

EIDOS

**EIDOS plc
INTERIM REPORT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

CHAIRMAN'S STATEMENT

Review of Operations

Turnover decreased 42.8% from £54.3 million (pre-exceptional charges) to £31.0 million. Operating losses pre-goodwill and exceptional charges were reduced by 4.5% from £20.5 million to £19.6 million. The loss per share was 21.8p, or 15.4p excluding goodwill and exceptional charges, compared to 65.4p and 11.7p respectively. This is based on a weighted average number of shares in issue during the period of 125,667,301 (2000: 115,182,342). The 2000 comparatives for earnings per share have been restated for the Rights Issue that occurred during the current period, in accordance with FRS14 – Earnings per share.

In the six months to 30 September 2001 we shipped six new titles (2000: eight), in addition to French and Junior versions of “Who Wants to be a Millionaire?” (WWTBAM). The new titles included Commandos 2: Men of Honour on PC CD and the UK version of “Who Wants to be a Millionaire?” 2 on PC CD and PSOne. Although more than 500,000 units of Commandos 2: Men of Honour were shipped on launch and the title entered the retail charts in the top five in all of our major markets, total sales of this title and the various new versions of WWTBAM failed to achieve the levels originally anticipated for them. All of our new releases in the period were on the PC CD and PSOne formats, with all of our major next generation titles for this year shipping after the period end.

The gross margin was 60.5% for the half-year compared to 55.9% for the corresponding period last year. The increase in the margin has resulted from reduced royalty costs and from the predominance of higher margin PC CD titles in the period. With the release of a significant number of next generation console titles scheduled after the period end, margins for the full year are expected to revert to a level closer to the 57.7% reported at 30 June 2001, which will nevertheless remain an improvement over the prior year.

The period was notable for the much improved control over total operating expenses before goodwill which have fallen by 23.7% to £39.0 million, compared to £51.2 million for the same period last year (pre-exceptional charges). £2.5 million of this saving has come from the disposal of certain non-core activities that occurred during the prior year. However, the bulk of the decrease has been achieved through reductions in overall costs and notably in fixed selling, marketing and general and administrative costs across all areas of our core businesses.

Selling and Marketing

Advertising costs in the six months to 30 September 2001 were £5.1 million (16.5% of turnover) compared to £9.0 million (16.6% of pre-exceptional turnover) in the comparable period last year. This includes costs of £1.4 million in respect of titles to be released in the second half of the year (2000: £0.5 million).

The fixed element of selling and marketing costs was down 53.9% to £4.1 million compared to £8.9 million in the prior year. The significant reduction in expenditure is due to permanent savings arising from reduced exhibition, salary and licence amortisation costs in our core publishing businesses.

Research and Development

Research and development represents the Company's investment in product development of £17.8 million (2000: £17.5 million). This includes £12.2 million (2000: £12.1 million) relating to more than 30 titles to be released over the next two years.

The fixed element of research and development for the period was £2.2 million (2000: £2.7 million).

General and Administrative

General and administrative costs before goodwill amortisation, were £9.9 million, compared to £13.0 million (pre-exceptional charges) in the corresponding period. The reduction in like for like expenditure reflects permanent savings in salary, financing and other costs. Total general and administrative costs for the period were £15.5 million including goodwill amortisation of £5.6 million, compared to £18.4 million in 2000 (pre-exceptional charges).

CHAIRMAN'S STATEMENT CONTINUED

Financing and Cashflow

The 1 for 3 rights issue announced on 31 May 2001 was successfully completed in July, raising £51.6 million net of costs. The Group's existing bank borrowings were repaid in full from the proceeds and at 30 September the Group had cash balances of £31.6 million (2000: £5.4 million). The Group retains a committed £15 million banking facility which we do not anticipate drawing upon in the current year.

The net cash outflow from operating activities was £18.7 million compared to £14.2 million in the corresponding period. This is after Eidos' investment in research and development of £20.0 million (2000: £20.2 million).

Taxation

No tax credit has been provided on the loss on ordinary activities for the six months, based on the availability of losses accumulated in prior years. The Group has reviewed the provisions of FRS19, Deferred Tax, and believes that this treatment is consistent with the standard.

