

# 2006

---

## Interim report January–March



Digital Illusions CE AB (publ)



## Result for First Quarter 2006 was SEK –0.9m

- Net revenues for the first quarter 2006 amounted to SEK 46.6m, representing an increase of 29 percent compared with the same period 2005 (SEK 36.3m). Total operating revenues amounted to SEK 47.0m (SEK 36.8m).
- The loss after financial items for the first quarter 2006 was SEK –1.2m, representing an improvement of SEK 5.2m compared with the same period 2005 (SEK –6.3m).
- The loss after tax for the first quarter 2006 amounted to SEK –0.9m (SEK –4.5m), representing SEK –0.09 per share (SEK –0.44).
- Royalties stood for 47 percent of Digital Illusions' total revenues in the first quarter 2006.
- It was announced on March 17, 2006 that the Boards of Directors of Electronic Arts EA Holding AB and Digital Illusions CE AB (publ) had agreed that the two companies be merged in accordance with Chapter 23 of the Swedish Companies Act. Electronic Arts held 73.2 percent of Digital Illusions' shares as at April 20, 2006.

### Financial comments

Net revenues for the first quarter 2006 amounted to SEK 46.6m (SEK 36.3m). Total operating revenues amounted to SEK 47.0m (SEK 36.8m), representing an

increase of 28 percent compared with the same period 2005. The improvement in results is primarily attributable to higher royalty revenues. Digital Illusions did not launch any games in the first quarter 2005, which implied relatively low royalty revenues. In the corresponding period 2006, the Battlefield 2 Euro Force booster package was launched. Continued good sales of Battlefield 2 and its Special Forces expansion pack also contributed to the increase in royalty revenues. The profit margin before tax in the first quarter 2006 was –3 percent (–17 percent).

Operating costs for the first quarter 2006 rose by 13 percent compared with the same period 2005. This increase is related to Digital Illusions' continued expansion, and is in particular due to the Company working today with larger and more advanced products. Furthermore, costs for about SEK 4m were incurred in the quarter in conjunction with the proposed merger with Electronic Arts EA Holding AB, including items such as legal advice and a so called fairness opinion from SEB Enskilda.

Change in liquid funds amounted to SEK –0.4m for the first three months of the year. The Company's liquid funds amounted to SEK 209.3m at the end of March 2006.

### Projects and royalty revenues

47 percent (SEK 22.1m) of Digital Illusions' total revenues came from royalties in the

first quarter 2006, which were primarily generated by the Battlefield series.

Project income represented SEK 24.5m (52 percent) of total revenues in the first quarter 2006. Financial items in the first quarter 2006 amounted to SEK 0.7m and consisted of income from the Company's cash assets as well as financial currency effects during the period.

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. Microsoft's Xbox 360 was launched at the end of 2005, while Nintendo's Wii is planned to be launched in 2006 and Sony's Playstation 3 in 2006/2007.

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.

Contracted payments are hedged when new contracts are signed. In view of the weakening of the US dollar in 2004 and the beginning of 2005, the Company hedged several contracts during the year at a lower dollar rate than in previous years, which in turn affects project revenues.

99.9 percent of net revenues in the first quarter 2006 came from projects with Electronic Arts.

## Sales of games to dealers up to March 31, 2006

Title	Platform	Released	Units sold
RalliSport Challenge	Xbox	March 2002	900,000*
Battlefield 1942	PC	Sept 2002	2,440,000
Battlefield Road to Rome	PC	Feb 2003	640,000
Midtown Madness 3	Xbox	June 2003	570,000*
Battlefield Secret Weapons	PC	Sept 2003	480,000
Battlefield Deluxe	PC	Oct 2003	370,000
Battlefield Vietnam	PC	March 2004	1,340,000
RalliSport Challenge 2	Xbox	May 2004	410,000*
Battlefield Anthology	PC	May 2004	390,000
BF 1942 + Road to Rome	Mac	July 2004	Not available
Battlefield Secret Weapons	Mac	Nov 2004	Not available
Battlefield 2	PC	June 2005	2,090,000
Battlefield Complete Collection	PC	Oct 2005	70,000
Battlefield 2 Modern Combat	Xbox, PS2	Nov 2005	1,180,000
Battlefield 2 Special Forces	PC	Nov 2005	750,000
Battlefield 2 Euro Forces	PC	March 2006	130,000

\* Sales up to December 31, 2005. Further figures are not available.



