

# EIDOS

**EIDOS plc**  
**INTERIM REPORT**

FOR THE TWELVE MONTHS ENDED 31 MARCH 2002

# CHAIRMAN'S STATEMENT

## **Review of Operations**

Turnover for the twelve months to 31 March 2002 decreased 26.7% from £164.2 million to £120.3 million (pre exceptional charges). Operating losses pre goodwill and exceptional charges were reduced by 69.2% from £23.3 million to £7.2 million. The loss per share was 10.7p, or 1.6p excluding goodwill, compared to 84.5p and 70.5p respectively, based on a weighted average number of shares in issue during the period of 132,514,410 (2001: 115,223,869). The 2001 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 twelve months to 31 March 2002 we shipped twenty new titles (2001: twenty), including eleven for PlayStation 2 and two for Xbox. A number of key franchise titles such as Blood Omen 2, Soul Reaver 2, and the PC CD versions of Commandos 2 and Championship Manager Season 01/02, all sold in excess of 350,000 units during the period. Championship Manager Season 01/02 became the UK's fastest selling PC CD title of all time when it launched in October 2001, whilst Blood Omen 2 was a top five title on both PlayStation 2 and Xbox, when it shipped in the USA at the end of March 2002. Whilst we were broadly satisfied with the performance of these particular titles the balance of our portfolio of new releases did not meet expectations. Catalogue sales of earlier versions of franchise titles such as Tomb Raider and TimeSplitters remained strong in the period.

The gross margin for the full-year was 59.5% compared to 50.2% (pre exceptional charges) for the corresponding period last year. Improved controls over channel and inventory exposures contributed to the increase in margins in the period, whilst royalty costs were also greatly reduced. This was partly as a result of the shift towards internally developed titles and the reduced reliance on licensed titles during the period. Gross margins are forecast to fall slightly in the coming year as a result of a shift in the sales mix towards console titles, however they are nevertheless expected to remain significantly ahead of the levels reported in the year to 31 March 2001.

Operating expenses before goodwill fell by 24.8% to £80.2 million, compared to £106.7 million for the same period last year (pre exceptional charges). Whilst improved controls over variable marketing expenses have contributed to this decrease, the majority of the savings have come from sustained downward pressure on the Group's fixed cost base. Overall fixed costs excluding goodwill and exceptionals were reduced by 28.7% in the year from £46.6 million to £33.2 million, on a like for like basis. Over a two-year period the Group has now exceeded its target for reducing the level of fixed costs, by achieving on-going savings of £22.7 million, on this basis. It is the Group's intention to hold its fixed costs at this lower level, after adjusting for one off costs and any effects of the change in year end.

## *Selling and Marketing*

Improved controls over variable advertising costs were introduced into the Group's publishing businesses during the period, with the aim of targeting annual expenditure more effectively. Advertising costs in the twelve months to 31 March 2002 were £12.3 million (10.3% of turnover) compared to £23.1 million (14.1% of pre exceptional turnover) for the same period last year. During the period retail co-operative advertising expenses of £1.9 million incurred in the USA were reclassified from turnover to advertising costs (2001: £3.8 million). This treatment more accurately reflects the nature of the expenditure and allows closer monitoring within the improved framework of controls on variable advertising spend.

The fixed element of selling and marketing costs was down 55.4% to £8.2 million compared to £18.4 million in the prior year. The significant reduction in expenditure is due to reduced exhibition expenditure in the period and permanent savings arising from salary and licence amortisation costs in our publishing businesses.

## *Research and Development*

Research and development represents the Company's total investment in product development of £39.4 million (2001: £42.5 million). The reduction in expenditure reflects the continued move towards internal development, which is one of the cornerstones of the Group's future development strategy. The Group intends to maintain this level of investment in developing titles for future release.

## CHAIRMAN'S STATEMENT CONTINUED

### *General and Administrative*

General and administrative costs before goodwill amortisation were £20.3 million, compared to £22.6 million (pre exceptional charges) in the corresponding period. The reduction in like for like expenditure reflects significant permanent savings in salary and other costs. Total general and administrative costs for the period were £27.2 million including goodwill amortisation of £6.9 million, compared to £33.5 million including goodwill amortisation of £10.9 million in 2001 (pre exceptional charges). The reduction in the amortisation charge resulted from the goodwill relating to the 1998 acquisition of Crystal Dynamics becoming fully amortised during the period.

### *Financing and Cashflow*

The Group had net cash balances of £50.6 million at 31 March 2002 (2001: £9.5 million). The strong closing cash position reflects the success of the Rights Issue in July 2001 and the disposal of the Group's remaining stake in Opticom in November and December 2001. Enhanced working capital and tax management procedures have also contributed to the improvement in the Group's cash position, which remains higher than following the Rights Issue.