Change of year-end

The Group will change its year-end during the current financial year, to 30 June.

Historically, a significant proportion of sales has taken place in the fourth quarter of the Group's financial year. This has meant the Group's outcome for the year has been difficult to anticipate until a late stage in the financial year. Changing the year-end will reduce this uncertainty and as a result should increase the Group's ability to respond to changing circumstances and take corrective action where necessary. It will also contribute to the Board's drive to increase its control over the business, as evidenced by the on going initiatives to reduce fixed costs and to improve key business processes.

To ensure the fullest disclosure during the transition to the new year-end, the Group will report on the twelve months to 31 March 2002 in the normal time frame. We will then report separately on the fifteen months to 30 June 2002, before adopting a regular reporting cycle based on a 30 June year-end for future years.

Current Trading and Future Prospects

We have already released eight new titles since the period end, including four for the PS2 and Mad Dash Racing, our first title for the Xbox. We have been particularly pleased with the performance of Soul Reaver 2 from our Crystal Dynamics studio, which has to date shipped in excess of 450,000 units on PS2. In the UK, Championship Manager Season 01/02, became the best selling PC CD title of all time when it launched in October (a record previously held by Championship Manager 3). Based on this, and the early performance of Championship Manager Quiz which is currently shipping in the UK on PC CD and PSOne, it is clear that this is still a growing franchise and one that has excellent potential for successful multi format development in the future.

Releases for the remainder of our year include next generation hardware versions of other franchise titles such as Deus Ex, "Who Wants to be a Millionaire?" 2, Commandos 2: Men of Honour and Olympic Winter Games Salt Lake 2002. These will be complimented by innovative new titles, such as Herdy Gerdy on PS2 from Core Design.

We have already met many of the short-term objectives we set ourselves last year, by showing clear improvements in gross margins and operating expenses in our publishing business. We are also beginning to meet the objectives that we set for our development business. The impact of product delays has been greatly reduced compared to prior years but the potential for further slippage in our release schedule remains. The current financial year will be impacted by a reduction in our expectations for unit sales on certain titles, titles being deferred until the next financial year and titles being cancelled. Against this, the Group continues to make progress in reducing its cost base in all areas and the Board continues to believe that our portfolio based approach will allow us to deliver a significant improvement in pre goodwill operating performance for the twelve months to 31 March 2002.

CHAIRMAN'S STATEMENT CONTINUED

Longer term, we believe that by leveraging our established franchise titles onto new and emerging hardware platforms, we can mitigate the risk inherent in bringing new titles to market. Our industry is showing significant signs of recovery whilst global economic conditions remain at best uncertain. Eidos has come through a difficult period in its history. Management has been strengthened and much work has been directed towards reducing the cost base within the business and improving its responsiveness to changes in market conditions. The Company was re-capitalised successfully during the period, with £51.6 million being realised by the Rights Issue. Since the period end we have also taken the opportunity to dispose of the remainder of our shareholding in Opticom raising gross proceeds of £11.1 million. With robust operating fundamentals and a solid portfolio of internally developed franchise properties, we believe we are well placed to benefit in the medium term from the growth potential that exists in the entertainment software market.

