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Our operating results for the year to 31 March 2000 reflect the significant challenges that we have faced over the period, both as a company and as part of an industry that is in transition. Turnover for the year decreased from £226.3 million to £194.8 million, generating an operating loss of £26.8 million compared to an operating profit of £39.2 million in the prior year. As we announced on 24 March 2000, we completed the disposal of the majority of our holding in Opticom ASA immediately prior to the year end. This contributed significantly to the profit on disposal of investments (before tax) of £80.2 million and an overall profit on ordinary activities before tax of £49.3 million for the year.

The video games market is being adversely affected by the impending launch of a new generation of gaming platforms due in late calendar 2000 and during 2001. The hiatus in demand for games software which this transition is occasioning is expected to continue throughout our current financial year. Although this market environment will inevitably affect the profitability of the Group in the short term, the Directors are confident that the quality of the release schedule under development will continue to build the Group's strength and standing within an industry which is expected to show strong growth over the medium and longer term, and the underlying potential for profit generation.

Furthermore, the composition of the Group's release schedule for

the current fiscal year has significantly less reliance on the existing PlayStation platform than before as a result of increased releases for PC, Dreamcast, Game Boy Color and PlayStation 2 platforms.

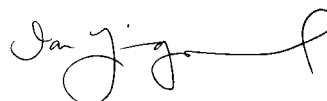
We experienced a softening in consumer demand in key markets during the period. Against this background, we have been satisfied with the individual performance of many of the nine new titles released in the fourth quarter. Titles bearing established brands such as Resident Evil 3, Resident Evil: Survivor and Final Fantasy VIII all enjoyed success in the retail charts, albeit at lower volumes than might previously have been expected. The title Fear Effect emerged as an original property with strong franchise potential, and the leveraging of existing properties such as Tomb Raider and Soul Reaver, onto new platforms was successfully achieved.

We continue to experience adverse general market trading conditions and we see no reason to expect circumstances to improve materially before the next generation of gaming platforms have been properly established in the market. Nevertheless, based on the profile of our current release schedule we believe that we are well placed to trade through the remainder of the market's transitional stage and to take full advantage of the considerable opportunities of the next generation hardware platforms.

Major releases for the forthcoming year are scheduled to include further titles from the

Tomb Raider, Soul Reaver and Championship Manager franchises and titles supported by major licenses such as the Olympics, 102 Dalmatians and "Who Wants To Be A Millionaire?". Sequels to Gangsters and Commandos and original titles such as Deus Ex, Hitman, Chicken Run and IGI are also scheduled for release. Looking to the next generation of hardware platforms we currently have ten PlayStation 2 titles in development and are working closely with Microsoft and Nintendo to support their new consoles for anticipated release in late 2001. PlayStation 2 is currently expected to be launched in North America and Europe on 26 October this year. We will debut on the platform with titles such as Eden from Core Design and Timesplitters from Free Radical Design.

We have made significant progress in addressing issues in our control that contributed to the decline in revenues and operating profits in the year. Moreover, we continue to review and strengthen our internal procedures and controls in order to ensure that the business remains fully able to meet the demands of our dynamic environment and to capitalise on our portfolio of new and established properties and licenses.



**Ian Livingstone**  
Chairman  
12 June 2000

Eidos has experienced a significant downturn in its underlying operating performance this year with net revenue for the year down from £226.3 million to £194.8 million and an operating loss of £26.8 million compared to a profit of £39.2 million last year. However, a profit on the disposal of investments of £80.2 million, mainly from the sale of part of Eidos' investment in Norwegian technology company, Opticom ASA, has meant that the overall profit for the year was £25.2 million compared to £24.3 million last year.

#### Significant events during the year

In July 1999 Eidos acquired an effective holding of 25% in the Spanish software developer, Pyro Studios SL, creators of the successful Commandos franchise. In addition, Eidos acquired 75% of the related software distributor, Proein SA. Due to the provisions for joint control within the sale and purchase agreements, both acquisitions have been accounted for as joint ventures in accordance with Financial Reporting Standard No.9. This has had an impact on the presentation of the profit and loss account and balance sheet this year – Eidos' share of the joint ventures' results for the period since acquisition and net assets at 31 March 2000 are shown separately on the face of the primary statements.

In January 2000, the shareholders approved a five for one share split. This has had the effect of reducing all earnings per share measures by a fifth. All comparative numbers have been restated for consistency. All references to shares, share prices and earnings per share in these accounts relate to the new ordinary shares (with a nominal value of 2p as opposed to 10p).

#### Revenue

Twenty four (1999: nineteen) new titles were launched in the year, including Tomb Raider: The Last Revelation, Legacy of Kain: Soul Reaver, Resident Evil 3, Fighting Force 2, Fear Effect and Championship Manager 3 Season 1999-2000. Nine titles (including catalogue) managed to achieve sales in excess of 350,000 units. This year also saw the release of a number of titles on the new platforms, Sega Dreamcast and Nintendo Gameboy Color. In particular, titles from three of

Eidos' key franchises (Tomb Raider, Fighting Force and Soul Reaver) were released on Dreamcast, each selling over 200,000 units.

Even though net revenue has decreased this year by 14%, the volume of units actually shipped increased 5% to 17.5 million. The reduction in revenue is due to a combination of the decreased average selling price (down to £13.94 from £14.61 last year) and additional reserves taken towards the end of the year for projected returns and price reductions. Eidos continues to derive the majority of its revenue (97.6%) from the games business. The balance of the Group's revenue comes from its video post production editing, video technologies, internet publishing and new media businesses. The downturn in demand (and consequent increase in provisions against revenue) was most noticeable in Continental Europe with sales to France and Germany decreasing by 36% and 48% respectively compared to last year. Similarly sales to the US decreased by 19%. Sales within the domestic market have actually grown by 10% and sales to the Rest of the World have remained largely static. Eidos publishes games for the Sony PlayStation, Sega Dreamcast, Nintendo Gameboy Color ("consoles") and PC CD. In addition revenue is generated from the exploitation of Eidos' intellectual property rights (for example, the sale of clue books and other merchandise) and sub-licensing games out onto other platforms, such as the Nintendo 64.

Approximately 71% of Eidos' games revenue was derived from console based games compared to 62% last year. The increase is partly due to the new platforms this year. The proportion will vary according to the games released. In 1999 a number of the most popular games Eidos released were only available on PC CD (including Championship Manager 3, Commandos and Final Fantasy VII), whereas in 2000 the most successful titles (Tomb Raider: The Last Revelation, Legacy of Kain: Soul Reaver, Resident Evil 3 and Fighting Force 2) were all available on console.

#### Operating results

After deducting operating expenses of £134.3 million Eidos reported an operating loss of £26.8 million. This includes a £13.4 million goodwill

amortisation charge. Excluding this charge operating loss was £13.4 million compared to a profit of £43.2 million in 1999.

Gross margin for the year was 54.9% compared to 63.9% last year. This large decrease is due to a number of factors: lower average selling prices, additional provisions against revenue and inventory and higher royalty costs (cost of sales includes royalties paid to developers in excess of development advances paid). A number of the games released this year were sub-licensed and carried relatively high royalty rates (rather than development costs). Royalty costs in the year were £18.7 million (9.6% of revenue) compared to £15.7 million (6.9% of revenue) last year.

Advertising costs for the year were £25.2 million (12.9% of revenue) compared to £20.7 million (9.2% of revenue) in 1999. The increase reflects the higher number of titles released and the need to market products more vigorously in a slowing market.

The fixed element of selling and marketing costs was £21.2 million (1999: £16.4 million) for the year ended 31 March 2000. The increase is a result of both the increased costs of promotional licences and additional headcount in new and existing offices.

Research and development spend represents the Company's investment in product development of £45.0 million for the full year (1999: £36.8 million). Also included in the category is pure research and development of £2.2 million (1999: £2.8 million) for the year to 31 March 2000. The product development charge for the year includes £19.7 million (1999: £20.7 million) invested in a pipeline of 32 titles which have yet to be released.

General and administrative costs excluding goodwill were £27.3 million or 14.0% of revenue (1999: £24.7 million, 10.9% of revenue) for the year ended 31 March 2000. In accordance with Financial Reporting Standard No.10, goodwill arising on the acquisitions of Crystal Dynamics, Proein and Pyro has been capitalised and is being amortised over three years. Total general and administrative costs including goodwill were £40.7 million or 20.9% of revenue (1999: £28.8 million, 12.7% of revenue).

The joint ventures in Spain

generated an operating profit of £0.5 million this year and contributed £0.3 million to the retained profit of the Group (before goodwill amortisation).

#### Taxation

The effective tax rate (excluding goodwill) for the full year is 38% compared to 33% last year. The tax due on the disposal of Opticom shares has been calculated at £24.6 million. The losses within the Group have only generated a tax credit of £0.5 million. This is due to relatively high disallowable items and a prudent view being taken on the potential realisation of tax losses. In general, Eidos expects to have an overall rate in excess of standard UK rates because of the high proportion of activities overseas which have tax rates higher than those of the UK. Most of the brought forward losses have now been used.

#### Earnings per share

Eidos reported profit after tax of £25.2 million for the year ended 31 March 2000 compared to £24.3 million for the corresponding period last year. The basic earnings per share was 25.9p compared to 28.3p last year based on a weighted average number of shares of 97,221,713 (1999: 85,689,145). The diluted earnings per share was 23.8p (1999: 25.0p).

#### Liquidity and capital resources

At 31 March 2000 Eidos had net assets of £126.4 million compared to £66.5 million at the start of the year. The increase is largely due to the retained profits for the year (£25.2 million), the conversion of the convertible bond (£31.2 million) and the exercise of employees' share options (£4.0 million). Net assets include goodwill of £28.3 million (1999: £25.9 million), tangible fixed assets and investments of £45.9 million (1999: £17.8 million), net current assets of £52.2 million (1999: £53.6 million) and other long term creditors of £0.1 million (1999: £30.8 million). The significant changes in the year were the conversion of the US\$50 million convertible bond and a \$55 million investment in a US internet company, Express.com (formerly Maximum Holdings, Inc.). The cash generated from the sale of Opticom of £91.5 million has not been applied to the loans and overdrafts since these were not settled until just after the year end. Net funds increased by £5.9 million

during the year. This mainly reflects the net cash outflow in the year of £25.0 million (1999: net inflow of £5.3 million) offset by the conversion of the bond. Operating activities utilised £28.5 million, as might be expected given the overall operating loss. The £91.5 million cash generated from the sale of Opticom was offset by the £16.8 million tax paid in the year and the acquisitions of the shares in Proein, Pyro and Maximum Holdings (£53.5 million). The second and final instalment of the consideration payable for Crystal Dynamics of £14.3m was paid on 1 April 1999 and consequently is reflected in the current cash flow. As mentioned earlier a number of employee share option schemes vested during the year and £4.0 million was generated from the exercise of these options.

