madness 3	Xbox	Racing	Microsoft	June 2003	570,000**
Battlefield Secret Weapons	PC	FPS*	EA	September 2003	480,000
Battlefield Deluxe	PC	FPS*	EA	October 2003	370,000
Battlefield Vietnam	PC	FPS*	EA	March 2004	1,260,000
RalliSport Challenge 2	Xbox	Racing	Microsoft	May 2004	400,000**
Battlefield Anthology	PC	FPS*	EA	May 2004	300,000
Battlefield 1942 + Road to Rome	Mac	FPS*	Aspyr	July 2004	Not available
Battlefield 2	PC	FPS*	EA	June 2005	1,630,000

* FPS is an abbreviation for First Person Shooter.

** Sales up to June 30, 2005. Later figures not available.



sions licenses out the production for certain platform versions, which enables the Company to obtain a greater product portfolio without additional costs.

Thanks to licensing, Digital Illusions does not have any development costs for the products and receives royalties as of the first sold game for the platform, instead of when the game has first covered its development budget. At the same time, Digital Illusions receives a lower royalty level per sold game of the licensed versions because they are developed externally.

In the middle of October, Digital Illusions signed an agreement to license the rights to Electronic Arts' studio in the UK to develop a Playstation Portable version of its untitled game with release in 2006/2007. The Xbox and Playstation 2 versions of the same game were previously planned to be developed internally. However, a contract was signed in October to also license out the development of these versions to Electronic Arts' studio in the UK.

The release of the out-licensed game versions is planned for 2006/2007, simultaneously as the product comes to Xbox 360 and Playstation 3.

The publisher of the game is Electronic Arts. Digital Illusions owns the brand name

that the games are based on, and shall therefore approve the products that are developed externally before they reach the market.

The Company announced in October that the Playstation Portable version of Battlefield 2 Modern Combat, which was to be launched in the first quarter 2006, has

been put on hold. The primary reason is the shortage of personnel resources. If and when the PSP version is to be released has not been decided for the moment. The game will be launched for Xbox and Playstation 2 in the fourth quarter 2005 and for Xbox 360 in the first quarter 2006.

Reconciliation of differences between previous accounting principles (RR) and current accounting principles (IFRS) for the year 2004.

Income Statement		Jan-Sep 2004	Jul-Sep 2004		
Profit for the year as per RR		28,887	6,130		
Write-back of amortization of goodwill		8,123	2,741		
Tax effect of written-back amortization		- 1,363	- 463		
Profit for the period as per IFRS		35,647	8,408		
Balance Sheet as at September 30, 2004		RR	Goodwill- amortization	Tax- effects	IFRS
Goodwill	13,741	8,123			21,864
Other fixed assets	10,925				10,925
Current assets	235,549				235,549
Total assets	260,215	8,123	0		268,338
Shareholders' equity	215,152	8,123	- 1,363		221,912
Provisions	4,429		1,363		5,792
Long-term liabilities	1,471				1,471
Current liabilities	39,163				39,163
Total equity and liabilities	260,215	8,123	0		268,338



Accounting principles

Digital Illusions has historically prepared its financial reports in accordance with generally accepted accounting principles in Sweden, meaning the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations (RR). As of 2005, the Company prepares its consolidated accounts as per International Financial Reporting Standards (IFRS).

Figures for 2004 have been restated in accordance with IFRS. The tables on page 6 set out the reconciliation between the income statement and balance sheet for 2004 as per the previous and new accounting principles.

The 10 largest shareholders as per September 30, 2005

	Number A-shares	Number B-shares	Percent
Guldsålen J472 AB UNÄ Electronic Arts Holding	4,956,715		49.03%
State Street Bank & Trust (Electronic Arts)	0	1,911,403	18.91%
BNY GCM Client Accounts (E) ISG	1,254,200		12.41%
Handelsbankens Småbolagsfond	287,710		2.85%
Livförsäkringsaktiebolaget	225,200		2.23%
Dahlander, Peter	145,000		1.43%
Handelsbanken Liv	100,000		0.99%
Handelsbankens Nordiska	91,290		0.90%
EFG Investment Bank AB (PUBL)	29,400		0.29%
RoyalskandiaLife Assurance LTD	26,300		0.26%
Total:	7,115,815	1,911,403	89.30%
Total other shareholders:	1,082,842	0	10.70%
Total as per September 30, 2005	8,198,657	1,911,403	100.00%

Stockholm, November 10, 2005

Patrick Söderlund, CEO
Digital Illusions CE AB

This interim report has not been examined by the Company's auditors

Further information is available from:

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Consolidated Income Statements

(SEK 000)	2005 Jan – Sep	2004 Jan – Sep	2005 Jul– Sep	2004 Jul – Sep	2004 Jan – Dec
Net revenues	163,914	172,777	61,290	54,569	209,337
Other operating income (Note 1)	812	4,279	114	991	4,384
Total operating income	164,726	177,056	61,404	55,560	213,721
Direct external costs	–3,409	–11,378	–307	–4,079	–14,057
Other external costs	–22,601	–23,374	–7,864	–8,972	–34,981
Personnel costs	–89,921	–90,638	–27,545	–29,505	–121,272
Depreciation & amortization of fixed assets (Note 2)	–5,756	–4,403	–1,334	–1,377	–6,233
Other operating costs (Note 3)	–349	—	–401	—	—
Total operating expenses	–122,036	–129,793	–37,451	–43,933	–176,543
Operating profit	42,690	47,263	23,953	11,627	37,178
Financial items	2,964	2,492	1,637	316	3,151
Profit after financial items	45,654	49,755	25,590	11,943	40,329
Tax for the period	–12,796	–14,108	–7,200	–3,535	–11,751
Profit for the period	32,858	35,647	18,390	8,408	28,578
Earnings per share (SEK)	3.25	3.54	1.82	0.83	2.83
Diluted earnings per share (SEK)	3.00	3.18	1.68	0.76	2.56
Average number of shares during the period	10,110,060	10,080,546	10,110,060	10,110,060	10,087,985
Average number of diluted shares during the period	10,939,707	11,218,589	10,948,500	11,071,553	11,144,974