Ian Livingstone
Chairman
12 December 2001
EIDOS plc

EIDOS plc

Unaudited Consolidated Profit and Loss Account

| | | Total | Total | Exceptional | Before |
|--|--------------|----------------------|----------------------|----------------------|----------------------|
| | Notes | Six months to | Six months to | items | Exceptional |
| | | 30 September | 30 September | Six months to | Six months to |
| | | 2001 | 2000 | 2000 | 2000 |
| | | £'000 | £'000 | £'000 | £'000 |
| <i>Turnover: group and share of joint venture</i> | | 34,004 | 40,715 | (16,900) | 57,615 |
| <i>Less: share of joint ventures' turnover</i> | | (2,958) | (3,301) | – | (3,301) |
| Group turnover – continuing operations | 2 | 31,046 | 37,414 | (16,900) | 54,314 |
| Cost of sales | | (12,253) | (23,950) | – | (23,950) |
| Gross profit | | 18,793 | 13,464 | (16,900) | 30,364 |
| Sales and marketing | | (9,187) | (17,877) | – | (17,877) |
| Research and development | | (19,976) | (20,236) | – | (20,236) |
| General and administrative | | | | | |
| Amortisation of goodwill | | (5,596) | (5,365) | – | (5,365) |
| Other | | (9,854) | (13,978) | (938) | (13,040) |
| Total general and administrative | | (15,450) | (19,343) | (938) | (18,405) |
| Operating expenses | | (44,613) | (57,456) | (938) | (56,518) |
| Group operating loss | | (25,820) | (43,992) | (17,838) | (26,154) |
| Share of operating profit of joint venture | | 662 | 305 | – | 305 |
| Joint venture goodwill amortisation | | (2,433) | (2,460) | – | (2,460) |
| Total operating loss from continuing operations | | (27,591) | (46,147) | (17,838) | (28,309) |
| Write down of Express Investment | | – | (36,249) | (36,249) | – |
| Interest receivable | | 794 | 589 | – | 589 |
| Interest payable and similar charges | | (638) | (541) | – | (541) |
| Loss on ordinary activities before tax | | (27,435) | (82,348) | (54,087) | (28,261) |
| Tax on loss on ordinary activities | 3 | – | 7,006 | – | 7,006 |
| Net loss after tax | | (27,435) | (75,342) | (54,087) | (21,255) |
| Loss per share (restated) | 4 | (21.8)p | (65.4)p | (47.0)p | (18.5)p |
| Loss per share before goodwill (restated) | 4 | (15.4)p | (58.6)p | (47.0)p | (11.7)p |

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Unaudited Consolidated Balance Sheet

| | Notes | 30 September 2001 £'000 | (Restated – see Note 1) 30 September 2000 £'000 |
|--|-------|----------------------------|---|
| Fixed assets | | | |
| Intangible assets | | 1,068 | 11,909 |
| Tangible assets | | 4,573 | 5,521 |
| Investments | | | |
| Joint ventures | | | |
| – Share of gross assets | | 4,023 | 3,295 |
| – Share of gross liabilities | | (1,407) | (1,388) |
| | | <u>2,616</u> | <u>1,907</u> |
| Joint ventures – goodwill | | 4,591 | 8,677 |
| Other investments and associated undertakings | | 2,627 | 2,505 |
| | | <u>9,834</u> | <u>13,089</u> |
| Total fixed assets | | <u>15,475</u> | <u>30,519</u> |
| Current assets | | | |
| Stocks | | 2,282 | 11,523 |
| Debtors | | 25,847 | 43,584 |
| Cash at bank and in hand | | 31,584 | 5,423 |
| | | <u>59,713</u> | <u>60,530</u> |
| Creditors: amounts falling due within one year | 5 | <u>(17,943)</u> | <u>(36,199)</u> |
| Net current assets | | <u>41,770</u> | <u>24,331</u> |
| Total assets less current liabilities | | <u>57,245</u> | <u>54,850</u> |
| Creditors: amounts falling due after more than one year | 5 | <u>(2,705)</u> | <u>(3,637)</u> |
| Net assets | | <u>54,540</u> | <u>51,213</u> |
| Capital and reserves | | | |
| Called up share capital | | 2,773 | 2,074 |
| Share premium account | | 136,880 | 85,479 |
| Other reserves | | 707 | 719 |
| Profit and loss account | | (85,820) | (37,059) |
| Equity shareholders' funds | 6 | <u>54,540</u> | <u>51,213</u> |

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Unaudited Consolidated Statements of Cash Flow

| | Notes | Six months to 30 September 2001 £'000 | Six months to 30 September 2000 £'000 |
|--|----------|--|--|
| Net cash outflow from operating activities | 7 | <u>(18,737)</u> | <u>(14,205)</u> |
| Dividends from Joint Ventures and Associates | | <u>647</u> | <u>–</u> |
| Returns on investments and servicing of finance | | | |
| Interest received | | 556 | 592 |
| Bank interest paid | | (617) | (1,767) |
| Interest paid on finance leases | | (20) | (15) |
| | | <u>(81)</u> | <u>(1,190)</u> |
| Taxation | | | |
| UK tax paid | | (9,898) | (12,653) |
| Overseas tax paid | | (933) | (675) |
| | | <u>(10,831)</u> | <u>(13,328)</u> |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (869) | (966) |
| Sale of tangible fixed assets | | 10 | 78 |
| | | <u>(859)</u> | <u>(888)</u> |
| Net cash outflow before financing | | <u>(29,861)</u> | <u>(29,611)</u> |
| Financing | | | |
| Issue of ordinary share capital | | 51,752 | 448 |
| New/(Repayment of) finance leases | | (108) | 132 |
| | | <u>51,644</u> | <u>580</u> |
| Increase/(Decrease) in cash in the period | 8 | <u><u>21,783</u></u> | <u><u>(29,031)</u></u> |

