



UBISOFT®

INTERNAL CONTROL **REPORT**

Chairman's report on the conditions for preparing and organizing the Board of Directors's work and the internal control procedures implemented by the Company.

2011

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This report has been drawn up in accordance with the provisions of Article L. 225-37 of the French Commercial Code (as amended by Acts no. 2008-649 of July 3, 2008 and no. 2011-103 of January 27, 2011 regarding the equal representation of women and men on boards of directors and supervisory boards and regarding professional equality).

Its purpose is to detail the references made to the corporate governance code, the composition of the Board of Directors and the application of principle of balanced representation of women and men on it, any possible limits placed on the powers of the Chairman and CEO, the conditions of preparation and organization of the work of the Board of Directors, the principles and rules the Board of Directors has adopted to determine the compensation and benefits of any kind awarded to the executive directors, the terms and conditions relating to the participation of shareholders in general meetings and the internal control and risk management procedures established by the company.

This report is part of a process to describe work started, completed and planned by the Company; in no way is it intended to demonstrate that the Company has complete control over all of the risks it incurs.

This report refers back to the management report contained in the Company's reference document for the year ended March 31, 2011 as regards the publication of information referred to in Article L. 225-100-3 of the French Commercial Code, relating to the Company's capital structure and matters that could have an impact in the event of a public offering.

The main parties involved in preparing and drawing up the report are the Chairman and CEO, the members of the Board of Directors and of the committees, working in close collaboration with the administrative department in charge of its preparation.

In accordance with paragraph 10 of Article L. 225-37, the Board of Directors approved this report at its meeting of May 12, 2011.

It was also the subject of a report prepared by the statutory auditors, in accordance with Article L. 225-235 of the French Commercial Code, on internal control procedures relating to the preparation and processing of accounting and financial information and of a declaration regarding the preparation of other necessary information.

1. CORPORATE GOVERNANCE CODE

With regard to corporate governance, the company refers to the corporate governance code for listed companies, published by AFEP-MEDEF (French Private Companies Association -French Business Confederation) (consolidated code of December 2008 updated in April 2010 and available at www.code-afep-medef.fr) (the "AFEP-MEDEF Code").

In accordance with the provisions of Article L. 225-37 of the French Commercial Code, this report lists the provisions of the AFEP/MEDEF Code rejected by the Company and the reasons related thereto.

Moreover, the Board of Directors continues to reflect on the application and, if applicable, the adaptation of the rules of the AFEP-MEDEF Code which have not yet been implemented, by taking into account the specific characteristics of the Company.

2. COMPOSITION OF THE BOARD

The Board of Directors comprises six members, four of whom are also executive vice presidents and assist the Chief Executive Officer.

The composition of the Board of Directors is attached to this report as an appendix.

The by-laws of the Board of Directors set all the principles, which, without being set up according to strict rules, should guide the composition of the Board of Directors.

2.1 INDEPENDENT DIRECTOR

The Board of Directors comprises five members from the Guillemot family and one independent director as defined by the AFEP/MEDEF Code, namely an independent director who (i) must not have any relationship of any kind whatsoever with the Company, its group or the management that is such to compromise his or her judgment and (ii) must meet the following criteria:

- Not to be an employee or executive director of the Company, or an employee or director of its parent or a company that it consolidates, and not to have been in such a position for the previous five years,
- Not to be a executive director of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or a executive director of the Company (currently in office or having held such office going back five years) is a director,
- Not to be a customer, supplier, investment banker or commercial banker that is material for the Company or its group or for a significant part of whose business the Company or group accounts,
- Not to be related by close family ties to an executive director,
- Not to have been an auditor of the Company within the previous five years,
- Not to have been a director of the Company for more than twelve years.

The AFEP-MEDEF Code recommends that independent directors should make up at least a third of the board in companies controlled by a principal shareholder.

Given its nature, in particular the structure of its capital ownership with the Guillemot alliance as a long-standing principal shareholder, the Company does not feel an urgent need to appoint a second independent director to the board, especially given the highly active role played by the sole independent director. In this regard, the Company believes it is respecting the spirit of the Code.

However, the Board of Directors plans to broaden its reflections regarding the courses of action to be studied with a view to applying the principle of equal representation of women and men on the Board of Directors.

2.2 EQUAL REPRESENTATION OF WOMEN AND MEN ON THE BOARD OF DIRECTORS

To date, the Board of Directors has had no female representation; however, the principle of equal representation of women and men on the Board of Directors is one of the points dealt with in the evaluation of the Board of Directors and its committees, formalized by a questionnaire presented to the directors at the Board of Directors' meeting on March 14, 2011.

The Board of Directors intends to proceed according to the provisions of Act no. 2011-103 of January 27, 2011 which, in particular, provides that administrative boards comprised of men alone at the date on which the law came into force, should appoint a woman as a director as of the next general meeting called to deliberate on the appointment of members of the board.