#### Year 2000

Since 1997 Eidos has undertaken a compliance project designed to assess the potential IT problems associated with the Year 2000, including a third party compliance programme. As a result, at the beginning of January 2000 the Group did not experience any material disruption to its business, nor did any of its suppliers experience any disruptions which materially affected Eidos. The direct costs of the Group's Year 2000 compliance project have been indistinguishable from normal costs incurred by Eidos in regular maintenance and upgrading of all computer hardware and software. Eidos does not expect to incur any additional material costs related to Year 2000 however the directors remain aware that possible problems associated with the Year 2000 may still occur and controls remain in place to continue to monitor such risks.

#### The Euro

The Euro was launched on January 1, 1999 and now runs in parallel with the French Franc, German Mark and other participating currencies until the local currencies are phased out by January 1, 2001. The financial information systems used in the European offices are all capable of operating in multiple currencies including the Euro. There have been negligible external costs relating to the introduction of the Euro to date (less than £10,000). It is anticipated that once the Euro is implemented fully there will be some costs involved in

changing to the new currency (for example, staff training and minor software and hardware changes). These are not expected to be material.

The Company has established a task force comprising senior representatives from finance, operations, sales and marketing in France, Germany and the UK to consider the wider issues relating to the Euro and the Company's response. It will be difficult to establish a Europe-wide policy until the UK's position with regard to the Euro becomes clearer. One of the main issues for the Company is the possible erosion of margin resulting from changes in the retail price point (as existing price points are translated to the Euro then possibly rounded down by the retailer). At this stage it is not possible to predict the impact of this but Eidos will seek to maintain its margin wherever it can. In addition, price transparency may erode margins in certain countries; however, the fact that most games are translated to the local language should help to reduce "grey imports" and minimise this risk. Currently the offices in France and Germany remit Euros back to the Head Office in the UK. These receipts are translated to Sterling and where appropriate the currency risk is hedged in accordance with Company policies. Should the UK convert to the Euro this currency risk will be eliminated and the US dollar will become the only significant currency exposure.

#### Derivatives and other financial instruments

During the year the Group's financial instruments, other than derivatives, comprised a US\$ 6.25% convertible bond, bank loans and overdrafts, cash and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group also enters into derivative transactions (principally forward foreign currency contracts). The purpose of such transactions is to manage the currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the

Group's financial instruments are liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

#### Liquidity risk

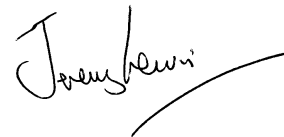
The Group raised US\$ 50 million by issuing a convertible bond in April 1997. At 1 April 1999, \$49.9 million of this was still outstanding. During the year the remaining bond was converted. At the time the proceeds of the bond were used to meet working capital requirements and finance acquisitions. Short-term flexibility is achieved by a varying bank overdraft facility. In the period up to Christmas the working capital demands of the Group increase significantly and the overall banking facilities increase accordingly. During the year a number of acquisitions were made for cash which increased the need for bank funding. The maximum facility utilised during the year was £110 million (this included a number of term loans which were settled in April 2000). On 9 June 2000 banking facilities were renewed for a further two years with a maximum draw down of £50 million available at times of anticipated peak demand and lower levels available at other times.

#### Foreign currency risk

The Group has overseas subsidiaries in France, Germany, USA, Singapore and Japan. At present the Group's Sterling profit and loss account can be significantly affected by movements in the US dollar and Euro. In the past, part of the Group's exposure to the US dollar was hedged by the convertible bond (with US dollar asset offset against the liability). Since this was converted during the year, Eidos has replaced this with forward contracts to sell US dollars. The contract held during the year matured on 31 March 2000 and was replaced with a contract to sell US\$50 million at \$1.60 on 31 March 2001.

The Group's policy is to hedge up to 50% of the cash which is expected to be repatriated to the UK from France and Germany. The Group only hedges up to three months ahead due to the uncertainty of cashflows beyond that time. This is achieved through forward currency options and contracts and currency swaps. At

31 March 2000 no Euro currency hedges were in place due to the relatively low levels of cash expected in the first quarter as a result of the seasonality of the business.



**Jeremy Lewis**  
Chief Financial Officer  
12 June 2000

The directors present their Annual Report, together with the audited financial statements for the year ended 31 March 2000.

**Principal activities, review of the business**

The Group's principal activity is the development and publishing of entertainment software. The Group also continues to be involved in the design, manufacture and sale of video editing software, post production video editing and new media technologies.

The consolidated profit and loss account for the year is set out on page 16.

A review of the Group's performance during the year, with comments on financial results, acquisitions, disposals and future developments, is contained in the Chairman's Statement and Operating and Financial Review on pages 3 to 5.

**Dividends**

No dividends have been declared during the year. Group policy is to continue to reinvest earnings to finance growth.

**Group research and development**

The Group is committed to research and development activities in order to secure its position as a market leader in the sectors of video technology and computer games development.

The expenditure for the year is shown on the face of the profit and loss account.

**Directors**

The directors of the Group and brief biographical details are given on page 8.

The interests of the directors in the shares of the Company at 12 June 2000, 31 March 2000 and 31 March 1999 are disclosed in the Directors' Remuneration Report on pages 9 to 11.

**Creditor payment policy**

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers, the Group's policy is to:

- (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- (b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Wherever possible UK subsidiaries follow the same policy and overseas subsidiaries adopt similar policies, by applying local best practices.

The Group's average creditor payment period during the year was 46 days.

**Substantial shareholdings**

The directors have been advised of the following shareholder holding 3 per cent or more of the issued share capital as at 12 June 2000. Apart from this, the directors are not aware of any individual interest (excluding combined nominee accounts), or group of interests, held by persons acting together which exceeds 3 per cent of the issued share capital at 12 June 2000.

	Ordinary shares of 2p each	Percentage
Unidynamik Fonds Europa	4,627,170	4.4%

**Employees**

The Group's policy is to consult and discuss with employees matters likely to affect their interests.

Information on matters of concern to employees is given through the Intranet, information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Arrangements are made, where possible, for retraining employees who become disabled.

During 1999 the Company introduced an Inland Revenue approved SAYE Share Scheme ("Sharesave Scheme") for its UK employees.

Similar schemes were rolled out during 2000 for employees in France and Germany. An equivalent stock purchase scheme has existed for US employees for a number of years.

### Employee Incentives

At the Annual General Meeting in 1998, shareholders approved and adopted the Eidos Sharesave Scheme. At the Annual General Meeting in 1999 the shareholders approved the extension of this scheme to employees in France and Germany. These schemes have proved very popular with approximately 45% take up by eligible employees.

In this year's Budget it was announced that Sharesave schemes might be phased out within the next couple of years. In its place, the Government is introducing a new scheme, the All-Employee Share Option Scheme.

The new scheme is an Inland Revenue approved scheme offering tax-advantageous acquisition of shares by employees.

Shares can be acquired under the new scheme in various different ways, such as buying "partnership shares" by monthly deductions from salary, or obtaining "matching shares" for each acquisition of partnership shares. At present the Board intends to utilise the facility under the new scheme to give up to £3,000 worth of "free shares" a year to employees. Free shares can be awarded based on performance targets.

In order to operate the new scheme, a UK resident trust must be established. The trust buys or subscribes for shares which are later awarded to employees. Contributions to the trust by the Company implementing the new scheme are tax deductible.

Employees who keep their shares in the new scheme for five years or more after the date of award should not be charged income tax or National Insurance contributions on those shares. Employees who take their shares out of the new scheme between the third and fifth anniversaries of the date of award will pay income tax and National Insurance contributions on the initial value of the shares. Any increase in the value of the shares while they are in the new scheme will be free of income tax and National Insurance charges.

Deductions for corporation tax purposes can be claimed for the

costs of setting up and running the new scheme and employees can lose their rights to shares if they leave within three years of an award.

All employees must be eligible to participate, although a minimum qualifying period of employment can be required (that period must not exceed twelve months).

The Board is keen to ensure that Eidos' employees are incentivised at competitive levels. Implementing schemes such as the All-Employee Share Option Scheme, particularly where employees can obtain tax advantages, is an effective way of doing so.

At the forthcoming Annual General Meeting shareholders will be asked to authorise the Board to, implement such a scheme at its discretion, either to supplement the existing Eidos Sharesave Scheme or to replace it in the event that such schemes are abolished.

### Charitable and political donations

Charitable donations made by the Group during the year totalled £30,000 (1999 - £86,000).

No political contributions were made by the Group during the year.

### Shareholder Information on the Internet

Computershare Services PLC, the Company's Registrar, has introduced a facility where shareholders in Eidos plc are able to access details of their shareholding over the Internet subject to passing of an identity check.

You can access this service on their Website at – <http://www.computershare.com>. The site also includes information on recent trends in Eidos' share price.

### Auditor

A resolution to reappoint KPMG Audit Plc as auditor will be proposed at the Annual General Meeting.

### Annual General Meeting

Enclosed with this Annual Report and Accounts is a Notice of the Annual General Meeting to be held

at 10.30 a.m. on 14 September 2000 at the Company's registered office. In addition to the Ordinary Business to be considered at that meeting there will be the following items of Special Business.

- (a) A resolution will be proposed to give the directors authority to allot shares up to an aggregate nominal value of £690,176 (being one third of the Company's present issued share capital), to proceed with a rights issue and/or to allot shares for cash up to an aggregate nominal value of £103,526 (being 5 per cent. of the Company's present issued share capital) without having to first offer them to existing shareholders proportionally to their existing shareholdings. The resolution provides the directors with the flexibility to act in the best interests of the shareholders when opportunities arise.
- (b) A resolution will be proposed to approve the implementation of the All-Employee Share Option Scheme as set out above.

By order of the board



**C Eastwood**  
Company Secretary  
12 June 2000

**Executive directors**

**Ian Livingstone** has served as Chairman of the Board since October 1995. Prior to that he was Managing Director of the Domark Group. Since 1982, he has authored and co-authored the "Fighting Fantasy" series of interactive game books, which have sold in excess of 14 million copies worldwide. In 1975, he co-founded Games Workshop Limited, a role-playing game company, where he served as Joint Managing Director and subsequently Chairman of the Board until 1991.

**Charles Cornwall** has served as Chief Executive Officer since October 1995 and as a director since May 1993. Prior to that he was involved in the consolidation of and investment in a number of gold mining companies in South Africa, including Rand Leases Limited, Durban Deep Limited and Rand Gold & Exploration Limited. From 1989 to 1992, he worked for Chartered WestLB (predecessor to West Merchant Bank), an Anglo-German merchant bank, in London, where he was involved in mergers and acquisitions and corporate finance, consulting for a broad range of public and private clients.