EIDOS plc

Notes to the Accounts

1. Accounting policies

- (i) The financial statements have been prepared on the basis of the accounting policies set out on page 20 of the Eidos plc Report and Accounts for the year ended 31 March 2001.
- (ii) The 2000 comparatives for Earnings per share have been restated for the Rights Issue that occurred during the current period in accordance with FRS14 – Earnings per Share.

2. Segmental analysis

Segmental analysis by class of business

| Class of business | Turnover | | Profit/(loss) before tax | | Net assets/(liabilities) | |
|-------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------|---------------|
| | Six months to 30 September | Six months to 30 September | Six months to 30 September | Six months to 30 September | 30 September | 30 September |
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| Computer software | 31,046 | 35,451 | (27,435) | (82,018) | 54,540 | 53,918 |
| Video editing | – | 1,963 | – | (330) | – | (2,705) |
| | 31,046 | 37,414 | (27,435) | (82,348) | 54,540 | 51,213 |

Segmental analysis by geographical area

| Turnover – continuing activities | By destination | | By origin | |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | Six months to 30 September | Six months to 30 September | Six months to 30 September | Six months to 30 September |
| | 2001 £'000 | 2000 £'000 | 2001 £'000 | 2000 £'000 |
| United Kingdom | 7,627 | 10,174 | 10,374 | 15,282 |
| France | 4,361 | 3,940 | 5,531 | 4,684 |
| Germany | 6,351 | 3,976 | 7,144 | 4,472 |
| Rest of Europe | 3,902 | 3,137 | – | – |
| United States of America | 5,691 | 7,317 | 6,977 | 12,217 |
| Rest of World | 3,114 | 8,870 | 1,020 | 759 |
| | 31,046 | 37,414 | 31,046 | 37,414 |

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| | Total | Total | Exceptional items | Before Exceptional items |
|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Six months to 30 September 2001 | Six months to 30 September 2000 | Six months to 30 September 2000 | Six months to 30 September 2000 |
| | £'000 | £'000 | £'000 | £'000 |
| Profit/(loss) before taxation | | | | |
| United Kingdom | (4,331) | (54,706)* | (41,998) | (12,708)* |
| France | 420 | (1,273) | (2,506) | 1,233 |
| Germany | 84 | (1,261) | (3,175) | 1,914 |
| United States of America | (21,426) | (22,489)* | (6,408) | (16,081)* |
| Rest of World | (2,182) | (2,619)* | – | (2,619)* |
| | (27,435) | (82,348) | (54,087) | (28,261) |

* Restated for amortisation of goodwill arising on acquisitions

| | 30 September 2001 | 30 September 2000 |
|---------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Net assets/(liabilities) | | |
| United Kingdom | 117,003 | 68,207* |
| France | 1,040 | 1,151 |
| Germany | 504 | (1,780) |
| Spain | 7,207 | 10,584* |
| United States of America | (71,548) | (27,339)* |
| Rest of World | 334 | 390* |
| | 54,540 | 51,213 |

* Restated for goodwill arising on acquisitions

3. Taxation

No tax credit has been provided on the loss on ordinary activities for the six months, based on the availability of losses accumulated in prior years. The Group has reviewed the provisions of FRS19, Deferred Tax, and believes that this treatment is consistent with the standard.

4. Loss per share

The loss per share is based on a weighted average number of shares in issue during the six months ended 30 September 2001 of 125,667,301 (2000: 115,182,342).