## Operations during the first quarter 2006

Digital Illusions' business model is to develop games with its own brand names. The games are then marketed, distributed and sold by a publisher. Digital Illusions receives a fixed production budget from the publisher for the development of a game. The Company also receives part of the sales revenues in the form of royalties, provided the game achieves certain sales levels. Royalties are calculated as a percentage of the price per sold unit, and are received only after the already paid production budget has been covered and deducted.

The Company further invested in a number of projects during the quarter with the objective of improving products and thereby providing prerequisites to increase related future royalty revenues.

A decision of the Board of Directors was announced at the end of December 2005 regarding an investment of a further SEK 50m in technology development for the next generation's consoles in 2006 and 2007. Further to this Board decision, Digital Illusions invested about SEK 6m in technology in the first quarter 2006.

## Contracts

In the middle of October 2005, Digital Illusions licensed out the rights to develop the Xbox and Playstation 2 versions of an untitled game, with launch due in 2006/2007, to Electronic Arts (EA)'s studio in Great

Britain. EA and Digital Illusions decided in the beginning of February 2006 to discontinue the development of the product for these two platforms in view of the downward sales trends of games for the Xbox and Playstation 2 consoles.

The Playstation Portable version of the product will however continue to be developed by EA, and the versions for PC, Xbox 360 and Playstation 3 will be produced by Digital Illusions' Stockholm studio as previously. The game is planned to be launched in 2007.

In the middle of October 2005, Digital Illusions signed a contract for a PC game in the Shooter category, which was named Battlefield 2142 at the end of March 2006. The game is built on the same technical platform as Battlefield 2 and is being developed by the Company's Stockholm studio. The game is an independent product and is based on Digital Illusions' own brand name.

Action in the new product takes place in the future. In Battlefield 2142, the players

are required to choose between two military superpowers in the decisive battle for survival. The year 2142 is in a new ice age, which has brought large parts of the world to a halt, and global powers are assembling their strength and forces. Up to 64 players can meet each other in two teams. As the players successfully move forward, promotion and rewards arise in the form of new weapons, medals and much more.

Electronic Arts publishes and distributes Battlefield 2142. The launch is planned for the fall 2006.

## Products

The Battlefield 2 Euro Force booster package was launched in March 2006. It is the first of the Company's products that is only sold over the Internet. When games are sold online directly to the consumer, Digital Illusions receives a higher portion of the price per sold product than if they were sold via dealers. Battlefield 2 Euro Force has sold 130,000 units as per March 31 2006.

## Digital Illusions' release schedule

Title	Platform	Category	Date
BF2 Boosterpack Armored Fury	PC	FPS	H1 -06
BF2 Deluxe	PC	FPS	Q2 -06
Battlefield 2142	PC	FPS	H2 -06
Untitled	PC, PS3, Xbox 360, PSP*	FPS	2007
Untitled	PC, PS3, Xbox 360	Action	2007

\* Development licensed to EA UK

## Forthcoming reports

Interim Report January–June 2006	August 10, 2006
Interim Report January–September 2006	November 10, 2006
Year-End Report 2006	February 20, 2007

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 and its expansion packs differ however from the other Battlefield games, and sell slightly better in Europe than in the United States. A total of 9.9 million games in the Battlefield series have been sold.

### Awards to Digital Illusions

For the second consecutive year, Digital Illusions has been graded as one of Sweden's most attractive employers when Swedish university and technical college students list their favorite employers in the annual attitude survey known as "Company Barometer". Digital Illusions is currently placed in fourth position within the Computer/IT sector in 2006.