2.3 DIRECTOR ELECTED BY EMPLOYEE SHAREHOLDERS

The Board does not include a director representing the employees, it being specified that the threshold of at least 3% of share capital held by the employees (as provided in Article L. 225-23 of the French Commercial Code) has not been reached to date.

2.4 NUMBER OF SHARES TO BE HELD BY THE DIRECTORS

Each director must own at least one share in the Company. The number of shares held by directors is variable as the Company currently believes that the number of shares held by the directors is not a corollary of their involvement in executing their duties.

2.5 DIRECTORS' TERM OF OFFICE

Following the recommendations of the AFEP-MEDEF Code, the General Meeting of July 10, 2009 resolved to amend Article 9 of the Company's Articles of Association and to reduce the term of office for directors from six years to four years, while introducing a system of staggered renewals to ensure a smooth transition and avoid an ad hoc replacement.

Consequently, by way of exception and for the sole purpose of the progressive implementation of this renewal method, it was decided to reduce the duration of the current terms of office – expiring at the annual General Meeting called to approve the Company financial statements for the financial year ended March 31, 2013 – in order to ensure that a regular renewal of the members of the Board of Directors takes place as follows:

- Renewal during the AGM approving the financial statements for the year ended March 31, 2012: Yves Guillemot, Gérard Guillemot and Marc Fiorentino.
- Renewal during the AGM approving the financial statements for the year ended March 31, 2013: Claude Guillemot, Michel Guillemot and Christian Guillemot.

Directors may not be over eighty years of age.

3. PREPARATION AND ORGANIZATION OF THE BOARD'S PROCEEDINGS

The preparation and organization of the Board come within the scope defined by the statutory and regulatory provisions applicable to corporations, the Company's Articles of Association and the provisions of the by-laws of the Board of Directors and the specialized committees set up within it, updated on March 14, 2011, mainly in order to complete and/or modify it following the latest regulatory developments, all in compliance with the French Commercial Code and the AFEP-MEDEF Code.

Shareholders may consult the by-laws at the business address or at the registered office.

Over and above the expertise and powers of the board, the by-laws provide the operational rules of the specialized committees set up within it, prescribes the principle of confidentiality for information known by members and that of the office of director in respect of rules of independence, ethics and integrity. Moreover, the by-laws stipulate the requirement that each of the directors inform the board in the event of real or potential conflict of interests in which he may be directly or indirectly involved.

It also mentions the applicable rules regarding transactions on Company shares, as defined in Article L. 621-18-2 of the Monetary and Financial Code and Article 222-14 of the AMF General Regulation (Financial Market Authority).

Finally, the by-laws provide the opportunity for directors to participate in the board's deliberations via videoconference or telecommunications which enable them to be identified and which guarantee their effective participation, under the conditions determined by the regulations in force. Directors who participate in the board's deliberations in this way are deemed to be present for quorum purposes, except for Board of Directors' meetings relating to the establishment of the annual accounts, consolidated financial statements and the management report.

The by-laws provide the operating rules for the permanent committees set up within the Board of Directors.

3.1 THE BOARD'S POWERS AND RESPONSIBILITIES

In accordance with the provisions of Article L. 225-35 of the French Commercial Code and the provisions of its by-laws, the Board of Directors lays down the Company's policies and ensures their implementation.

It meets as often as required by the Company's business, at the registered office or at any other place chosen by the chairman; no special form is required for meeting notices. As a collegial body, its decisions are binding on all its members.

In particular, the Board of Directors gives its opinion on all decisions relating to major strategic, economic, corporate, financial and technological policies of the Company and ensures their implementation by senior management.

Subject to the powers expressly bestowed on Shareholders' Meetings and within the limit of the corporate purpose, the Board of Directors may discuss any issue affecting the proper functioning of the Company. It also carries out the verifications and controls it deems appropriate.

Consequently, the Board of Directors:

- Sets the Group's targets and defines its strategy in line with its culture and values;
- Chooses the organizational arrangements for senior management (separation of the position of Chairman from that of Chief Executive Officer, or both these positions held by the same person);
- Implements, where it sees fit, the authorizations granted to it by the General Meeting;
- Examines and approves the financial statements;
- Monitors the quality of the information provided to shareholders and to the markets in the financial statements or when major transactions are carried out.

3.2 MAIN ISSUES ADDRESSED DURING THE FINANCIAL YEAR/PROCEEDINGS OF THE BOARD OF DIRECTORS

During the financial year, the Board of Directors mainly focused on:

- Examining and approving the interim and annual financial statements for the year ended March 31, 2010;
- Examining and finalizing the projected financial statements;
- Examining Ubisoft's strategic considerations;
- Examining related-party agreements in accordance with Article L. 225-38 of the French Commercial Code;
- Convening the AGM of July 2, 2010 and approving the reports and draft resolutions for consideration at this meeting;
- Implementing the authorizations granted by the Shareholders' Meeting, in particular as regards employee shareholding;
- Renewing the authorization granted to the Chief Executive Officer to provide deposits, endorsements and guarantees on behalf of the Company;
- Establishing corporate governance policies: Drawing up and implementing a self-evaluation questionnaire for the Board of Directors and its committees, updating the by-laws with the new legal and regulatory provisions;
 - Implementing the share repurchase program;
 - Reading the reports of its committees (the Strategy and Development Committee and the Compensation Committee).