Consolidated Balance Sheets

(SEK 000)	2005 Sep 30	2004 Dec 31	Change in 2005	2004 Sep 30	Change 12 months
ASSETS					
Fixed assets					
Goodwill	18,772	21,590	-2,818	21,864	-3,092
Other intangible fixed assets	1,962	1,383	579	999	963
Tangible fixed assets	5,787	7,588	-1,801	7,469	-1,682
Financial fixed assets	2,359	1,946	413	2,457	-98
Total fixed assets	28,880	32,507	-3,627	32,789	-3,909
Current assets					
Current receivables	136,954	113,343	23,611	126,214	10,740
Current investments	—	688	-688	5,551	-5,551
Cash and bank balances	138,352	130,764	7,588	103,784	34,568
Total current assets	275,306	244,795	30,511	235,549	39,757
TOTAL ASSETS	304,186	277,302	26,884	268,338	35,848
EQUITY AND LIABILITIES					
Shareholders' equity	238,017	214,307	23,710	221,912	16,105
Provisions	3,367	6,154	-2,787	5,792	-2,425
Long-term liabilities	—	1,323	-1,323	1,471	-1,471
Current liabilities	62,802	55,518	7,284	39,163	23,639
TOTAL EQUITY AND LIABILITIES	304,186	277,302	26,884	268,338	35,848

Consolidated Cash Flow Statements

(SEK 000)	2005 Jan – Sep	2004 Jan – Sep	2005 Jul – Sep	2004 Jul – Sep	2004 Jan – Dec
Cash flow from current operations before changes in working capital	45,102	36,659	23,617	3,015	27,250
Cash flow from changes in working capital	–35,077	–35,781	–19,898	–5,435	–1,892
Cash flow from investment operations	–3,125	–6,203	–669	–4,391	–8,290
Cash flow from financing operations	—	–10,747	—	2,458	–11,023
Cash flow for the period	6,900	–16,072	3,050	–4,353	6,045

Consolidated Statement of Equity

(SEK 000)	2005 Jan – Sep	2004 Jan – Sep	2005 Jul – Sep	2004 Jul – Sep	2004 Jan – Dec
Opening equity	214,307	198,368	218,146	212,437	198,368
New share issue	—	2,096	—	—	2,096
Payment of dividends	—	–9,054	—	—	–9,054
Repayment of shareholder's contribution	—	–6,247	—	—	–6,247
Reclaimed VAT on expenses for new share issue	—	987	—	987	711
Implementation of IAS 39	3,406	—	—	—	—
Change in value of derivatives used for hedge accounting	–13,776	—	1,277	—	—
Translation difference	1,222	115	204	80	–145
Profit for the period	32,858	35,647	18,390	8,408	28,578
Closing equity	238,017	221,912	238,017	221,912	214,307
<i>of which non-restricted equity</i>	<i>52,955</i>	<i>35,801</i>	<i>52,955</i>	<i>35,801</i>	<i>29,245</i>

Notes

(SEK 000)	2005 Jan – Sep	2004 Jan – Sep	2005 Jul – Sep	2004 Jul – Sep	2004 Jan – Dec
Note 1 – Other operating income					
Net operative exchange gains and losses	38	3,900	—	880	3,768
Other income	774	379	114	111	616
Total	812	4,279	114	991	4,384
Note 2 – Depreciation & amortization of fixed assets					
Write-down of goodwill	–1,315	—	—	—	–267
Amortization of other intangible fixed assets	–846	–520	–486	–198	–868
Depreciation of equipment	–3,595	–3,883	–848	–1,179	–5,098
Total	–5,756	–4,403	–1,334	–1,377	–6,233
Note 3 – Other operating costs					
Net operative exchange gains and losses	—	—	–279	—	—
Other items	–349	—	–122	—	—
Total	–349	—	–401	—	—

Key Ratios & Figures

	2005 Jan – Sep	2004 Jan – Sep	2005 Jul – Sep	2004 Jul – Sep	2004 Jan – Dec
Margins and return					
Operating margin (%)	26.0	27.4	39.1	21.3	17.8
Profit margin before tax (%)	27.9	28.8	41.8	21.9	19.3
Profit margin after tax (%)	20.0	20.6	30.0	15.4	13.7
Return on average equity (%)	14.5	17.0	8.1	3.9	13.9
Return on average total assets (%)	15.7	19.4	9.0	4.5	15.5
Employees					
Average number of employees	190	200	176	204	201
Profit after tax per employee (SEK 000)	173	178	104	41	142
Equity (*)					
Equity/assets ratio (%)	78.2	82.7	78.2	82.7	77.3
Equity per share (SEK)	23.54	21.95	23.54	21.95	21.20
Stock quote (SEK)	60.00	56.00	60.00	56.00	60.50

(*) As at end of the period.



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