Digital Illusions and the Battlefield 2 game won three prizes at the Interactive Achievement Awards. The competition is normally called the game sector's equivalent to the Academy Awards (the Oscars), and is arranged each year by The Academy of Interactive Arts & Sciences. The awards ceremony was held in Las Vegas in the beginning of February 2006. Battlefield 2 won the categories of PC Game of the Year, Outstanding Achievement: Online Game Play and First-Person Action Game of the Year.

Battlefield 2 received even more distinctions in the first quarter 2006. The American games magazine PC Gamer designated it as Game of the Year 2005. The 1up.com games site elected it as being Best Online/ Multi-player Game 2005, as did also Gamespot, the leading games media. Battlefield 2 was also awarded Editor's Choice Best PC Game 2005 by Gamespot.

Another of the world's foremost games media, Gamespy, gave Battlefield 2 the Technical Excellence Award 2005.

The Superplay magazine designated Battlefield 2 as Swedish Game of the Year.

Battlefield 2 was also awarded the prize as Swedish Game of the Year at the Game Awards 2006. The jury's statement was: "Sweden has been neutral for many years, but in the games sector Mother Svea is an offensive superpower. The Swedish Game of the Year has invaded the United States and sold more than the entire export volume of Swedish music."

Battlefield 2 also won the FPS Game of the Year prize with the statement: "The successor of the monster success with focus on online games and modern battle makes our Swedish hearts swell with pride."

### Other comments

It was announced on March 17, 2006 that the Boards of Directors of Electronic Arts EA Holding AB and Digital Illusions CE AB (publ) had agreed that the two companies be merged in accordance with Chapter 23 of the Swedish Companies Act. Electronic Arts owned 67.9 percent of Digital Illusions' shares at this point in time. The merger will be completed through Digital Illusions CE AB being merged with Electronic Arts EA Holding AB, at which time Electronic Arts EA Holding AB will take over the assets and liabilities of Digital Illusions CE AB.

Merger compensation in the amount of SEK 67.50 per share will be paid in cash by Electronic Arts to the shareholders of Digital Illusions. This implies a premium of 30 percent compared with the latest listed price on March 16, 2006 which was the day preceding the public announcement of the merger.

Final approval of the merger requires a two-thirds majority of the voting rights and of the shares for each respective class of stock represented at the Annual General Meeting of Shareholders of Digital Illusions that will be held on May 24, 2006. Provided the shareholders' meeting adopts the resolution, merger compensation will be paid within ten bank days after the Swedish Companies Registration Office (Bolagsverket) has registered the merger, which is estimated to take place in September 2006.

## Significant events further to the end of the period

### Products

The Xbox 360 version of Digital Illusions' Battlefield 2 Modern Combat game was launched in April 2006.

### 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 4–5m are anticipated to negatively affect 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 6m, 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 from about SEK 7m in 2006 to approximately

SEK 16m in 2007. Digital Illusions has provided a customary lease guarantee of SEK 8m.

#### Annual General Meeting of Shareholders 2006

The Annual General Meeting of Shareholders of Digital Illusions will be held on May 24, 2006.

#### Accounting principles

As of 2005, Digital Illusions prepares its consolidated accounts in accordance with IFRS (International Financial Reporting Standards).

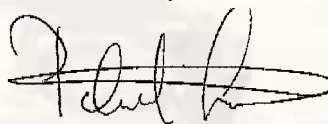
This Interim Report has been prepared in accordance with IAS34 – Interim Financial Reporting, which fulfils the requirements stipulated in RR31 – Consolidated Interim Financial Reporting. The accounting principles applied are the same as those used in the preparation of the latest Annual Report.