**Michael McGarvey** has served as Chief Operating Officer of the Company and as a director of the Company since October 1997. Prior to that he was Chief Executive Officer of Eidos Interactive, Inc. He joined Domark Software, Inc in February 1994 and was Director of Sales then Vice President of Sales and Marketing. From May 1990 to February 1994, he served as Director of Sales for Diceon Electronics, a manufacturer of printed circuit boards.

**Jeremy Lewis** has served as Chief Financial Officer of the Company and as a director since October 1998. Prior to that he worked for Robert Fleming & Co. Limited as a Director of Corporate Finance in the Investment Banking Division, working both in London and Frankfurt. From July 1989 to August 1994, Mr. Lewis served with West Merchant Bank, responsible for European mergers and acquisitions. Mr. Lewis qualified as a Chartered Accountant with KPMG Peat Marwick McLintock.

**Jeremy Heath-Smith** has served as World-wide Head of Development since January 2000 and as a director of the Company since April 1996. Prior to that he was a Board Director of CentreGold plc and Managing Director of U.S. Gold Limited. In July 1988, he founded Core Design Limited, an interactive software developer and publisher that was acquired by CentreGold plc in 1994, where he continues to serve as Managing Director.

**Simon Protheroe** has served as Technical Director of the Company and as a director since June 1994. He joined the Company as a full-time employee in December 1993. From October 1986 to November 1993, he conducted postgraduate studies and subsequent research in the field of image processing at King's College, London. He has published works in the fields of image sequence analysis, machine vision and neural networks and has developed software for the Joint European Torus and the Defence Research Agency.

**Non-executive directors**

**Victor Steel** has served as a Non-executive Director of the Company since September 1998 and currently holds two other non-executive directorships, NAAFI and Forbidden Technologies. Mr. Steel also has a number of entrepreneurial interests. Previous appointments include directorships at Mansfield Brewery, European Leisure, Kingfisher Plc, Guinness Plc, Beecham Group Plc and Consumers Distributing, Inc (Canada). A fellow of the Institute of Marketing, he has wide experience of international business.

**Allen Thomas** a lawyer qualified in England and America, has served as a Non-Executive Director of the Company since September 1998. Mr. Thomas currently also serves as Chairman of Ockham Holdings Plc, a director of Penna Holding Plc and as Chairman of Bright Station Plc. Mr. Thomas served as a partner at international law firm Paul, Weiss, Rifkind, Wharton & Garrison from 1973 to 1992, and the founding partner of the firm's Hong Kong office. During his time in practice he was involved in the financial rescue of New York City as General Counsel to the Municipal Assistance Corporation.

**Secretary and registered office**

Mrs C Eastwood  
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**Registrars**

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**Registered number**

2501949

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EC2R 8PB

**Registered auditor**

KPMG Audit Plc  
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Gouldens  
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3000 El Camino Real  
Palo Alto  
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USA

### Membership and remit of the Remuneration Committee

The Remuneration Committee is responsible for all aspects of Directors' remuneration. It comprises the following non-executive directors:  
AL Thomas– Chairman of the Remuneration Committee  
VJ Steel

The remit of the Committee is to make proposals to the Board on the Company's policy for executive remuneration and to determine on the Board's behalf the entire remuneration package for the Executive Directors. In setting the policy, the Committee considers a number of factors including:

- (a) the basic salaries and benefits available to executive directors at comparable companies;
- (b) the need to attract and retain directors of an appropriate calibre; and
- (c) the need to ensure executive directors' commitment to the continued success of the company by means of incentive schemes.

### Remuneration of non-executive directors

The non-executive directors receive a fee for their services, which was agreed by the Board on their appointment and is reviewed annually. No other remuneration or benefits are paid.

### Remuneration policy for executive directors

The objective of the Group's remuneration policy for executive directors is to:

- (a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality;
- (b) link individual remuneration packages to the Group's long term performance through the award of share options;
- (c) provide employment related benefits including the provision of a company car where appropriate and private medical insurance; and
- (d) provide post retirement benefits through the Group's pension schemes.

### Salaries and benefits

The basic salary of executive directors is determined by the Remuneration Committee. Basic salaries are reviewed annually or when a change of responsibility occurs. Benefits in kind include the provision of a company car, medical insurance, life assurance and relocation allowances.

### Directors' bonuses

Mr Heath-Smith is the managing director of Core Design Limited, the subsidiary which is responsible for two of Eidos' key franchises: Tomb Raider and Fighting Force. In addition it has a number of key new titles currently in development. Mr Heath-Smith's bonus is linked to the results of Core Design rather than the results of the Group as a whole. The bonus of £4,000,000 Mr Heath-Smith received in the year reflects the huge contribution Core Design and its products have made to the results of the Group.

The remaining directors are eligible to receive discretionary bonuses. These are based on the Group's overall performance and their existing salary levels. The total remuneration packages are believed to be in line with the remuneration of executive directors at comparable companies.

The Remuneration Committee is currently reviewing the basis of calculation of the bonuses, performance criteria and the timing of payments. During the current financial year, Mr Cornwall received £800,000, Mr Livingstone received £200,000, Mr McGarvey received £500,000, Mr Lewis received £75,000 and Mr Protheroe received £50,000.

### Share options

No share options were granted to directors during the year.

### Pension arrangements

Effective 1 January 1997 the Company has operated a Group Private Pension Plan. All the executive directors are entitled to join the plan. Contributions by the Company are summarised in the table on the next page. J. Heath-Smith is a member of the Core Design Pension Scheme. Both schemes are defined contribution schemes. Contribution levels are based on fixed percentages of basic salary excluding any bonuses or benefits.

### Service contracts

The executive directors have service contracts terminable by not less than six months notice by either party except for JMJ Lewis and MP McGarvey where the service contract is terminable by not less than twelve months notice by either party. Service contracts do not contain specific provisions for compensation for early termination. The non-executive directors do not have service contracts but each has a letter of appointment, the terms of which are reviewed on an annual basis by the Board.

**Directors' detailed remuneration**

Details of individual directors' emoluments for the period are as follows:

	Year ended 31 March 2000					1999
	Salary & fees £	Bonus £	Benefits £	Pension Contributions £	Total £	Total £
<b>Executive</b>						
I Livingstone	240,000	200,000	25,450	22,650	488,100	416,282
CHD Cornwall	535,000	800,000	59,686	20,000	1,414,686	1,124,783
MP McGarvey	270,000	500,000	78,094	15,855	863,949	585,914
J Heath-Smith	215,000	4,000,000	33,265	25,950	4,274,215	3,946,845
JMJ Lewis	160,000	75,000	24,610	18,119	277,729	324,334
SR Protheroe	75,000	50,000	13,095	8,100	146,195	70,783
VJ Steel	36,875	-	-	-	36,875	22,292
AL Thomas	36,875	-	-	-	36,875	16,042
SB Streater (resigned 10 June 1999)	16,584	-	2,602	2,520	21,706	108,149
	<u>1,585,334</u>	<u>5,625,000</u>	<u>236,802</u>	<u>113,194</u>	<u>7,560,330</u>	<u>6,615,424</u>

**Directors, their interests and options**

The interests of the directors in the shares and options of the Company at 31 March 2000 were as follows.

**Interest in shares**

	Number of shares		
	12 June 2000	31 March 2000	31 March 1999
I Livingstone	2,681,915	2,681,915	2,681,915
CHD Cornwall	2,852,905	2,852,905	2,852,905
MP McGarvey	25,435	25,435	-
J Heath-Smith	728,534	728,534	703,855
JMJ Lewis	3,370	3,370	3,370
SB Streater (resigned 10 June 1999)	N/A	N/A	395,350

Apart from the interests disclosed above no directors were interested at any time in the period in the share capital of the Company or other Group companies.

All of the above holdings are beneficially owned except for those of Mr Cornwall. At 31 March 2000 and 12 June 2000 Khelben Industries Limited was the beneficial owner of 2,427,905 shares and Castledown Holdings Limited 425,000 shares. These companies are controlled by a discretionary settlement of which Mr Cornwall is a potential beneficiary.

**Interests in share options**

Details of options held by directors are set out below:

	1 April 1999	Exercised in period	31 March 2000	Exercise price (pence)	Date from which exercisable	Expiry date
I Livingstone	221,065	-	221,065	158.40	03/04/99	01/04/03
	18,935	-	18,935	158.40	03/04/99	01/04/06
	282,880*	-	282,880	135.00	-	-
CHD Cornwall	93,500	(93,500)	-	68.67	-	-
	163,500	(163,500)	-	70.00	-	-
	175,000	(118,000)	57,000	158.40	03/04/99	01/04/03
MP McGarvey	1,075,000	-	1,075,000	117.00	14/10/01	13/10/05
	27,300	(27,300)	-	23.00	-	-
	18,935	(18,935)	-	163.10	-	-
	78,245	(78,245)	-	163.10	-	-
	125,520	-	125,520	171.50	16/10/00	14/10/04
J Heath-Smith**	1,000,000	-	1,000,000	117.00	14/10/01	13/10/05
	180,870	-	180,870	156.80	25/04/99	24/04/03
	19,130	-	19,130	156.80	25/04/99	24/04/06
JMJ Lewis	746,810	-	746,810	156.67	11/09/01	10/09/05
	19,145	-	19,145	156.67	11/09/01	10/09/08
SR Protheroe	70,000	-	70,000	158.40	03/04/99	01/04/03
	50,000	-	50,000	68.67	21/07/97	19/07/04
	100,000	-	100,000	70.00	11/03/98	09/03/05

Neither of the non-executive directors have any options in the Company.

\* Effective holding shown. Mr Livingstone holds an option to purchase shares in Eidos Interactive Limited which upon exercise are exchangeable for shares in the Company. The exercise period is at the discretion of the Board of Directors.

\*\* Mr Heath-Smith is also contributing to a Sharesave Scheme which will become exercisable on 1 February 2002 with an estimated potential number of shares of 6,915 at a price of 140.0p.

The closing market price of shares in Eidos plc was 393.0p on 31 March 2000 and 394.0p on 12 June 2000. The highest closing price during the year was 1273.2p and the lowest was 347.5p.

The options exercised during the year were all exercised on 10 June 1999 when the market price was 410.0p.

All options give the holders the rights to acquire shares on a one for one basis.

Details of all option schemes are set out in note 17.

The Board has considered the Principles of Good Governance and Code of Best Practice contained within the Combined Code on Corporate Governance as incorporated into the Listing Rules. The Board believes it has complied throughout the year with the Code of Best Practice, except in relation to the balance between executive and non-executive directors, the composition of the Audit Committee and the identification of a senior independent director. Eidos still has only two non-executive directors although the identification of a suitable third non-executive is well underway. This will address the issues of non-executives making up less than one third of the Board and the Audit Committee only having two members. In addition, the Board will be able to address the issue of identifying a senior independent director as recommended by the Code.