In accordance with Article L. 823-17 of the French Commercial Code, the auditors were invited to attend the board meetings approving or examining the financial statements.

The Board of Directors met 10 times during the financial year 2010/2011, with an attendance rate of 68.33%.

3.3 INFORMATION TO DIRECTORS

The Chairman and CEO provides the directors with the information and documentation necessary for them to carry out their duties and to prepare meetings in accordance with Article L. 225-35 of the French Commercial Code.

Each director may independently obtain additional information from the CEO, who is at all times available to provide relevant information and explanations to the Board of Directors.

Directors are bound by a duty of confidentiality as regards confidential information that is provided as such by the Chairman of the Board of Directors.

3.4 ASSESSMENT OF THE WORK OF THE BOARD OF DIRECTORS

The by-laws provides for a formal assessment of the work of the Board of Directors every two years at least.

During its meeting of March 14, 2011, the Board of Directors drew up and approved a self-assessment questionnaire for the Board of Directors and its committees, given to each director to be completed and returned by all directors before the end of May 2011.

A self-assessment of the Board of Directors was carried out during FY 2008/2009, for which the summary of the individual appreciations revealed an overall satisfactory operation of the board.

3.5 BOARD COMMITTEES

Since November 19, 2007, the Board of Directors has been assisted by two specialized committees: the Strategy and Development Committee and the Compensation Committee.

Both these committees are comprised exclusively of directors. Committee members are appointed by the Board of Directors, which also designates each committee's chairman.

The responsibilities and specific operating procedures of each committee were specified by the board when they were established and were added to the by-laws.

3.5.1 STRATEGY AND DEVELOPMENT COMMITTEE

3.5.1.1 COMPOSITION

The committee has five members: Yves GUILLEMOT, Claude GUILLEMOT, Michel GUILLEMOT, Gérard GUILLEMOT and Christian GUILLEMOT. Yves GUILLEMOT is Chairman of the committee.

3.5.1.2 RESPONSIBILITIES

The Committee is responsible for examining and reflecting upon all decisions concerning the major strategic, economic, corporate, financial and technological policies of both the Company and the Group.

It may also be asked to study in detail and provide the board with an opinion on matters referred to it, concerning major investments, acquisitions or divestments and disposals.

3.5.1.3 WORK DURING FINANCIAL YEAR 2010/2011

The strategy and development committee met twice during the last financial year, mainly to discuss

the development of the technology market and the various forms of product distribution.

The attendance rate at both committee meetings was 100%.

3.5.2 COMPENSATION COMMITTEE

3.5.2.1 COMPOSITION

The committee has three members: Yves GUILLEMOT, Christian GUILLEMOT and Marc FIORENTINO. Yves GUILLEMOT is Chairman of the committee.

The AFEP/MEDEF corporate governance code states that the compensation committee should predominantly comprise independent directors, with no executive directors. The Company's compensation committee is made up of one independent director and two executive directors. The Board of Directors feels that, given the nature of the Company, in particular the structure of its capital ownership with the Guillemot family as a long-standing principal shareholder, and the current composition of its Board of Directors, the committee as it is best suits the Company's operating methods. Open, varied discussions between the independent director and the persons responsible for preparing the documentation (benchmarking, studies, etc.) used at committee meetings suggest that the interests of the Company's shareholders are well represented.

3.5.2.2 RESPONSIBILITIES

The compensation committee is responsible for examining the compensation and benefits enjoyed by directors and executive directors and for providing the board with comparisons and measurements on market practices, in particular:

- Examining and making recommendations as regards the compensation of executive directors, concerning both (i) the variable and fixed portions of said compensation, and (ii) any benefits in kind, stock subscription or purchase options received from any Group company, arrangements regarding their pensions and any other benefits of any kind; verifying application of the relevant rules;
- Making recommendations to the board as regards the rules for distributing the directors' fees and the individual payments to be made to the directors in this respect, taking account of the directors' attendance at board meetings;
- Making recommendations to the board as regards the overall amount of directors' fees proposed to the Company's General Meeting;
- Providing the board or directors with an opinion on the general policy for granting stock subscription and/or purchase options, which should be reasonable or appropriate, and on the option plan(s) established by the Group's senior management, advising the board of its recommendation as regards the allocation of subscription or purchase options by explaining the reasoning behind its choice as well as the consequences thereof; predetermining the frequency of such allocations;
- Examining any matter referred to it by the Chairman concerning the aforementioned issues and, where applicable, the proposals relating to employee shareholding.

3.5.2.3 WORK DURING THE FINANCIAL YEAR 2010/2011

The compensation committee met once during the last financial year, mainly to discuss the composition of Ubisoft teams as at September 2010, possibilities for the retention of key people and building up their loyalty in a tense market and practices as regards competitors.