#### The 10 largest shareholders as per March 31, 2006

	Number A-shares	Number B-shares	Percent
Electronic Arts *	5,493,483	1,911,403	73.24%
BNY GCM Client Accounts (E) ISG	1,283,300		12.69%
Handelsbankens Småbolagsfond	287,710		2.85%
Livförsäkringsaktiebolaget Skandia	225,200		2.23%
Handelsbankens Nordiska	191,290		1.89%
Dahlander, Peter	145,000		1.43%
Morgan Stanley & Co Intl Ltd	100,117		0.99%
Länsförsäkringar Jönköping	33,400		0.33%
Equity Execution Trading Station	20,500		0.20%
Johansson, Dan-Håkan	11,000		0.11%
<b>Total:</b>	<b>7,791,000</b>	<b>1,911,403</b>	<b>95.96%</b>
Total other shareholders:	407,657	0	4.04%
<b>Total:</b>	<b>8,198,657</b>	<b>1,911,403</b>	<b>100.00%</b>

\* Electronic Arts ownership includes known changes up to and until April 20, 2006. Electronic Arts stake comes about through Electronic Arts EA Holding AB with a stake of 54.34 percent and SSB Omnibus AC with a stake of 18.91 percent.

Stockholm, May 10, 2006



Patrick Söderlund  
CEO  
Digital Illusions CE AB

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

Further information is available from:  
Jenny Huldshiner, Communications Manager,  
+46 (0)8-658 78 03 or ir@dice.se, press@dice.se.

# CONSOLIDATED INCOME STATEMENT

(SEK 000)	2006 Jan – Mar	2005 Jan – Mar	2005 Jan – Dec
Net revenues	46,593	36,255	225,672
Other operating income (Note 1)	453	499	978
<b>Total operating income</b>	<b>47,046</b>	<b>36,754</b>	<b>226,650</b>
Direct external costs	–3,425	–2,138	–5,691
Other external costs	–13,022	–7,673	–32,173
Personnel costs	–30,938	–31,177	–122,977
Depreciation & amortization of fixed assets (Note 2)	–1,509	–1,694	–7,419
Other operating costs (Note 3)	—	–676	–735
<b>Total operating expenses</b>	<b>–48,894</b>	<b>–43,358</b>	<b>–168,995</b>
<b>Operating profit/loss</b>	<b>–1,848</b>	<b>–6,604</b>	<b>57,655</b>
Financial income and expenses	681	274	4,113
<b>Profit/loss after financial items</b>	<b>–1,167</b>	<b>–6,330</b>	<b>61,768</b>
Tax for the period	282	1,866	–17,616
<b>Profit/loss for the period</b>	<b>–885</b>	<b>–4,464</b>	<b>44,152</b>
Profit/loss relating to the minority shareholding	—	—	—
Profit/loss relating to shareholders of the parent company	–885	–4,464	44,152
Earnings per share (SEK)	–0.09	–0.44	4.37
Diluted earnings per share (SEK)	–0.09	–0.44	4.07
Average number of shares during the period	10,110,060	10,110,060	10,110,060
Average number of diluted shares during the period	10,734,677	11,042,759	10,855,955

# CONSOLIDATED BALANCE SHEETS

(SEK 000)	2006 Mar 31	2005 Dec 31	Change in 2006	2005 Mar 31	Change 12 months
<b>ASSETS</b>					
<b>Fixed assets</b>					
Goodwill	18,624	18,624	—	21,590	–2,966
Other intangible fixed assets	1,326	1,612	–286	1,461	–135
Tangible fixed assets	8,184	5,289	2,895	7,142	1,042
Financial fixed assets	8,199	8,197	2	177	8,022
Other fixed assets	1,174	1,204	–30	3,713	–2,539
<b>Total fixed assets</b>	<b>37,507</b>	<b>34,926</b>	<b>2,581</b>	<b>34,083</b>	<b>3,424</b>
<b>Current assets</b>					
Current receivables	69,558	70,689	–1,131	129,265	–59,707
Liquid funds	209,270	209,630	–360	90,542	118,728
<b>Total current assets</b>	<b>278,828</b>	<b>280,319</b>	<b>–1,491</b>	<b>219,807</b>	<b>59,021</b>
<b>TOTAL ASSETS</b>	<b>316,335</b>	<b>315,245</b>	<b>1,090</b>	<b>253,890</b>	<b>62,445</b>
<b>EQUITY AND LIABILITIES</b>					
Shareholders' equity	248,894	246,857	2,037	211,443	37,451
Long-term liabilities	2,527	1,594	933	7,925	–5,398
Current liabilities	64,914	66,794	–1,880	34,522	30,392
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>316,335</b>	<b>315,245</b>	<b>1,090</b>	<b>253,890</b>	<b>62,445</b>