The net cash outflow from operating activities was £15.4 million compared to a £1.9 million inflow in the corresponding period. This outflow reflects the operating loss incurred and the significant number of new releases which shipped towards the end of the period.

### *Exceptional items*

The Group disposed of its remaining shareholding in Opticom during the period, realising net proceeds of £11.0 million and a net profit of £8.5 million. This profit was partially off-set by write downs and losses on other disposals of £4.1 million, which occurred following a review of the Group's other investments in the period.

### *Taxation*

Based on the level of losses sustained, there is no tax charge in the period. There are still significant brought forward losses available within the Group to offset future trading profits. The Group has however reviewed the provisions of FRS19 – Deferred Tax, and believes that no further amounts should be recognised in respect of these losses.

### *Change of year-end*

As previously announced in our 2002 Interim Results, 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. We will therefore be publishing our results for the fifteen months to 30 June 2002 later in the year, before reverting to a twice yearly reporting cycle based on a 30 June year end.

### *Current Trading and Future Prospects*

The months immediately following 31 March are typically relatively quiet for the Group, with a limited number of new titles being released. The Xbox version of Championship Manager Season 01/02 has shipped in the UK, entering the top ten in the charts during its first week of release and we expect the PlayStation 2 version of Deus Ex to ship in Europe prior to 30 June.

Beyond this, our strong schedule of releases for the twelve months to 30 June 2003 and the continued strong growth in the market for next generation consoles marks the beginning of a new phase of growth for the Group. Key franchise titles scheduled to ship in the year include Hitman 2 (PlayStation 2, Xbox and PC CD) TimeSplitters 2 (PlayStation 2, GameCube and Xbox) and Championship Manager 4 (Xbox and PC CD). A new installment of the Tomb Raider franchise will also be released in the period on PlayStation 2 and PC CD. We were delighted to announce recently that Lara Croft Tomb Raider: The Angel of Darkness, will be exclusive to PlayStation 2 on the videogame console format. We believe that this strategic alliance underlines the complementary strengths of the PlayStation 2 and Tomb Raider brands and will maximize the potential of the franchise for both companies. In addition to these titles the Group has a number of new titles scheduled for release, which it believes have future franchise potential.

## **CHAIRMAN'S STATEMENT** CONTINUED

Our results for the twelve months to 31 March 2002 demonstrate a number of significant improvements that we have introduced to our business. Nevertheless there is still work to be done to ensure that the potential that exists within our development business is realised fully and that we are able to capitalise on the opportunities for growth that currently exist in our market. Whilst good progress has already been made in this area with the introduction of new risk-based techniques which are used in the regular and ongoing assessment of titles in development, this remains a key focus for the Group during the forthcoming year.

The entertainment software market continues to grow at impressive rates with the installed base of next generation consoles currently exceeding 25 million units. We have a significant turnaround programme in place that continues to produce results. Combined with the continuing focus of our senior management team and the support of our staff, we feel confident that these ongoing enhancements to the way in which we manage our business will be reflected in further improvements in our financial performance over the forthcoming year.