The attendance rate was 100%.

3.5.3 AUDIT COMMITTEE

To date, the Company has not set up the audit committee recommended by the AFEP-MEDEF Code, largely owing to the difficulty in doing so given the recommended composition of such a committee. In accordance with the provisions of Article L. 823-19 of the French Commercial Code, introduced by Directive 2008-1278 of December 8, 2008 (having transposed into French law the eighth directive on statutory audits (Directive 2006/43/EC), the Company intends to establish an audit committee within the time frame shown in Article 21 of the directive, using the expiry of board members' terms in office as a benchmark.

4. POSSIBLE LIMITS PLACED ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER

The Board of Directors chose not to separate the position of Chairman of the Board of Directors from that of Chief Executive Officer. In a constantly changing and particularly competitive environment, this arrangement ensures the alignment of operating activities with the strategy, thus supporting and streamlining the decision-making process.

Yves GUILLEMOT holds the positions of Chairman and CEO without any limits on his powers other than those provided for under applicable legislation on the special powers of the Board of Directors or of the General Shareholders' Meeting.

At its meeting of June 6, 2010, the Board of Directors set out the scope of the Chief Executive Officer's powers as regards providing deposits, endorsements and guarantees by setting the overall authorized amount at €150 million for a legal duration of one year in accordance with Article R. 225-28 of the French Commercial Code.

5. RULES AND PRINCIPLES APPLIED BY THE BOARD OF DIRECTORS TO DETERMINE THE COMPENSATION AND BENEFITS OF ALL KINDS GRANTED TO EXECUTIVE DIRECTORS

Compensation granted to the Chief Executive Officer, and to the executive vice presidents, is set by the Board of Directors following a proposal by the compensation committee, which bases its judgment on comparative studies of large firms and/or companies operating in the same business sector.

In consideration – albeit very partial – of the responsibilities assumed and also the time spent in preparing board meetings and actively participating therein, the General Meeting of September 25, 2006 authorized the Company to pay directors' fees amounting to a maximum of €250,000 per annum.

At its meeting of December 5, 2006, the Board of Directors resolved to set the rules for allocating the directors' fees and to accordingly amend the by-laws. Moreover, the Board of Directors has resolved up to now to use only 72% of the overall allowance provided by the General Meeting.

Executive directors are not entitled to any indemnity or benefits payable in the event that they leave the Company.

Since 2009, the resolutions adopted by the General Shareholders' Meeting renewing the authorization of the Board of Directors to grant options to subscribe to and/or purchase shares stipulates on the one hand, that the number of options granted to executive directors may not represent more than 5% of the total number allocated by the board throughout the duration of the authorization and on the other hand, that the exercise of said options by executive directors must be tied in with performance conditions to be met which are set out by the Board of Directors.

Pursuant to the AFEP-MEDEF Code and the AMF recommendations of December 22, 2008, information on management compensation is provided in the tables contained in section 4.5 of the management report.

6. SHAREHOLDERS' ACCESS, ATTENDANCE AND VOTING AT GENERAL MEETINGS

All shareholders have the right to attend General Meetings under legally prescribed conditions. Information on access, attendance and voting at General Meetings appears in Articles 8 and 14 of the Company's Articles of Association, with details in section 3.2 of the management report. This

information is provided again in the notice of meeting that serves as a convening notice published by the Company before any General Meetings.

7. PUBLICATION OF THE CAPITAL STRUCTURE AND MATTERS LIKELY TO HAVE AN INFLUENCE IN THE EVENT OF A PUBLIC OFFERING

This report refers to section 3.2 of the management report the year ended March 31, 2011 as regards the publication of information referred to in Article L. 225-100-3 of the French Commercial Code, relating to the Company's capital structure and matters that could have an impact in the event of a public offering.

8. INTERNAL CONTROL PROCEDURES

The preparation of this report is based on the information and control methods reported by the various parties involved in internal control within Ubisoft and its subsidiaries, as well as the internal audit work performed at the request of the senior management.

8.1 INTERNAL CONTROL DEFINITION AND GOALS

Ubisoft has drawn up this report in accordance with the reference framework provided by the AMF (French Financial Markets Authority) published in January 2007, and revised in July 2010, and the principles of the application guide. The Group also uses this reference framework to fine-tune its internal control procedures.

Under this framework, internal control is defined as a system designed to ensure:

- ✓ Compliance with laws and regulations;
- ✓ Application of the instructions and policies fixed by senior management;
- ✓ That the Company's internal processes are functioning correctly, in particular, those involving the security of its assets;
- ✓ The reliability of the financial information published.

This system must also contribute to the control over its activities, the efficiency of its operations and efficient use of its resources, while enabling the Company to adequately take into account significant operational, financial or compliance risks. Therefore, the internal control system plays a key role in conducting and monitoring its activities.