In the light of the need to issue two trading updates in the year, the Board identified a number of weaknesses in the areas of management forecasting and the development process. In particular, the Company suffered greater than expected product delays and sales volumes and prices were significantly below expectations for certain titles. In common with other companies in the industry, Eidos was to a certain extent unprepared for the significant downturn in the market in the second half of the year. Following these announcements, improvements have been and continue to be made to high level controls of budgetary planning and reporting and the management of the development process. Additional resources are now being employed in the preparation of forecasts, their monitoring and analysis.

Since last year, management has also updated the Procedures and Operations Manual and adopted a Board and Executive Manual to further reinforce existing procedures and controls in the business.

**Board composition**

The Board comprises two non-executive directors and six

executive directors. Brief biographical details of the Board are given on page 8 of the Annual Report. Both non-executive directors are considered to be independent, however the Board acknowledge that this still represents less than the one third recommended by the Code. The identification of a suitable candidate as a third non-executive is now well underway. All directors are required to stand for re-election at least every three years.

All the members of the Board are equally responsible for the management and proper stewardship of the Group. The non-executive directors are independent of management and free from any business or other relationship with the Company or Group and are therefore able to bring independent judgement to issues brought before the Board. Both of the current non-executives were appointed at the same time and share responsibilities equally, consequently it is not considered appropriate to recognise either non-executive director as the senior independent director.

The Board is conscious of the need to keep up to date with the changing duties and responsibilities of a director of a listed company. An appropriate training programme for all new and existing Board members has been developed and it is anticipated that the first training session will take place shortly.

The Board has approved an agreed procedure for directors to take independent professional advice where necessary. In addition, the directors have direct access to the advice and services of the Company Secretary.

Operating and financial responsibility for subsidiary companies is delegated to the local management, although their performance is closely monitored by the full Board. This is discussed further below under "Internal Controls".

The Board has devolved responsibility in a number of areas to various sub-Committees:

**The Audit Committee**

This currently comprises Mr Steel (chairman) and Mr Thomas and meets regularly and at least once a quarter to review the quarterly results, the findings of the internal and external auditors, internal control systems and the Group's financial accounting procedures and policies.

**The Remuneration Committee**

This comprises Mr Thomas (chairman) and Mr Steel and is responsible for the remuneration of the executive directors. It advises the Board on the broad framework for executive remuneration and determines, on behalf of the Board, the individual remuneration packages. The policies they adopt along with details of the directors' remuneration and service contracts are included in the Directors' Remuneration Report on pages 9 to 11. The Committee has also received independent advice from external remuneration consultants. The Committee meets on an ad hoc basis.

**The Nomination Committee**

This comprises Mr Livingstone (chairman), Mr Thomas and Mr Steel and is responsible for recommending Board appointments. The Committee did not formally meet to make an appointment during the year but will, in future, interview all potential candidates for the Board and make recommendations. The Nomination Committee has instructed a search and selection agency to assist it in the identification of a suitable third non-executive director.

**The Publishing Committee**

The Publishing Committee comprises five executive members of the Board and senior members of development, sales and marketing. The full Committee meets on a quarterly basis to review all games currently in development and to consider new opportunities. Significant decisions continue to be reserved for the full Board, based on recommendations made by the Publishing Committee. Following the trading updates, the day to day management of the development process is now directly controlled

by two executive directors and the UK and US development heads. It is intended that this smaller committee, called the Development Committee, will work in conjunction with the Publishing Committee (and be delegated similar powers by the Board) but meet on a much more frequent basis and be better able to deal with emerging issues.

**Internal controls**

The Combined Code extends the existing requirement to review the effectiveness of internal financial controls to cover all controls, including financial, operational, compliance controls and risk management. Formal guidance on the review of all controls, "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance), was published in September 1999. The directors have taken advantage of the Listing Rules' transitional provisions and have continued to review and report upon internal financial controls only.

The directors are currently reviewing procedures in relation to the other internal controls and will review the effectiveness of these controls in the year ended 31 March 2001.

The directors have overall responsibility for maintaining an effective system of internal controls. The system of controls can provide only reasonable and not absolute assurance against material mis-statement or loss.

The full Board meets on a monthly basis throughout the year and a number of matters are specifically reserved for its approval. The Board is given all appropriate information in advance of the meetings. This ensures that the directors maintain control over significant strategic, financial and compliance matters.

The Group has an established organisational structure with clearly defined lines of authority, responsibility and accountability which is reviewed regularly. The Board has devolved to executive management the responsibility for the implementation and maintenance of a system of

internal financial controls. Individual operating units are required to review their systems of internal controls and report to the Board. In the light of the requirements of the Combined Code, this review and reporting process has been extended beyond internal financial controls to include all controls and risk management. Returns from the operating units are linked to the internal audit programme and the results reported to the Board (via the Audit Committee) include both local representations and internal audit findings.

The Group Internal Auditor reports directly to the Audit Committee and the Board on the overall control environment and specific control issues throughout the Group. The Board has reviewed the internal audit function and in the light of the size and complexity of the Group has increased the resources available.

Currently internal financial and operational controls are recorded in the Group Procedure and Operations Manual. This has been extended to include a Board and Executive Manual which reinforces existing procedures and controls. In addition it has formalised the functions and authority of the Executive Officers of the Board and its various committees in a single document.

The Group operates an annual planning and financial reporting process and prepares annual budgets together with frequent forecasts. In the light of the rapid changes in the market and products, measuring performance against an annual budget is not always appropriate and consequently rolling forecasts are always used as well. This gives a reliable measure of performance provided the information and assumptions used to generate the forecasts are up to date and appropriate. In addition, management need to have access to this information on a regular basis in order to control the business. The problems experienced during the year further emphasised the importance of this aspect of management control and the

Company is continually reviewing and working to improve the process. This includes improving the communication process and providing additional resources for the preparation of forecasts, their monitoring and analysis.

In addition, regular formal departmental and management meetings provide the means for communication of financial and operational measures throughout the Group. Detailed Group reporting instructions are issued to all Group financial controllers to ensure consistency of presentation and accounting policies.

#### Relations with shareholders

The executive directors meet regularly with institutional shareholders. The Annual General Meeting provides a forum for private shareholders to question the directors. Each shareholder receives the Annual Report, which contains the Chairman's Statement and Operating and Financial Review and the Interim Report. These reports, together with the quarterly financial and other corporate press releases are available on the Company's website: [www.Eidos.co.uk](http://www.Eidos.co.uk).

#### Going concern

The directors, having made appropriate enquiries, believe that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d) prepare financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Board



**C Eastwood**  
Company Secretary  
12 June 2000

We have audited the financial statements on pages 16 to 35.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report. As described on page 14, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 12 to 13 reflects the Company's compliance

with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's

circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc.*

**KPMG Audit Plc**  
**Chartered Accountants and**  
**Registered Auditor**

London  
12 June 2000

		Year ended 31 March	Year ended 31 March
		2000	1999
	Notes	£'000	£'000
Turnover: Group and share of joint ventures'		203,265	226,284
Less: share of joint ventures' turnover		<u>(8,464)</u>	<u>-</u>
<b>Turnover – continuing operations</b>	2	194,801	226,284
Costs of goods sold		<u>(87,908)</u>	<u>(81,628)</u>
<b>Gross profit</b>		<u>106,893</u>	<u>144,656</u>
Selling and marketing		(46,380)	(37,096)
Research and development		(47,173)	(39,619)
General and administrative			
Goodwill amortisation		(13,448)	(4,070)
Other		<u>(27,255)</u>	<u>(24,701)</u>
		<u>(40,703)</u>	<u>(28,771)</u>
Operating expenses		<u>(134,256)</u>	<u>(105,486)</u>
<b>Group operating (loss)/profit</b>		(27,363)	39,170
Share of operating profit of joint ventures		<u>532</u>	<u>-</u>
<b>Total operating (loss)/profit – continuing operations</b>		(26,831)	39,170
Profit on disposal of investments	11	<u>80,236</u>	<u>-</u>
<b>Profit on ordinary activities before interest and tax</b>		53,405	39,170
Net interest and similar charges	5	<u>(4,130)</u>	<u>(1,250)</u>
<b>Profit on ordinary activities before tax</b>	6	49,275	37,920
Tax on profit on ordinary activities	7	<u>(24,072)</u>	<u>(13,670)</u>
<b>Profit for the year</b>		<u>25,203</u>	<u>24,250</u>
Basic earnings per share	8	25.9p	28.3p
Diluted earnings per share	8	23.8p	25.0p

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

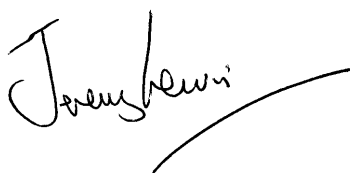
	Year ended 31 March	Year ended 31 March
	<b>2000</b>	<b>1999</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the year	<b>25,203</b>	<b>24,250</b>
Currency translation differences on foreign currency net investments		
Group	<b>(790)</b>	<b>(589)</b>
Joint ventures	<b>(244)</b>	<b>-</b>
	<b>(1,034)</b>	<b>(589)</b>
Total gains and losses recognised since last annual report	<b>24,169</b>	<b>23,661</b>

	Notes	Group		Company	
		31 March	31 March	31 March	31 March
		<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	9	28,305	25,939	-	-
Tangible assets	10	6,022	5,668	1,252	1,556
Investments	11				
Joint ventures (comprising share of gross assets £4.6 million less share of gross liabilities £2.8 million)		1,840	-	-	-
Other investments		38,081	12,164	44,503	18,956
		<u>39,921</u>	<u>12,164</u>	<u>44,503</u>	<u>18,956</u>
<b>Total fixed assets</b>		<u>74,248</u>	<u>43,771</u>	<u>45,755</u>	<u>20,512</u>
<b>Current assets</b>					
Stocks	12	13,286	5,666	-	-
Debtors	13	77,665	57,737	77,583	30,571
Cash at bank and in hand		103,449	48,220	91,505	21,861
		194,400	111,623	169,088	52,432
<b>Creditors: amounts falling due within one year</b>	14	<u>(142,176)</u>	<u>(58,049)</u>	<u>(118,620)</u>	<u>(17,127)</u>
<b>Net current assets</b>		<u>52,224</u>	<u>53,574</u>	<u>50,468</u>	<u>35,305</u>
<b>Total assets less current liabilities</b>		<u>126,472</u>	<u>97,345</u>	<u>96,223</u>	<u>55,817</u>
<b>Creditors: due after more than one year</b>	15	<u>(53)</u>	<u>(30,813)</u>	<u>-</u>	<u>(30,333)</u>
<b>Net assets</b>		<u>126,419</u>	<u>66,532</u>	<u>96,223</u>	<u>25,484</u>
<b>Capital and reserves</b>					
Called up share capital	17	2,071	1,728	2,071	1,728
Share premium account	18	85,034	50,165	85,034	50,165
Other reserves	18	707	707	167	167
Profit and loss account	18	38,607	13,932	8,951	(26,576)
<b>Equity shareholders' funds</b>	19	<u>126,419</u>	<u>66,532</u>	<u>96,223</u>	<u>25,484</u>