**John van Kuffeler**  
**Chairman**  
**15 May 2002**  
**EIDOS plc**

# EIDOS plc

## Unaudited Consolidated Profit and Loss Account

	Notes	Total 12 months to 31 March 2002 £'000	Total 12 months to 31 March 2001(restated) £'000	Exceptional items 12 months to 31 March 2001 £'000	Before Exceptional items 12 months to 31 March 2001 (restated) £'000
<i>Turnover: group and share of joint ventures</i>		<b>130,939</b>	156,628	(16,900)	173,528
<i>Less: share of joint ventures' turnover</i>		<b>(10,659)</b>	(9,374)	–	(9,374)
<b>Group turnover – continuing operations</b>	<b>2</b>	<b>120,280</b>	147,254	(16,900)	164,154
Cost of sales		<b>(48,680)</b>	(81,722)	–	(81,722)
<b>Gross profit</b>		<b>71,600</b>	65,532	(16,900)	82,432
Sales and marketing		<b>(20,554)</b>	(41,530)	–	(41,530)
Research and development		<b>(39,386)</b>	(42,541)	–	(42,541)
General and administrative					
Amortisation of goodwill		<b>(6,906)</b>	(10,915)	–	(10,915)
Other		<b>(20,292)</b>	(23,519)	(938)	(22,581)
Total general and administrative		<b>(27,198)</b>	(34,434)	(938)	(33,496)
Operating expenses		<b>(87,138)</b>	(118,505)	(938)	(117,567)
<b>Group operating loss</b>		<b>(15,538)</b>	(52,973)	(17,838)	(35,135)
Share of operating profit of joint ventures		<b>1,446</b>	876	–	876
Joint ventures' goodwill amortisation		<b>(5,192)</b>	(5,192)	–	(5,192)
<b>Total operating loss from continuing operations</b>		<b>(19,284)</b>	(57,289)	(17,838)	(39,451)
Profit on disposal of fixed asset investments		<b>7,745</b>	–	–	–
Write down of investments		<b>(3,368)</b>	(36,308)	(36,308)	–
Income from investments		<b>152</b>	136	–	136
Interest receivable		<b>1,626</b>	835	–	835
Interest payable and similar charges		<b>(1,042)</b>	(3,732)	–	(3,732)
<b>Loss on ordinary activities before tax</b>	<b>2</b>	<b>(14,171)</b>	(96,358)	(54,146)	(42,212)
Tax on loss on ordinary activities	<b>3</b>	–	(971)	–	(971)
<b>Net loss after tax</b>		<b>(14,171)</b>	(97,329)	(54,146)	(43,183)
Loss per share (restated)	<b>4</b>	<b>(10.7)p</b>	(84.5)p	(47.0)p	(37.5)p
<b>Loss per share before goodwill amortisation (restated)</b>	<b>4</b>	<b>(1.6)p</b>	(70.5)p	(47.0)p	(23.5)p

# EIDOS plc

## Unaudited Consolidated Balance Sheet

	Notes	31 March 2002 £'000	31 March 2001 £'000
<b>Fixed assets</b>			
Intangible assets		662	6,759
Tangible assets		5,305	4,495
Investments			
Joint ventures			
– Share of gross assets		5,254	4,178
– Share of gross liabilities		(2,368)	(1,743)
		2,886	2,435
Joint ventures – goodwill		1,890	7,078
Other investments and associated undertakings		1	2,628
<b>Total fixed assets</b>		<b>10,744</b>	<b>23,395</b>
 <b>Current assets</b>			
Stocks		3,928	3,115
Debtors		33,575	31,389
Cash at bank and in hand		50,633	28,355
<b>Total current assets</b>		<b>88,136</b>	<b>62,859</b>
<b>Creditors: amounts falling due within one year</b>	<b>5</b>	<b>(22,497)</b>	<b>(53,319)</b>
<b>Net current assets</b>		<b>65,639</b>	<b>9,540</b>
<b>Total assets less current liabilities</b>		<b>76,383</b>	<b>32,935</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>5</b>	<b>(1,475)</b>	<b>(2,318)</b>
<b>Provisions for liabilities and charges</b>	<b>6</b>	<b>(1,524)</b>	<b>–</b>
<b>Net assets</b>	<b>2</b>	<b>73,384</b>	<b>30,617</b>
 <b>Capital and reserves</b>			
Called up share capital		2,793	2,079
Share premium account		137,988	85,822
Other reserves		707	707
Profit and loss account		<b>(68,104)</b>	<b>(57,991)</b>
<b>Equity shareholders' funds</b>	<b>7</b>	<b>73,384</b>	<b>30,617</b>

# EIDOS plc

## Unaudited Consolidated Statements of Cash Flow

	Notes	12 months to 31 March 2002 £'000	12 months to 31 March 2001 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	<b>8</b>	<b>(15,448)</b>	<u>1,888</u>
<b>Returns on investments and servicing of finance</b>			
Dividends received		799	136
Interest received		1,367	812
Bank interest paid		(986)	(3,556)
Interest paid on finance leases		(52)	(24)
		<u>1,128</u>	<u>(2,632)</u>
<b>Taxation</b>			
UK tax paid		(9,147)	(12,864)
Overseas tax repaid		2,829	292
		<u>(6,318)</u>	<u>(12,572)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(2,294)	(1,835)
Sale of tangible fixed assets		10	1,126
Sale of other investments		11,161	(122)
		<u>8,877</u>	<u>(831)</u>
<b>Acquisitions and disposals</b>			
Net cash acquired with subsidiary undertaking		371	–
		<u>371</u>	<u>–</u>
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(11,390)</b>	<b>(14,147)</b>
<b>Management of liquid resources</b>			
Increase in term deposits		(34,030)	–
		<u>(34,030)</u>	<u>–</u>
<b>Financing</b>			
Issue of ordinary share capital		52,880	796
Repayment of finance leases		(223)	(274)
		<u>52,657</u>	<u>522</u>
<b>Increase / (decrease) in cash in the period</b>		<u><b>7,237</b></u>	<u><b>(13,625)</b></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 2001 comparatives for “Turnover” and “Sales and marketing” have been restated for the reclassification of certain co-operative advertising expenses that occurred in the period.
- (iii) The 2001 comparatives for “Research and development” and “General and administrative” have been restated for a change in the classification of certain expenses that occurred in the period.
- (iv) The 2001 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.
- (v) The 2001 comparatives for segmental analysis by geographical area have been restated to more accurately reflect the geographical split. The directors have felt it appropriate that Group adjustments, which were previously held in the United Kingdom, be reclassified to their respective territories.