Since 2007, in order to continuously assess the adequacy and effectiveness of its internal control system, Ubisoft introduced a proactive approach. Consequently, the internal control system will continue to adapt to the constraints and specificities of the Group and its subsidiaries, and to changes in its external environment.

Since 2010, a decision has been made to target more specifically the audits carried out in the Group's production studios (24 French companies and 26 foreign companies) and support-level companies (14 French companies). Audits are still carried out within distribution companies but are more comprehensive and less detailed.

However, the Group is aware that the internal control system cannot provide an absolute guarantee that the Company's objectives will be met and that all the potential risks it may face will be controlled.

8.2 COMPONENTS OF THE INTERNAL CONTROL SYSTEM

8.2.1 ORGANIZATION OF INTERNAL CONTROL AND OPERATING PROCEDURES

Since the internal audit department was closed in 2010, in the interests of proximity and effectiveness, and in order to strengthen team-working, the regional managers will be in charge of keeping this internal control process going and improving it from now on.

The internal control system relies on a solid foundation of autonomy and collaboration within the Group's teams, encouraging the alignment of goals, resources and the mechanisms deployed. It is based on the clear identification of goals and responsibilities, a human resources policy ensuring that resources and skill levels are sufficient, and that information systems and tools are adapted to each team and/or subsidiary.

Each subsidiary is responsible for implementing the relevant strategies to achieve these objectives, although the monitoring of the internal control system and risk management is highly centralized by the operational departments.

Organization

The key parties involved in the internal control system are as follows:

❖ **The Chairman and CEO of Ubisoft Entertainment SA:** He defines and directs Group strategy. He is responsible for establishing the procedures and mechanisms employed to ensure both the functioning and monitoring of the internal control system. He takes charge of the internal control system, more specifically as part of his duties as Chief Executive Officer with the Board of Directors and the assistance of the auditors.

❖ **The Board of Directors:** Its operations are described in chapter 3 of this report. It primarily defines the policies governing the Company's business activities and ensures their application. It strives in particular to examine the accounting and financial documents and to determine the risks in relation with the Company's internal control. It ensures the efficiency of the mechanisms and procedures applied as part of the internal control. To this end, it has access to all documents and reports required to perform this task. Each director may independently require additional information from Chairman and CEO, who is at all times available to provide relevant information and explanations to the Board of Directors.

❖ **The Group's managers and employees:** The major policies and goals are decided upon by senior management of each area in consultation with Group senior management and are passed on to the subsidiaries. Each subsidiary has its own senior management and management team and is responsible for implementing the strategies designed to ensure that these goals are achieved.

❖ **Operational management:** In collaboration with senior management, they are collectively involved in setting the key accounting, finance, legal, tax, IT and human resources policies, and supporting the subsidiaries with their implementation. Specific visits are made to the subsidiaries in order to carry out audits and training and to make recommendations so as to ensure that the internal control system is sufficient.

These procedures are presented in detail in the paragraph "Control activities".

❖ **The finance and accounting teams:** Present in all subsidiaries, they are responsible for performing analysis and control functions, including budgeting and the preparation of the financial statements.

Clear goals and responsibilities

The division of powers and responsibilities is clearly defined by the organization charts.

In order to enable the various operational teams to achieve their goals, temporary and permanent operational and banking authorizations are granted. These are frequently reviewed by the treasury department and updated to reflect any changes in roles and responsibilities. Senior management defines the rules for delegating power to subsidiaries.

Consequently, at an individual level, each major subsidiary has local internal control procedures (delegation of bank signing authority, verification of day-to-day transactions, segregation of duties between the signatory and the person preparing the payment in order to provide effective fraud prevention, etc.).

Similarly, budgetary goals are defined annually by senior management and monitored in each subsidiary by the accounting and finance teams. Management audit teams monitor business performance: At subsidiaries, these teams provide relevant costs analyses to operational managers so that they can reach suitable management decisions. This information is periodically reported in a standard format and is consolidated by head office teams, which analyze the differences between objectives and actual performance.

Human resources policy

HR policy is key to the internal control system and its effectiveness. HR teams at subsidiaries establish and implement the policy, programs and systems required to meet recruitment goals set at Group level, whilst ensuring the development of employees' skills and potential.

These teams also ensure compliance with local regulations and apply the Group's policies on improving collective and individual performance, through regular appraisals, growth plans, appropriate training, stock options or employee share subscription plans etc.

Appropriate systems and operating methods

Reporting to the information systems department, IT teams provide resources adapted to individual business activities. Together with operational and functional teams, they decide on the information systems required to produce information and to ensure that transactions are securely managed. The range of solutions used within the Group is varied and includes purchased software as well as tools developed in-house. These solutions will evolve to take into account growing needs in managing and analyzing information.

To meet an increasing need for flexibility, security specialists are now systematically involved in the ISD's research on structures and solutions. For example, these studies have led to the development and deployment of an anti-piracy system, multiplayer systems, applications and online games, which include higher security standards.