The financial statements were approved by the Board of directors on 12 June 2000 and were signed on its behalf by:



CHD Cornwall



JMJ Lewis

Directors

		Year ended 31 March <b>2000</b>	Year ended 31 March <b>1999</b>
	Notes	£'000	£'000
<b>Net cash (outflow)/inflow from operating activities</b>	20	<b>(28,467)</b>	30,068
<b>Returns on investment and servicing of finance</b>			
Interest received		1,090	1,773
Bank interest paid		(2,630)	(420)
Bond interest paid		(652)	(1,897)
Interest paid on finance leases		(44)	(211)
Other interest paid		(245)	-
		<b>(2,481)</b>	(755)
<b>Taxation</b>			
UK tax paid		(10,830)	(1,867)
Overseas tax paid		(5,965)	(4,618)
		<b>(16,795)</b>	(6,485)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(3,602)	(2,175)
Sale of tangible fixed assets		87	75
Purchase of other investments	11	(36,555)	(570)
Sale of other investments	11	91,505	-
		<b>51,435</b>	(2,670)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	14	(14,327)	(15,378)
Net cash acquired with subsidiary undertakings		-	459
Purchase of joint ventures	9	(17,945)	-
		<b>(32,272)</b>	(14,919)
<b>Net cash (outflow)/inflow before financing</b>		<b>(28,580)</b>	5,239
<b>Financing</b>			
Issue of ordinary share capital		3,964	833
Repayment of principal under finance leases		(370)	(761)
		<b>3,594</b>	72
<b>(Decrease)/increase in cash in the period</b>	21	<b>(24,986)</b>	5,311
<b>Reconciliation of net cash flow to movement in net funds</b>			
		£'000	£'000
(Decrease)/increase in cash in period		(24,986)	5,311
Cash outflow from repayment of finance leases		370	761
Change in net funds resulting from cash flows	19	(24,616)	6,072
Conversion of bonds		31,248	-
New finance leases		(56)	(60)
Exchange rate movements		(655)	(721)
Movement in net funds in the period		5,921	5,291
Net funds at 1 April 1999		16,711	11,420
Net funds at 31 March 2000	21	<b>22,632</b>	16,711

## 1 Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. These have been applied consistently throughout the year and the previous year.

The Group has implemented new financial reporting standards (FRSs) which are effective for the first time this year, being FRS 15 Tangible Fixed Assets and FRS 16 Current Tax. Neither of these has had a significant effect on the reported results and financial position for the current or prior year.

### Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings ("the Group"). The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-Group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary, are charged to the post acquisition profit and loss account.

### Associated and joint undertakings

Associated undertakings are undertakings in which the Group holds a long-term interest and over which it actually exercises significant influence. Joint ventures are undertakings which are jointly controlled with other entities or individuals. The Group's share of profits less losses from associated and joint undertakings is included in the consolidated profit and loss account on the equity accounting basis. The holding value of associated undertakings is based upon the Group's equity in the net assets of such undertakings, as shown by the most recent accounts available.

### Goodwill

Goodwill in respect of acquisitions represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired.

Goodwill arising prior to April 1998 has been written off immediately against reserves. Goodwill arising after April 1998 is capitalised and amortised in the profit and loss account over appropriate periods in accordance with FRS10.

A charge is recognised in the Group's profit and loss account in respect of any impairment in the value of goodwill. Goodwill written off directly to reserves and not previously charged to the Group's profit and loss account is included in determining the profit and loss of a subsidiary on disposal. Goodwill previously written off to reserves was not reinstated in the balance sheet when FRS10 was adopted. It has been offset against the merger reserve with the excess being offset against the profit and loss reserve.

Given the nature of the industry, the useful economic life of goodwill arising during the year was estimated to be three years and the intangible asset is being amortised over this period.

### Turnover

Turnover, which excludes sales between group companies and trade discounts, represents the invoiced amounts of goods sold, net of provisions for returns and value added tax.

### Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Provision is made for depreciation on all tangible fixed assets at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

- Leasehold improvements: over the life of the lease;
- Fixtures and fittings: 20% per annum straight line;
- Computer equipment: 33% per annum straight line;
- Motor vehicles: 25% per annum straight line.

### Research and development

All research and development expenditure is charged to the profit and loss account as incurred. This includes all software development expenditure on individual titles, advance royalties paid under publishing agreements to external developers and advance royalties paid under licensing arrangements.

### Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

### Licence fees

Licence fees payable to celebrities and professional sports organisations for use of their name over a number of years or for a range of products (a franchise), including sub-licence arrangements and fees payable through intermediaries, are charged to the profit and loss account as sales and marketing expenditure over the life of the licence. Licence fees are classified as current and non-current assets based on the remaining life of the licence. Management regularly reviews the carrying value of such licences and will accelerate the amortisation should circumstances require it.

### Deferred taxation

Provision is made for deferred taxation at the anticipated tax rate, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the near future.

### Foreign currencies

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. The results and cash flows of foreign subsidiaries are translated at the average rate of exchange for the year. Gains or losses on exchange arising from the retranslation of the opening net investment in subsidiary companies and from the translation of the results of those companies are taken to reserves and are reported in the statement of total recognised gains and losses. Exchange differences arising from the retranslation of long-term foreign currency borrowings used to finance foreign currency investments are also taken to reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

### Stocks

Stocks are valued at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs.

### Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset has been purchased outright. The assets are included in fixed assets

and the capital element of the leasing commitments is shown as obligations under finance leases. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

### Pensions

The Group operates various defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

### Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's accounts.

If an instrument ceases to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

### Convertible bond

The bond was initially stated at the amount of the net proceeds after deduction of issue costs. The issue costs were amortised over the life of the bond. Exchange gains or losses on the bond were taken to the profit and loss account. No gain or loss was recognised on conversion.

## 2 Segmental analysis

### Segmental analysis by class of business

Class of business	Turnover		Profit/(loss) before taxation		Net assets/(liabilities)	
	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 2000	Year ended 31 March 1999
	£'000	£'000	£'000	£'000	£'000	£'000
Computer software	190,363	222,775	49,897	38,702	128,794	68,285
Video editing	4,443	3,667	(622)	(782)	(2,375)	(1,753)
	<u>194,806</u>	<u>226,442</u>	<u>49,275</u>	<u>37,920</u>	<u>126,419</u>	<u>66,532</u>
Inter-segment	(5)	(158)				
	<u>194,801</u>	<u>226,284</u>				

### Segmental analysis by geographical area

Turnover – continuing activities	By destination		By origin	
	Year ended 31 March 2000	Year ended 31 March 1999	Year ended 31 March 2000	Year ended 31 March 1999
	£'000	£'000	£'000	£'000
United Kingdom	40,086	36,442	73,270	63,081
France	21,181	32,949	26,222	33,496
Germany	23,488	45,578	27,311	45,563
Rest of Europe	35,113	21,341	–	–
United States of America	63,719	78,476	65,598	82,185
Rest of World	11,214	11,498	2,400	1,959
	<u>194,801</u>	<u>226,284</u>	<u>194,801</u>	<u>226,284</u>
<b>Inter-segment sales (predominantly royalties)</b>				
United Kingdom			65,029	77,989
France			–	–
Germany			111	–
United States of America			10,270	4,604
Rest of World			1,027	19
			<u>76,437</u>	<u>82,612</u>

Turnover from the joint ventures originates from Spain and relates to computer software. In addition, turnover in the UK includes £3,856,000 sales to the joint ventures in Spain.

### Profit/(loss) before taxation

Geographical segment	Year ended 31 March 2000	Year ended 31 March 1999
	£'000	£'000
United Kingdom	(2,059)	29,425
France	(459)	4,097
Germany	(3,538)	5,858
Spain (joint ventures)	493	–
United States of America	(25,531)	(1,444)
Rest of World	133	(16)
	<u>(30,961)</u>	<u>37,920</u>
Profit on disposal of investments – United Kingdom	80,236	–
	<u>49,275</u>	<u>37,920</u>

<b>Net assets/(liabilities)</b>	31 March <b>1999</b>	31 March <b>1998</b>
	£'000	£'000
<b>Geographical segment</b>		
United Kingdom	157,102	71,164
France	2,401	3,318
Germany	(469)	3,297
Spain (joint ventures)	1,840	-
United States of America	(34,981)	(11,267)
Rest of World	526	20
	<b>126,419</b>	<b>66,532</b>

### 3 Directors' emoluments

Detailed disclosures of directors' individual remuneration and share options are given in the Directors' Remuneration Report on pages 9 to 11.

### 4 Employee information

The average weekly number of persons (including executive directors) employed by the Group during the year was:

	Year ended 31 March <b>2000</b>	Year ended 31 March <b>1999</b>
	<b>Number</b>	<b>Number</b>
Corporate	26	18
Computer entertainment software	485	458
Video editing, post production and new media	72	68
	<b>583</b>	<b>544</b>

Computer entertainment software staff numbers can be further analysed as follows:

	Year ended 31 March <b>2000</b>				Year ended 31 March <b>1999</b>			
	UK	US	Europe	Asia	UK	US	Europe	Asia
Sales, marketing and operations	69	30	63	4	69	23	44	3
Research and development	132	118	-	7	132	120	-	4
Administration	14	25	15	8	15	24	16	8
	<b>215</b>	<b>173</b>	<b>78</b>	<b>19</b>	<b>216</b>	<b>167</b>	<b>60</b>	<b>15</b>

	Year ended 31 March <b>2000</b>	Year ended 31 March <b>1999</b>
	£'000	£'000
<b>Staff costs</b>		
Wages and salaries	32,526	27,006
Social security costs	3,763	3,185
Pension costs (see note 25)	858	584
	<b>37,147</b>	<b>30,775</b>

## 5 Net interest and similar charges

	Year ended 31 March <b>2000</b>	Year ended 31 March <b>1999</b>
	£'000	£'000
<b>Interest payable</b>		
Group		
Bank loans and overdrafts	(3,868)	(665)
Convertible bond	(323)	(1,923)
Amortisation of costs relating to issue of convertible bond	(661)	(220)
Finance leases	(43)	(211)
Other interest	(297)	-
	<u>(5,192)</u>	<u>(3,019)</u>
Share of joint ventures'	(48)	-
	<u>(5,240)</u>	<u>(3,019)</u>
<b>Interest receivable</b>		
Group	1,100	1,769
Share of joint ventures'	10	-
	<u>1,110</u>	<u>1,769</u>
Net interest and similar charges	<u>(4,130)</u>	<u>(1,250)</u>

## 6 Profit on ordinary activities before taxation

	Year ended 31 March <b>2000</b>	Year ended 31 March <b>1999</b>
	£'000	£'000
<b>Profit on ordinary activities before taxation is stated after charging/(crediting):</b>		
Depreciation charge for the year:		
Owned tangible fixed assets	2,767	2,749
Tangible fixed assets held under finance leases	383	790
Amortisation of goodwill	13,448	4,070
Write off of goodwill	506	562
Auditors' remuneration:		
Audit (Company £75,000; 1999: £75,000)	255	205
Other fees paid to the auditors and their associates*	757	569
Operating leases – plant and machinery	606	439
Operating leases – other	2,133	1,269
Exchange differences	(476)	(581)
	<u>(476)</u>	<u>(581)</u>

\*In addition, fees of £354,000 (1999: £507,000) were paid to the current auditor and capitalised as acquisition costs.