The loss per share before goodwill amortisation is derived as follows:

| | Six months to 30 September 2001 | Six months to 30 September 2000 |
|-----------------------------------|---------------------------------------|---------------------------------------|
| | Pence per share | Pence per share (restated) |
| Loss | 21.8 | 65.4 |
| Goodwill amortisation | (6.4) | (6.8) |
| Loss before goodwill amortisation | 15.4 | 58.6 |

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5. Creditors

| | 30 September 2001 | | 30 September 2000 (restated) | |
|----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Due within one year £'000 | Due after one year £'000 | Due within one year £'000 | Due after one year £'000 |
| Borrowings | | | | |
| Obligations under finance leases | 66 | 312 | 64 | 386 |
| | <u>66</u> | <u>312</u> | <u>64</u> | <u>386</u> |
| Other creditors | | | | |
| Bank loans and overdrafts | 493 | – | 11,627 | – |
| Trade creditors | 6,459 | – | 7,219 | – |
| Royalty creditors | 2,960 | – | 4,341 | – |
| Accruals and deferred income | 5,535 | 2,393 | 6,818 | 3,251 |
| Corporation tax payable | 1,564 | – | 1,521 | – |
| Other creditors | 866 | – | 4,609 | – |
| | <u>17,877</u> | <u>2,393</u> | <u>36,135</u> | <u>3,251</u> |
| | <u>17,943</u> | <u>2,705</u> | <u>36,199</u> | <u>3,637</u> |

6. Movement in shareholders' funds

| | Ordinary shares | | Share | Other reserves | Profit | Total |
|-----------------------------------|--------------------|-----------------|-----------------------------|-------------------|------------------------------|---------------|
| | No. of shares | Amount £'000 | premium account £'000 | | and loss account £'000 | |
| Balance as at 1 April 2001 | 103,931,470 | 2,079 | 85,822 | 707 | (57,991) | 30,617 |
| Loss for the period | – | – | – | – | (27,435) | (27,435) |
| Translation adjustment | – | – | – | – | (394) | (394) |
| Issue of new shares | 34,659,306 | 693 | 50,941 | – | – | 51,634 |
| Exercise of share options | 70,073 | 1 | 117 | – | – | 118 |
| | <u>138,660,849</u> | <u>2,773</u> | <u>136,880</u> | <u>707</u> | <u>(85,820)</u> | <u>54,540</u> |

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7. Reconciliation of operating loss to net cash outflow from operating activities

| | Six months to 30 September 2001 | Six months to 30 September 2000 |
|--|--|--|
| | £'000 | £'000 |
| Operating loss | (25,820) | (43,992) |
| Depreciation of tangible fixed assets | 938 | 1,666 |
| Amortisation of goodwill | 5,596 | 5,365 |
| Decrease in working capital | 549 | 22,756 |
| Net cash outflow from operating activities | <u>(18,737)</u> | <u>(14,205)</u> |

8. Analysis of net funds

| | At 1 April 2001 | Cash flow £'000 | Exchange and non-cash movements £'000 | At 30 September 2001 £'000 |
|---------------------------|----------------------------|----------------------------|--|---|
| Net cash: | | | | |
| Cash at bank and in hand | 28,355 | 3,408 | (179) | 31,584 |
| Bank loans and overdrafts | (18,868) | 18,375 | – | (493) |
| | <u>9,487</u> | <u>21,783</u> | <u>(179)</u> | <u>31,091</u> |
| Net debt: | | | | |
| Finance leases | (385) | 108 | (101) | (378) |
| | <u>(385)</u> | <u>108</u> | <u>(101)</u> | <u>(378)</u> |
| | <u>9,102</u> | <u>21,891</u> | <u>(280)</u> | <u>30,713</u> |

The interim financial information set out above does not constitute audited statutory accounts.

The audited accounts for the financial year ended 31 March 2001 were delivered to the Registrar of Companies. The audit report was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985. Eidos plc is registered in England and Wales number 2501949 and its registered office is Wimbledon Bridge House, 1 Hartfield Road, London SW19 3RU.

EIDOS plc

Independent review report by KPMG Audit Plc To Eidos plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 4 to 10 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2001.

KPMG Audit Plc
Chartered Accountants
London
12 December 2001

EIDOS