Similarly, each subsidiary and team strives to continuously improve processes and documentation, notably through the establishment of internal procedures suited to activities and organizational schemes. In particular, functional departments frequently review and update Group procedures at all levels to ensure uniform local application. These procedures are made available to the relevant teams through collaborative tools developed by the Group: mapping systems, wikis and other systems for the exchange of internal documents.

Procedures relating to the production of accounting and financial information are described in section 8.3 of this report.

8.2.2 INTERNAL PUBLICATION OF INFORMATION

To effectively communicate strategic goals and provide the resources needed by teams to fulfill their duties, the Company encourages ongoing information-sharing through numerous initiatives developing collaborative tools.

In addition to local briefings and an organized internal communications network, a portal accessible to all Group employees since 2007 has provided a permanent and up-to-date information portal on the Group, the market and its developments, and the many internal sites.

These frequently updated internal sites facilitate knowledge sharing and discussions in all business activities, for example:

- Operational: Workspaces for sharing and providing inter-site information on projects, developments, technologies, studies and analyses.
- IT: A shared database to retrieve functional and technical documentation on applications and projects led by IT departments.
- Security: Use of a forum that lists and details the security measures at the various sites, the “security catalog”, in order to improve knowledge sharing and standardize security levels across Ubisoft’s various offices.
- Accounting, finance and management control: A shared database, accessible to all relevant employees, providing procedures manuals, Group contacts and information on the financial reporting cycle.

The various departments regularly organize training and briefing sessions to ensure the dissemination of information. In light of past success, the Group will continue to invest in these collaborative tools.

8.2.3 RISK IDENTIFICATION AND MANAGEMENT

In the course of its business, the Group is exposed to a series of risks that could affect its performance and the achievement of its strategic and financial goals.

In order to implement mechanisms to manage its risks, mainly in the production and support companies, the Company has identified the risks through a proactive approach: upstream with management teams and downstream with the operational and functional teams.

The nature of the main risk factors and means of prevention or action are outlined in the chapter of the management report entitled “Risk factors”.

At the management’s request, these risks, for which the level of control is insufficient, or could be improved, can then be analyzed by the main roles of the system of control. Internal control procedures are then designed or reviewed in collaboration with operational teams to improve efficiency.

The procedures implemented represent an internal operating framework for the Company and are constantly changing so as to ultimately provide effective risk management tools, for use at all levels of the organization and, in particular, for analyzing IT and extra-financial risks.

8.2.4 CONTROL ACTIVITIES

In addition to the risk management system, the Group has many control processes at all levels of the Company. Functional departments at head office play a critical role by ensuring that subsidiaries’ initiatives comply with Group guidelines, and by providing support for risk management, especially when local teams lack sufficient expertise.

The centralized organization of these support functions enables consistent dissemination of the major policies and goals of the senior management:

- ❖ The management control department monitors the Company's performance, using operational monitoring based on monthly reports from all Group subsidiaries. It also coordinates meetings between senior management and the operational and finance departments at which the various reporting indicators are reviewed, the differences between actual performance and initial forecasts are analyzed, and the interim and annual forecasts can be fine-tuned on the basis of actual figures and market outlook as received from local and operational teams. The financial controllers monitor the whole financial reporting cycle and constantly query subsidiaries on their performance levels, earnings and business activity.
- ❖ The consolidation department draws up the Group's monthly consolidated accounts, centralizing all advice on their preparation and analysis. It publishes the accounting procedures applicable within the Group, particularly via the Group's accounting policies manual. It ensures compliance with applicable standards and regulations so as to provide a true picture of the Group's business activities and position.
- ❖ The treasury department arranges foreign-exchange derivative contracts and coordinates cash flow management at French and foreign subsidiaries, in particular by overseeing the dissemination of cash pooling solutions and cash flow forecasting. It checks the suitability and smooth interaction of exchange-rate and liquidity risk management policies, as well as the publication of financial information, and also manages off-balance sheet commitments (bank guarantees relating to purchase financing or L/Cs, comfort letters, share price guarantees, deposits, etc.). It centralizes and verifies the authorizations granted to a limited number of employees, who are exclusively authorized by senior management to handle certain financial transactions – subject to predefined thresholds and authorization procedures – and helps implement tools to ensure effective control (double signature procedure, secure payment mechanisms, frequently updated authorization and signature system, controlled IT access, etc.).
- ❖ Acquisitions are managed by the acquisitions department, which reports to the finance department, examines and assesses the strategic interest of the planned total or partial takeover of a company and submits the relevant proposal to senior management, which makes the final decision. No Group subsidiary can make this decision on its own.
- ❖ Legal departments, which are specialized in company law, contract law, litigation and intellectual property, assist and advise the subsidiaries on legal matters (acquisitions, contracts, leases, stock market regulations, corporate governance, etc.). They coordinate joint studies or those of interest for the Group, and support local entities on legislative issues so as to control risks in the various fields.
- ❖ The tax department assists and advises the Group's French and foreign companies with the analysis of the tax aspects of their projects. In coordination with the various internal departments, it ensures the Group's tax security by organizing risk prevention, identification and management. It implements the Group's transfer price policy and ensures that this is applied correctly.
- ❖ The information systems department is involved in selecting IT solutions, and ensures their technical and functional compatibility. One of its principal aims is integrating those solutions and, in particular, it oversees changes to the ERP applications (PeopleSoft – Oracle) deployed in many subsidiaries. It also regularly monitors IT projects and ensures that they are in line with the requirements identified by the functional teams and the budgets approved by management. As a result, medium-term project visibility has been introduced, with budgets set for a 2-year period, reviewed periodically to take into account the changes in the Company's priorities and constraints, especially for security matters. The security department is thus responsible for ensuring and organizing the protection of the information system, whether as concerns the security of the various applications, server architecture, the premises, etc.