Other fees paid to the auditors and their associates include tax compliance and advisory fees of £200,000, review of interim statements and quarterly US filings of £78,000 and other assistance and advice of £479,000.

### 7 Tax on profit on ordinary activities

	Year ended 31 March <b>2000</b>	Year ended 31 March <b>1999</b>
	<b>£'000</b>	<b>£'000</b>
UK Corporation tax at 30% (1999: 31%)	25,711	8,629
Overseas taxation	(1,918)	5,405
Deferred taxation	<u>628</u>	<u>339</u>
	24,421	14,373
Adjustments in respect of prior years		
Overseas taxation	(349)	(703)
	<u>24,072</u>	<u>13,670</u>
Of which:		
Arising on disposal of investments	24,586	-
Remaining Group taxation	(746)	13,670
Joint ventures taxation	<u>232</u>	<u>-</u>
	<u>24,072</u>	<u>13,670</u>

### 8 Earnings per share

The calculations of earnings per share are based on the following information:

Weighted average number of shares:

	<b>2000</b>	<b>1999</b>
	<b>Number of Shares</b>	<b>Number of Shares</b>
For basic earnings per share	97,221,713	85,689,145
Conversion of convertible bond	4,753,655	14,272,090
Exercise of share options	<u>4,842,924</u>	<u>2,214,045</u>
For diluted earnings per share	<u>106,818,292</u>	<u>102,175,280</u>

	Basic		Diluted	
	Year ended 31 March	Year ended 31 March	Year ended 31 March	Year ended 31 March
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Profit for the financial year	25,203	24,250	25,203	24,250
Interest saved on conversion of debt	-	-	226	1,327
Earnings	<u>25,203</u>	<u>24,250</u>	<u>25,429</u>	<u>25,577</u>
	pence per share	pence per share	pence per share	pence per share
Earnings	<u>25.9</u>	<u>28.3</u>	<u>23.8</u>	<u>25.0</u>

These numbers (including the comparatives) are all stated after the five for one share split which took place on 25 January 2000.

## 9 Intangible fixed assets

	Total £'000
<b>Goodwill</b>	
<b>Cost</b>	
At 1 April 1999	30,009
Additions	15,745
Exchange adjustments	69
<b>At 31 March 2000</b>	<b>45,823</b>
<b>Amortisation</b>	
At 1 April 1999	4,070
Charge for the year	13,448
<b>At 31 March 2000</b>	<b>17,518</b>
<b>Net book value</b>	
<b>At 31 March 2000</b>	<b>28,305</b>
At 31 March 1999	25,939

Additions during the year relate to the acquisition of Proein and Pyro which have been accounted for as joint ventures (see note 11). Goodwill has been calculated based on consideration, net of expenses, of £17,945,000 which was paid during the year and the fair value of the net assets acquired of £2,200,000.

Goodwill amortisation on Proein, Pyro and Crystal Dynamics (acquired in 1999) has been calculated based on the three year estimated useful economic life as detailed in note 1.

## 10 Tangible fixed assets

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
<b>Group</b>					
<b>Cost</b>					
At 1 April 1999	2,065	2,235	8,434	472	13,206
Additions	1,349	347	2,053	-	3,749
Disposals	(299)	(132)	(617)	(203)	(1,251)
<b>At 31 March 2000</b>	<b>3,115</b>	<b>2,450</b>	<b>9,870</b>	<b>269</b>	<b>15,704</b>
<b>Depreciation</b>					
At 1 April 1999	516	1,215	5,632	175	7,538
Charge for the period	379	526	2,130	115	3,150
Disposals	(299)	(108)	(471)	(128)	(1,006)
<b>At 31 March 2000</b>	<b>596</b>	<b>1,633</b>	<b>7,291</b>	<b>162</b>	<b>9,682</b>
<b>Net book value</b>					
<b>At 31 March 2000</b>	<b>2,519</b>	<b>817</b>	<b>2,579</b>	<b>107</b>	<b>6,022</b>
Net book value At 31 March 1999	1,549	1,020	2,802	297	5,668

The net book value of tangible fixed assets includes an amount of £146,000 (1999: £490,000) in respect of assets held under finance leases.

## 10 Tangible fixed assets (continued)

	Leasehold improvements	Fixtures and fittings	Computer equipment	Motor vehicles	Total
Company	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 April 1999	1,193	529	333	405	2,460
Additions	44	87	126	–	257
Disposals	–	–	–	(203)	(203)
<b>At 31 March 2000</b>	<b>1,237</b>	<b>616</b>	<b>459</b>	<b>202</b>	<b>2,514</b>
<b>Depreciation</b>					
At 1 April 1999	235	283	214	172	904
Charge for year	128	129	131	98	486
Disposals	–	–	–	(128)	(128)
<b>At 31 March 2000</b>	<b>363</b>	<b>412</b>	<b>345</b>	<b>142</b>	<b>1,262</b>
<b>Net book value</b>					
<b>At 31 March 2000</b>	<b>874</b>	<b>204</b>	<b>114</b>	<b>60</b>	<b>1,252</b>
Net book value At 31 March 1999	958	246	119	233	1,556

## 11 Fixed asset investments

Group	Joint ventures	Associated undertakings	Other Investments	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 April 1999	–	4	12,160	12,164
Additions	1,840	–	36,555	38,395
Disposals	–	–	(10,638)	(10,638)
<b>At 31 March 2000</b>	<b>1,840</b>	<b>4</b>	<b>38,077</b>	<b>39,921</b>
<b>Company</b>				
	Investments	Investment in Group undertakings	Associated undertakings	Total
	£'000	£'000	£'000	£'000
At 1 April 1999	12,085	1,696	5,175	18,956
Additions in the period	36,555	27	–	36,582
Disposals	(10,638)	–	(397)	(11,035)
<b>At 31 March 2000</b>	<b>38,002</b>	<b>1,723</b>	<b>4,778</b>	<b>44,503</b>

In March 2000 Eidos sold the majority of its holding in Opticom ASA ("Opticom") for £91.5 million excluding costs. Eidos now owns 336,052 shares in Opticom representing less than 5% of that company's share capital, valued at £38.2 million, based on the closing price on 31 March 2000. Opticom is a Norwegian based company listed on the Norwegian Stock Exchange and is a leader in the research and development of polymer based storage and processing devices and has significant interests in Internet technologies.

On 29 July 1999 Eidos acquired 75% of Proein SA, a Spanish distributor and an effective holding of 25% in the related games developer, Pyro Studios SL for \$28 million. Both acquisitions are being accounted for as joint ventures because of the joint control arrangements.

In addition Eidos acquired 19.96% of Maximum Holdings, Inc. an Internet company for \$55 million. Following the acquisition Maximum Holdings merged with another Internet company, DVD Express, Inc., and changed its name to Express.com. This diluted Eidos' holding down to 12.6%. Eidos is not able to exercise significant influence on the company and accordingly the investment is treated as a trade investment and held at cost. Management acknowledges that Express.com is operating in a volatile sector. It is actively considering certain strategic measures, including possible acquisitions or mergers, together with its current financing structure. Management will continue to monitor the carrying value of this investment closely.

## 11 Fixed asset investments (continued)

### Interests in Group undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary joint venture and associate undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the Group:

Subsidiary undertakings	Country of incorporation	Nature of business	Description of shares held	Other Group Companies %	Company %
Eidos Interactive Limited	England and Wales	Developer and Publisher of computer software	Ordinary £1 shares each and 'A' ordinary £0.05 shares each	–	100
Eidos Interactive Inc	USA	Developer and Publisher of computer software	Common stock \$0.001 par value	100	–
Crystal Dynamics Inc	USA	Developer of computer software	Common stock no par value	100	–
Core Design Limited	England and Wales	Developer of computer software	Ordinary £1 shares	100	–
Eidos Interactive France S.A.R.L	France	Publisher of computer software	Ordinary shares of 100 FFr	100	–
Eidos Interactive (Deutschland) GmbH	Germany	Publisher of computer software	DM 50,000	100	–
Eidos Interactive Pte Limited	Singapore	Publisher of computer software	Ordinary S\$1 shares	–	100
Eidos Interactive KK	Japan	Publisher of computer software	100 million Yen	–	100
Glassworks Productions Limited	England and Wales	Video editing	'A' ordinary shares of £0.01 each and 'B' ordinary shares of £0.01 each	–	85
Eidos Technologies Limited	England and Wales	Developer of computer software	Ordinary £1 shares	–	100
Eidoscope Limited	England and Wales	New media	Ordinary £1 shares	–	100
<b>Joint ventures</b>					
Proein SA	Spain	Publisher of computer software	Common shares of 1,000 Pesetas each	75	–
Pyro Studios SL	Spain	Developer of computer software	Common shares of 1,000 Pesetas each	25*	–
Eidopt AS	Norway	Research & development	Ordinary shares	–	50
<b>Associated undertakings</b>					
Innerloop Technologies AS	Norway	Developer of computer software	Ordinary shares	–	37
Hothouse Holdings Limited (formerly Clockwork Holdings Limited)	England	Developer of computer software	Ordinary shares	–	25
Silicon Dreams Studio Limited	England	Developer of computer software	Ordinary shares	–	25
Sports Interactive Limited	England	Developer of computer software	Ordinary shares	25	–

All the above companies operated principally in their country of incorporation.