## CONSOLIDATED CASH FLOW STATEMENTS

(SEK 000)	2006 Jan – Mar	2005 Jan – Mar	2005 Jan – Dec
Cash flow from current operations before changes in working capital	–5,677	–6,845	60,417
Cash flow from changes in working capital	9,497	–33,186	28,934
Cash flow from investment operations	–4,139	–1,140	–11,826
Cash flow from financing operations	—	—	—
<b>Cash flow for the period</b>	<b>–319</b>	<b>–41,171</b>	<b>77,525</b>
Exchange rate difference in liquid assets	–41	261	653
<b>Change in liquid assets</b>	<b>–360</b>	<b>–40,910</b>	<b>78,178</b>

## CONSOLIDATED STATEMENT OF EQUITY

(SEK 000)	2006 Jan – Mar	2005 Jan – Mar	2005 Jan – Dec
Opening equity	246,857	214,307	214,307
Implementation of IAS 39	—	3,406	3,406
Change in value of derivatives used for hedge accounting	3,120	–2,320	–16,868
Translation difference	–198	514	1,860
Profit/loss for the period	–885	–4,464	44,152
<b>Closing equity</b>	<b>248,894</b>	<b>211,443</b>	<b>246,857</b>

# NOTES

(SEK 000)	2006 Jan – Mar	2005 Jan – Mar	2005 Jan – Dec
<b>Note 1 – Other operating income</b>			
Net operative exchange gains and losses	270	—	—
Other income	183	499	978
<b>Total</b>	<b>453</b>	<b>499</b>	<b>978</b>
<b>Note 2 – Depreciation &amp; amortization of fixed assets</b>			
Write-down of goodwill	—	—	–1,464
Amortization of other intangible fixed assets	–377	–244	–1,191
Depreciation of equipment	–1,132	–1,450	–4,764
<b>Total</b>	<b>–1,509</b>	<b>–1,694</b>	<b>–7,419</b>
<b>Note 3 – Other operating costs</b>			
Net operative exchange gains and losses	—	–542	–385
Other items	—	–134	–350
<b>Total</b>	<b>—</b>	<b>–676</b>	<b>–735</b>

# KEY RATIOS & FIGURES

(SEK 000)	2006 Jan – Mar	2005 Jan – Mar	2005 Jan – Dec
<b>Margins and return</b>			
Operating margin (%)	–4.0	–18.2	25.5
Profit margin before tax (%)	–2.5	–17.5	27.4
Profit margin after tax (%)	–1.9	–12.3	19.6
Return on average equity (%)	–0.4	–2.1	19.1
Return on average total assets (%)	–0.4	–2.4	20.8
<b>Employees</b>			
Average number of employees	199	198	190
Profit/loss after tax per employee (SEK 000)	–4	–23	232
<b>Equity (*)</b>			
Equity/assets ratio (%)	78.7	83.3	78.3
Equity per share (SEK)	24.62	20.91	24.42
Stock quote (SEK)	67.50	59.25	60.25

(\*) As at end of the period.



**Digital Illusions CE AB**

Maria Skolgata 83, 2nd floor  
SE-118 53 Stockholm  
Sweden  
Tel +46-8-658 78 00  
Fax +46-8-658 78 99

**CE Digital Illusions Canada, Inc.**

148 Fullarton St., Unit 406,  
London, Ontario,  
Canada N6A 5P3.  
Tel +1 (519) 675 99 93  
Fax +1 (509) 694 81 28



**Digital Illusions CE AB (publ)**

Corporate Registration Number: 556235-0339  
[www.dice.se](http://www.dice.se)