8.2.5 ONGOING SUPERVISION OF THE INTERNAL CONTROL SYSTEM

To provide ongoing supervision of the internal control system and its operation, the Group has introduced a biannual process for monitoring subsidiaries and key controls, together with the financial

control teams. The responses to the self-evaluation questionnaires updated during the first quarter of the financial year 2010 served as a basis for work in 2010/2011.

Their goal is both to contribute to establishing and updating procedures and, above all, to help managers to pinpoint the fundamental issues regarding the effectiveness of the processes and controls in question. The introduction of an overall formalized approach to internal control thus allows:

- The quality of controls in subsidiaries to be understood, particularly by means of:
 - ✓ Evaluating the efficient utilization of resources (human, material or financial),
 - ✓ Justifying investments and expenditure,
 - ✓ Ensuring that activities carried out locally are in line with the strategy and guidelines of the Group
- Operational and financial practices to be improved by means of corrective and optimization initiatives to remedy shortcomings;
- Effective monitoring of compliance with these procedures and controls.

Financial year 2010/2011 was marked by more targeted and significant actions bearing on the heart of the Group's activity:

- ✓ Audit of procedures implemented in subsidiaries
- ✓ Support for subsidiaries by implementing tool training

The objective is to make sure of the correct application of recommendations and guidelines established during first half of the fiscal year 2010/2011 in line with the Group's constraints.

8.3 INTERNAL CONTROL OF THE PRODUCTION OF FINANCIAL AND ACCOUNTING INFORMATION

The internal control procedures relating to the production and processing of financial and accounting information are mainly implemented by the various accounting and finance departments.

8.3.1 FINANCIAL STATEMENT PRODUCTION AND CONSOLIDATION PROCESSES

The financial statements of each subsidiary are drawn up, under the responsibility of their manager, by the local accounting departments, which ensure compliance with local tax and regulatory constraints. These financial statements are subject to a limited review for the interim financial statements of the key subsidiaries and a complete audit carried out by the auditors for the majority of the subsidiaries for the year-end financial statements.

Reporting of accounting information, in standardized monthly reports, is carried out on the basis of a schedule established by the consolidation department and approved by the administration department. Each subsidiary must apply Group procedures for the recording of accounting data to monthly reporting, interim and annual financial statements and quarterly forecasts.

The reportings of subsidiaries are established according to the accounting policies of the Group, which are formalized in a Group policies manual given to all the subsidiaries.

The consolidation statements are subject to an audit or a limited review with regard to this accounting policies manual of the Group.

Since April 2008, reporting systems have allowed for information to be reported according to purpose and no longer purely according to type. Support for local teams, provided by the consolidation, IT and financial control teams has been put in place in order to ensure compliance with the new internal reporting formats.

The subsidiaries' accounting information is uploaded, reconciled and then consolidated in a central solution, HFM from Hyperion, under the responsibility of the consolidation department. This solution supports automatic verification and consistency checking of flows, the balance sheet, specific line items in the income statement, etc. It also allows fast, reliable data reporting and is designed to make the consolidated financial statements secure.

The Company has taken measures to shorten the process of producing the consolidated financial statements and make it more reliable. For example, the consolidation department has drawn up procedures, which are updated periodically, enabling subsidiaries to optimize understanding and effectiveness of the solutions, and to guarantee the standardization of published accounting and financial data:

- ❖ Drawing up a Group chart of accounts,
- ❖ Implementing automatic mapping between the corporate financial statements and the consolidated financial statements,
- ❖ Drawing up a user manual for the consolidation statement,
- ❖ Drawing up a consolidation manual,
- ❖ Drawing up an accounting policies manual.

The consolidation department also carries out ongoing monitoring so as to track and anticipate changes to the regulatory framework applicable to Group companies.

8.3.2 ORGANIZATION AND SECURITY OF INFORMATION SYSTEMS

With a view to continually improving its information system and in order to ensure the integrity of accounting and financial data, the Company continues to invest in standardized solutions and procedures, to meet the requirements and the constraints both of the local teams and of the Group.