\*Effective holding shown

## 12 Stocks

	Group		Company	
	31 March	31 March	31 March	31 March
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Raw materials and consumables	<b>496</b>	371	–	–
Finished goods	<b>12,790</b>	5,295	–	–
	<b>13,286</b>	5,666	–	–

## 13 Debtors

	Group		Company	
	31 March	31 March	31 March	31 March
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Trade debtors	<b>61,069</b>	44,271	–	–
Prepaid licences	<b>9,582</b>	6,532	–	–
Amounts owed by Group undertakings	–	–	<b>76,385</b>	29,565
Deferred tax asset (see note 16)	<b>1,268</b>	1,896	–	–
Other debtors	<b>2,085</b>	2,226	<b>911</b>	634
Prepayments and accrued income	<b>3,661</b>	2,812	<b>287</b>	372
	<b>77,665</b>	57,737	<b>77,583</b>	30,571

Included within prepaid licences is £6,264,000 (1999: £2,639,000) in respect of periods that extend beyond one year.

## 14 Creditors: amounts falling due within one year

	Group		Company	
	31 March	31 March	31 March	31 March
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Bank loans and overdrafts	<b>80,616</b>	–	<b>78,160</b>	–
Obligations under finance leases	<b>148</b>	363	–	–
Trade creditors	<b>14,656</b>	9,692	<b>244</b>	386
Royalty creditors	<b>8,380</b>	4,968	–	–
Amounts owed to Group undertakings	–	–	<b>9,244</b>	14,406
Other taxes and social security costs	<b>5,960</b>	3,815	<b>668</b>	531
Other creditors	<b>287</b>	16,556	<b>124</b>	–
Accruals and deferred income	<b>11,949</b>	8,967	<b>3,015</b>	974
Corporation tax	<b>20,180</b>	13,688	<b>27,165</b>	830
	<b>142,176</b>	58,049	<b>118,620</b>	17,127

Other creditors at 31 March 1999 included £14.3 million deferred consideration (and interest) due on the acquisition of Crystal Dynamics. This was paid on 1 April 1999.

At 31 March 2000 bank overdrafts and loans included term loans of £79,645,000. These were denominated in Sterling, US\$ and Euros and were settled on 3 April 2000. They all bore interest of between 2 and 2.25% over LIBOR.

The balance of £971,000 was the net UK overdraft (which also bears interest at 2% over LIBOR).

The loans and overdraft facilities are secured by a fixed and floating charge over the assets of the Group.

Details of borrowing facilities are given in note 27.

## 15 Creditors: amounts falling due after more than one year

	Group		Company	
	31 March 2000	31 March 1999	31 March 2000	31 March 1999
	£'000	£'000	£'000	£'000
US\$6.25% convertible bonds	-	30,333	-	30,333
Obligations under finance leases:				
Due between one and two years	53	137	-	-
Due between two and five years	-	15	-	-
Other creditors	-	328	-	-
	<b>53</b>	<b>30,813</b>	<b>-</b>	<b>30,333</b>

In April 1997 the Group issued US\$50 million of 6.25% convertible bonds. The bonds were convertible at the option of the holder after 31 August 1997 and on or prior to 24 July 2002 into ordinary shares of 2p each of Eidos at an initial conversion price of £2.19 per share and with a fixed rate of exchange on conversion of US\$1.5965 = £1.00. Convertible bonds were stated net of issue costs. During 1998 US\$100,000 of bonds were converted. During 2000 the remaining US\$49.9 million were converted.

## 16 Deferred taxation

	Group		Company	
	31 March 2000	31 March 1999	31 March 2000	31 March 1999
	£'000	£'000	£'000	£'000
<b>Unrecognised tax (assets)/liabilities</b>				
Excess of tax allowances over book depreciation of fixed assets	(717)	(760)	98	(4)
Other timing differences	(7,374)	(6,581)	-	-
Tax effect of losses carried forward	(1,040)	(1,002)	-	-
Unrecognised deferred tax asset	<b>(9,131)</b>	<b>(8,343)</b>	<b>98</b>	<b>(4)</b>
<b>Recognised tax assets</b>				
Tax effect of losses carried forward	(1,268)	(619)	-	-
Other timing differences	-	(1,277)	-	-
	<b>(1,268)</b>	<b>(1,896)</b>	<b>-</b>	<b>-</b>

As at 31 March 2000 the Group estimates that it has approximately £25.2 million of tax losses available in future periods to relieve profits. This includes £16 million acquired tax losses which arose during the year ended 31 March 1999 on the acquisition of Crystal Dynamics which are available over a number of years.

## 17 Called up share capital

	31 March <u>2000</u>	31 March <u>1999</u>
	£'000	£'000
<b>Authorised</b>		
142,500,000 ordinary shares of 2p each (1999: 28,500,000 10p shares)	<u>2,850</u>	<u>2,850</u>
<b>Allotted called up and fully paid</b>		
103,526,440 ordinary shares of 2p each (1999: 17,282,280 10p shares)	<u>2,071</u>	<u>1,728</u>

During the year 2,703,500 shares were allotted following the exercise of Eidos options, 139,525 were allotted in conjunction with the US Stock Purchase Plan and 14,272,015 were allotted following the conversion of the convertible bond. The total consideration received was £3,964,000 cash (total nominal value £343,000). On 25 January 2000 a five for one share split took place.

Options have been granted for 2p ordinary shares as follows:

	At 1 April 1999 (restated to reflect share split)	Granted in year	Exercised in year	Lapsed in year	At 31 March 2000	Option Exercise Price	Option Exercise Period
<b>Approved Scheme</b>	67,525	-	67,525	-	-	23.00p	-
	50,000	-	-	-	50,000	68.67p	21/07/97 to 19/07/04
	105,000	-	5,000	-	100,000	70.00p	11/03/98 to 09/03/05
	19,145	-	-	-	19,145	156.67p	11/09/01 to 10/09/08
	38,260	-	19,130	-	19,130	156.80p	25/04/99 to 24/04/06
	177,100	-	157,165	-	19,935	158.40p	03/04/99 to 01/04/06
	22,860	-	-	-	22,860	171.50p	21/01/00 to 20/07/00
	505,290	-	247,820	40,500	216,970	171.50p	21/01/00 to 19/01/07
	-	8,195	-	-	8,195	366.00p	29/05/02 to 28/05/09
<b>Unapproved Scheme</b>	333,500	-	333,500	-	-	68.67p	-
	180,500	-	180,500	-	-	70.00p	-
	2,075,000	-	-	-	2,075,000	117.00p	14/10/01 to 13/10/05
	996,810	-	-	-	996,810	156.67p	11/09/01 to 10/09/05
	361,740	-	180,870	-	180,870	156.80p	25/04/99 to 24/04/03
	938,870	-	590,805	-	348,065	158.40p	03/04/99 to 01/04/03
	14,640	-	-	-	14,640	171.50p	21/01/00 to 20/07/00
	456,005	-	240,660	2,250	213,095	171.50p	21/01/00 to 19/01/04
	125,520	-	-	-	125,520	171.50p	16/10/00 to 14/10/04
	-	116,805	-	-	116,805	366.00p	29/05/02 to 28/05/06
<b>US Stock Option Plan</b>	156,710	-	127,385	29,325	-	261.60c	-
	336,525	-	112,560	26,525	197,440	283.20c	21/01/00 to 19/01/04
	-	275,000	-	50,000	225,000	584.60c	29/05/02 to 28/05/06
<b>Crystal Dynamics Inc. Stock Option Plan</b>	5,500	-	4,955	-	545	110.20c	05/11/98 to 11/10/04
	433,980	-	433,330	270	380	137.80c	05/11/98 to 31/07/06
	<u>7,400,480</u>	<u>400,000</u>	<u>2,701,205</u>	<u>148,870</u>	<u>4,950,405</u>		
<b>Sharesave Schemes</b>	188,770	-	1,700	28,755	158,315	140.0p	01/02/02
	-	44,965	595	7,265	37,105	293.0p	01/08/02
	-	11,995	-	1,275	10,720	9.29€	01/12/02
	-	27,465	-	-	27,465	9.29€	01/12/04
	-	8,750	-	410	8,340	936.4p	01/02/03
	<u>188,770</u>	<u>93,175</u>	<u>2,295</u>	<u>37,705</u>	<u>241,945</u>		

## 18 Share premium account and reserves

<b>Group</b>	Share premium account	Other reserves	Profit & loss account
	£'000	£'000	£'000
Balance at 1 April 1999	50,165	707	13,932
Profit for the period	-	-	25,203
Exchange difference arising on consolidation	-	-	(1,034)
Premium on new issue of shares (including conversion of bond)	34,869	-	-
Goodwill written off	-	-	506
<b>At 31 March 2000</b>	<b>85,034</b>	<b>707</b>	<b>38,607</b>
<b>Company</b>	Share premium account	Other reserves	Profit & loss account
	£'000	£'000	£'000
Balance at 1 April 1999	50,165	167	(26,576)
Profit for the period	-	-	35,527
Premium on new issue of shares (including conversion of bond)	34,869	-	-
<b>At 31 March 2000</b>	<b>85,034</b>	<b>167</b>	<b>8,951</b>

The Company has taken advantage of Section 230 of the Companies Act 1985 and not prepared a separate profit and loss account for its own activities. The Company's profit for the financial year was £35,527,000 (1999: £13,105,000 loss).

### Goodwill

In accordance with the Group's accounting policy, the goodwill arising on acquisitions prior to 1 April 1998 has been written off against the merger reserve arising on consolidation and the balance to the profit and loss account. £42,831,000 (1999: £42,831,000) cumulative goodwill has been written off to these reserves of which £3,796,000 (1999: £3,290,000) has been reinstated and written off through the profit and loss account.

Goodwill of £506,000 (1999: £562,000) has been recycled and written off through the profit and loss account in the year, leaving a balance of £39,035,000 (1999: £39,541,000).

## 19 Reconciliation of movements in shareholders' funds

	Year ended 31 March <b>2000</b>	Year ended 31 March 1999
	£'000	£'000
<b>Group</b>		
Total recognised gains relating to the year	<b>24,169</b>	23,661
New share capital issued	<b>35,212</b>	833
Goodwill written off through profit and loss account	<b>506</b>	562
Warrants/options issued in year	-	540
Net movement in shareholders' funds	<b>59,887</b>	25,596
Opening shareholders' funds	<b>66,532</b>	40,936
Closing shareholders' funds	<b>126,419</b>	66,532

## 20 Reconciliation of operating profit to net cash outflow from operating activities

	Year ended 31 March <b>2000</b>	Year ended 31 March 1999
	£'000	£'000
Operating (loss)/profit	<b>(27,363)</b>	39,170
Depreciation of tangible fixed assets	<b>3,150</b>	3,539
Amortisation and write off of goodwill	<b>13,954</b>	4,632
Increase in stocks	<b>(7,921)</b>	(373)
Increase in debtors	<b>(20,628)</b>	(28,644)
Increase in creditors	<b>10,341</b>	11,744
<b>Net cash (outflow)/inflow from operating activities</b>	<b><u>(28,467)</u></b>	<b><u>30,068</u></b>

## 21 Analysis of net funds

	At 1 April 1999	Cashflow	Exchange movements	Other non-cash movements	At 31 March 2000
	£'000	£'000	£'000	£'000	£'000
<b>Net cash:</b>					
Cash at bank and in hand	48,220	55,630	(401)	-	<b>103,449</b>
Bank loans and overdrafts	-	(80,616)	-	-	<b>(80,616)</b>
	<u>48,220</u>	<u>(24,986)</u>	<u>(401)</u>	<u>-</u>	<b><u>22,833</u></b>
<b>Net debt:</b>					
Finance leases	(515)	370	-	(56)	<b>(201)</b>
Convertible bonds	(30,994)	-	(254)	31,248	-
	<u>(31,509)</u>	<u>370</u>	<u>(254)</u>	<u>31,192</u>	<b><u>(201)</u></b>
<b>Net funds</b>	<b><u>16,711</u></b>	<b><u>(24,616)</u></b>	<b><u>(655)</u></b>	<b><u>31,192</u></b>	<b><u>22,632</u></b>

## 22 Contingent liabilities

The Company has given a guarantee in respect of leasehold liabilities of Hothouse Holdings Limited, an associate, to a maximum of £36,000 per annum until September 2001.