More and more major subsidiaries are integrated in PeopleSoft – Oracle, for the accounting and management of operational flows (procurement, manufacturing, logistics, etc.). This centralized application, which uses a single database for all subsidiaries, allows the sharing of frameworks and transaction formats (product database, customer and supplier files, etc.). This ERP is installed in US production, support and distribution subsidiaries, and is being deployed in the EMEA distribution subsidiaries in order to meet the issues relating to growth of activity.

With a view to integrating and automating accounting and financial solutions, the Group continues to implement PeopleSoft - Oracle in the other foreign subsidiaries. The computerization of data exchange (interfaces between accounting systems and the consolidation system, daily integration of banking entries, automated payment issuing, etc.), has been proven to optimize and improve processing and guarantees greater reliability of accounting processes.

A test review of the IT environment as regards the features of PeopleSoft – Oracle was carried out at the start of March 2010 by KPMG. This task included access to applications and data, the management of changes and projects as well as the management of operations. Improvements have been made thanks to these analyses which give rise to a more general Group reflection and shall be put into place as of the next financial year.

The Hyperion consolidation and management forecasting applications are used by all Group companies, providing an exhaustive and standardized view of business activities and accounting and financial data. They help improve the effectiveness of information processing.

Similarly, special attention is paid to the security of IT data and processing. The IT Department is looking to continually improve control levels in order to guarantee:

- ✓ Network data security and scope for its recovery;
- ✓ The protection of online services from unauthorized access;
- ✓ The separation of networks' operational responsibilities from those relating to IT operations;
- ✓ The identification of users' responsibilities;
- ✓ The establishment of management procedures for remote equipment;
- ✓ The controls necessary to ensure the confidentiality, integrity and authenticity of data routed via public networks, and in order to protect online systems;
- ✓ The availability of online services and systems.

The most important systems are housed in dedicated specialist IT centers that comply with the security standards and needs of the Group. Security audits have been standardized for the vast majority of IT projects in order to significantly improve the security of applications. The IT Department has also worked towards distributing roles and responsibilities across the various security departments in order to clarify mandates, scope and ownership.

The IT teams are also focusing much of their efforts on documentation and training in order to guarantee the security, reliability, availability and relevance of accounting and financial information.

The Company has acquired a modeling tool with the specific objective of mapping the existing information system in accordance with a methodology set as standard for all users of the tool in order to allow for improved management of documentation and training.

8.3.3 ACCOUNTING AND FINANCIAL INFORMATION VALIDATION PROCEDURES

Ubisoft's accounting and financial information is produced by the administration department, under the supervision of the Chairman and CEO, with the Board of Directors responsible for final approval.

The consolidated financial statements are subject to a limited review as at September 30 and an audit as at March 31 by the Group's auditors. The administration department works with the statutory auditors to coordinate the timing and main accounting processes to allow for in the annual year-end process.

One-off assignments during the financial year such as pre-closing reviews prior to each closing date make it possible to forecast and examine specific accounting issues in advance. This systematic review allows for more orderly finalizing of accounts, as well as reducing the time needed to prepare the consolidated financial statements.

At international level, the audit of the accounts in certain subsidiaries is carried out by the KPMG network, co-auditor for the holding company. Their local representative does everything required of him in the respective country as regards statutory auditors. This organization contributes to the standardization of accounting processes.

The Group announces its sales on a quarterly basis and its earnings every six months.

The consolidation department also collects and verifies the accounting information to be included in the Group's financial releases when related to the consolidated financial statements.

8.3.4 EXTERNAL FINANCIAL INFORMATION MANAGEMENT PROCESS

The financial communications department distributes the financial information required for the Group's strategy to be understood to the shareholders, financial analysts and investors.

All financial and strategic releases are reviewed and approved by senior management. Financial information is published in strict compliance with market regulations and upholding the principle of equality of treatment of shareholders.

8.4 PROSPECTS

The Group intends to continue strengthening its internal control system on its production and support activities, by specifically focusing on increasing awareness among its teams and managers, systematically reviewing risks and developing effective solutions adapted to the teams' requirements.

APPENDIX

MEMBERSHIP OF THE BOARD OF DIRECTORS

Name Position in the Company	Date of birth	Date of taking office	Expiry at which AGM approving financial statements for FY ended	Number of shares at 03.31.11
Yves Guillemot Director Chief Executive Officer	07/21/60	02/28/88	03/31/12	836,608
Claude Guillemot Director Executive Vice President, Operations	10/30/56	02/28/88	03/31/13	725,244
Michel Guillemot Director Executive Vice President, Development, Strategy and Finance	01/15/59	02/28/88	03/31/13	499,984
G�rard Guillemot Director Executive Vice President, Publishing & Marketing	07/14/61	02/28/88	03/31/12	520,428
Christian Guillemot Director Executive Vice President, Administration	02/10/66	02/28/88	03/31/13	276,788
Marc Fiorentino Director	12/08/59	07/10/06	03/31/12	4

Ubisoft Entertainment
French Corporation (Société Anonyme) with a Board of Directors
with capital of €7,341,411.48
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