## 23 Commitments under operating leases

The Group had the following annual commitments under non-cancellable operating leases, analysed into leases which expire as follows:

	Land and buildings		Motor vehicles and equipment	
	Year ended 31 March <b>2000</b>	Year ended 31 March 1999	Year ended 31 March <b>2000</b>	Year ended 31 March 1999
	£'000	£'000	£'000	£'000
Within one year	<b>86</b>	67	<b>97</b>	163
In two to five years	<b>518</b>	478	<b>428</b>	376
After five years	<b>1,457</b>	1,296	<b>6</b>	-
	<b><u>2,061</u></b>	<b><u>1,841</u></b>	<b><u>531</u></b>	<b><u>539</u></b>

## 24 Capital commitments

As at 31 March 2000 the Group had contracted to make payments totalling £11.4 million to various licensors and developers involved in providing games software for the Group's use. £10.1 million is payable within one year and the remaining £1.3 million is due within one to two years.

All development contracts can be terminated by Eidos at any time without any penalties.

## 25 Pension commitments

Effective from 1 January 1997 the Group has operated a defined contribution private pension plan for UK employees. The assets of the plan are held separately from those of the Group in an independently administered fund. Defined contributions are paid to the plan and charged to the profit and loss account as incurred. Contributions paid by the Group during the year were £498,000 (1999: £403,000). At the year end no contributions were outstanding.

In addition one director is a member of the Core Design Pension Scheme. This is also a defined contribution scheme. Contributions paid by the Group during the year were £25,950 (1999: £20,500). At the year end no contributions were outstanding.

All overseas pension arrangements are also of a defined contribution nature. Contributions paid by the Group during the year were £334,000 (1999: £160,000).

## 26 Related party disclosures

a) J Heath-Smith, a director and executive officer of the Company, is a member of the Core Design Pension Fund. The Fund's assets include sole ownership of the premises occupied during part of the year by Core Design Limited. The rent paid by Core Design Limited to the Pension Fund is £40,000 per annum.

b) During the year the Group paid £6.1 million to its associated companies as royalties and advances on games being developed for the Group. In addition it paid £1.0 million to Eidopt AS (50% holding) to fund its research into a games storage device.

c) In July 1999 Eidos acquired a 75% stake in Proein SA. In the period since the acquisition Eidos sold games to Proein totalling £3.9 million after provisions. These games were all sold on an arm's length basis. In addition in the same period Eidos paid £0.8 million to Pyro SL (in which Eidos acquired a 25% stake) as royalties and advances for the development of games for Eidos. At 31 March 2000 Eidos was owed £1.7 million by Proein (via a third party distributor) and owed Pyro £326,000.

d) Eidos Technologies Limited has granted a licence to certain of its video compression intellectual property to Forbidden Technologies plc. In return, Eidos will receive a royalty stream on Forbidden Technologies' products which incorporate the technology licensed. Stephen Streater, a former executive director of Eidos, and Victor Steel, a current non-executive director of Eidos, are both directors of Forbidden Technologies. Mr Streater left Eidos to found Forbidden Technologies and therefore was no longer involved with Eidos when the licence was granted. Mr Steel took no part in the discussions on either side.

The Group has taken advantage of the exemption in Financial Reporting Standard No 8 in respect of subsidiaries which are greater than 90% subsidiaries.

All inter-company transactions are calculated on an arm's length basis.

## 27 Derivatives and other financial instruments

The Operating and Financial Review (OFR) provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with financial liabilities as defined in Financial Reporting Standard 13: *Derivatives and Other Financial Instruments: Disclosures* (FRS 13). Certain financial assets such as investments in subsidiary, joint and associated undertakings are excluded from the scope of these disclosures.

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosure, other than the currency disclosures.

### Interest rate risk profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31 March 2000 was:

Currency	Floating rate financial liabilities	Total
	£'000	£'000
Sterling	51,971	51,971
US dollar	26,250	26,250
Euros	2,395	2,395
	<u>80,616</u>	<u>80,616</u>

There were no fixed rate or non-interest bearing financial liabilities at 31 March 2000. The floating rate financial liabilities all bore interest at rates based on LIBOR.

**Currency exposures**

The Group's objective in managing the currency exposures is to minimise gains and losses arising in its overseas subsidiaries.

The Company provides working capital to its overseas subsidiaries in their functional currencies and hedges its exposure in accordance with the policy described in the OFR on page 5.

The table below shows the Group's currency exposures, i.e. those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. These exposures were as follows:

Functional currency of group operation	Net foreign currency monetary assets/(liabilities)						Total
	US dollar	Euros	Deutschmark	French Franc	Singapore dollar	Japanese Yen	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	26,691	(2,181)	13,697	1,962	80	(156)	40,093
at 31 March 2000	<u>26,691</u>	<u>(2,181)</u>	<u>13,697</u>	<u>1,962</u>	<u>80</u>	<u>(156)</u>	<u>40,093</u>
at 31 March 1999	<u>22,087</u>	<u>-</u>	<u>8,236</u>	<u>2,909</u>	<u>230</u>	<u>998</u>	<u>34,460</u>

The amounts shown in the table above take into account the effect of forward contracts entered into to manage these currency exposures.

**Maturity of financial liabilities**

The maturity profile of the Group's financial liabilities at 31 March 2000 was as follows:

	2000	1999
	£'000	£'000
In one year or less	80,616	-
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	30,994
In more than five years	-	-
<b>Total</b>	<u>80,616</u>	<u>30,994</u>

**Borrowing facilities**

As discussed in note 14, at 31 March 2000 the Group had term loans totalling £79,645,000 and had drawn down £971,000 of the £5 million overdraft facility. The loans and overdraft were repaid on 3 April 2000. On 9 June 2000 banking facilities were renewed for a further two years with a maximum draw down (available at specified times in the year) of £50 million. These facilities are secured by a fixed and floating charge over the assets of the Group.

**Fair values**

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March 2000.

	2000		1999	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
<b>Primary financial instruments held or issued to finance the Group's operations</b>				
Long-term borrowings	-	-	(30,994)	(58,597)
Short-term borrowings	(80,616)	(80,616)	-	-
Financial assets:				
Investments	39,921	80,586	12,160	25,165
Cash	103,449	103,449	48,220	48,220
<b>Derivative financial instruments held to manage the currency profile</b>				
Forward foreign currency contracts	-	-	-	(29)

The fair values of the forward foreign currency contracts have been determined by a comparison of spot exchange rates at the year end with contracted exchange rates.

The fair values of listed investments have been determined using published prices at the year end. All other investments have been valued at cost, as this is not significantly different from their fair values.

**Gains and losses on hedges**

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £'000	Losses £'000	Net £'000
<b>Unrecognised gains and losses on hedges at 1 April 1999</b>	-	(29)	(29)
Gains and losses arising in previous years that were recognised in 2000	-	29	29
<b>Gains and losses arising before 1 April 1999 that were not recognised in 2000</b>	-	-	-
Gains and losses arising in 2000 that were not recognised in 2000	-	-	-
<b>Unrecognised gains and losses on hedges at 31 March 2000</b>	-	-	-

During the year the Company recognised gains of £823,000 on forward foreign currency contracts. These all arose and were recognised in the profit and loss account in the year.

	Restated 15 months ended 31 March 1996	Restated Year ended 31 March 1997	Year ended 31 March 1998	Year ended 31 March 1999	Year ended 31 March 2000
	£'000	£'000	£'000	£'000	£'000
<b>Sales and results</b>					
<b>Turnover</b>	<u>3,706</u>	<u>75,531</u>	<u>137,234</u>	<u>226,284</u>	<u>194,801</u>
<b>Operating (loss)/profit</b>	<u>(3,103)</u>	<u>(6,441)</u>	<u>19,453</u>	<u>39,170</u>	<u>(26,831)</u>
Profit/(loss) from sale of operations	-	130	(1,852)	-	80,236
Interest receivable	<u>60</u>	<u>309</u>	<u>1,281</u>	<u>1,769</u>	<u>1,110</u>
	(3,043)	(6,002)	18,882	40,939	54,515
Interest payable and similar charges	<u>(55)</u>	<u>(829)</u>	<u>(2,375)</u>	<u>(3,019)</u>	<u>(5,240)</u>
<b>(Loss)/profit before taxation</b>	<u>(3,098)</u>	<u>(6,831)</u>	<u>16,507</u>	<u>37,920</u>	<u>49,275</u>
Taxation	<u>-</u>	<u>(1,450)</u>	<u>(5,642)</u>	<u>(13,670)</u>	<u>(24,072)</u>
<b>Retained (loss)/profit</b>	<u>(3,098)</u>	<u>(8,281)</u>	<u>10,865</u>	<u>24,250</u>	<u>25,203</u>
<b>Net assets employed</b>					
Fixed assets	2,073	5,215	18,316	43,771	74,248
Net current assets/(liabilities)	<u>(1,319)</u>	<u>25,592</u>	<u>52,074</u>	<u>53,574</u>	<u>52,224</u>
	754	30,807	70,390	97,345	126,472
Long term liabilities	<u>(580)</u>	<u>(425)</u>	<u>(29,454)</u>	<u>(30,813)</u>	<u>(53)</u>
	<u>174</u>	<u>30,382</u>	<u>40,936</u>	<u>66,532</u>	<u>126,419</u>
(Loss)/earnings per share	<u>(13.3)p</u>	<u>(11.9)p</u>	<u>12.8p</u>	<u>28.3p</u>	<u>25.9p</u>

The results for the periods ended 31 March 1996 and 31 March 1997 were restated to reflect a change in accounting policy.