### 2. Segmental analysis

#### Segmental analysis by class of business

Class of business	Turnover		Profit/(loss) before tax		Net assets/(liabilities)	
	12 months to 31 March 2002	12 months to 31 March 2001	12 months to 31 March 2002	12 months to 31 March 2001	31 March 2002	31 March 2001
	£'000	£'000 (Restated)	£'000	£'000	£'000	£'000
Computer software	120,280	144,304	(14,156)	(95,956)	76,178	33,396
Video editing	–	2,950	(15)	(402)	(2,794)	(2,779)
	<u>120,280</u>	<u>147,254</u>	<u>(14,171)</u>	<u>(96,358)</u>	<u>73,384</u>	<u>30,617</u>

#### Segmental analysis by geographical area

Turnover – continuing activities	By destination		By origin	
	12 months to 31 March 2002	12 months to 31 March 2001	12 months to 31 March 2002	12 months to 31 March 2001
	£'000	£'000 (Restated)	£'000	£'000 (Restated)
United Kingdom	25,517	41,193	38,525	55,884
France	12,652	12,639	15,413	15,215
Germany	16,282	24,781	18,813	27,517
Rest of Europe	16,951	14,207	–	–
United States of America	40,576	43,229	43,046	46,502
Rest of World	8,302	11,205	4,483	2,136
	<u>120,280</u>	<u>147,254</u>	<u>120,280</u>	<u>147,254</u>

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	<b>12 months to 31 March 2002</b>	12 months to 31 March 2001 (Restated)
<b>Profit/(loss) before taxation</b>	<b>£'000</b>	<b>£'000</b>
United Kingdom	5,728	(9,907)
France	1,165	(1,863)
Germany	349	1,036
Spain (joint ventures)	(3,581)	(4,023)
United States of America	(22,335)	(45,362)
Rest of World	126	69
	<u>(18,548)</u>	<u>(60,050)</u>
Profit / (loss) on investments – United Kingdom	4,377	(36,308)
	<u>(14,171)</u>	<u>(96,358)</u>
	<b>31 March 2002</b>	31 March 2001 (Restated)
<b>Net assets/(liabilities)</b>	<b>£'000</b>	<b>£'000</b>
United Kingdom	112,475	72,898
France	1,740	615
Germany	148	398
Spain (joint ventures)	4,776	9,513
United States of America	(46,392)	(53,366)
Rest of World	637	559
	<u>73,384</u>	<u>30,617</u>

### 3. Taxation

No tax credit has been provided on the loss on ordinary activities for the twelve 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 twelve months ended 31 March 2002 of 132,514,410 (2001: 115,223,869). The 2001 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.

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

	<b>Year to 31 March 2002</b>	Year to 31 March 2001 (restated)
	<b>Pence per share</b>	<b>Pence per share</b>
Loss per share	10.7	84.5
Goodwill amortisation	(9.1)	(14.0)
Loss per share before goodwill amortisation	<u>1.6</u>	<u>70.5</u>

## EIDOS plc

### 5. Creditors

	31 March 2002		31 March 2001	
	Due within one year £'000	Due after one year £'000	Due within one year £'000	Due after one year £'000
<b>Borrowings</b>				
Obligations under finance leases	21	235	67	318
	<u>21</u>	<u>235</u>	<u>67</u>	<u>318</u>
<b>Other creditors</b>				
Bank loans and overdrafts	66	–	18,868	–
Trade creditors	10,316	–	7,313	–
Royalty creditors	1,454	–	4,536	–
Accruals and deferred income	8,233	1,240	8,426	2,000
Corporation tax payable	1,423	–	11,296	–
Other creditors	984	–	2,813	–
	<u>22,476</u>	<u>1,240</u>	<u>53,252</u>	<u>2,000</u>
	<u><u>22,497</u></u>	<u><u>1,475</u></u>	<u><u>53,319</u></u>	<u><u>2,318</u></u>

### 6. Provisions for liabilities and charges

	£'000
<b>Balance as at 1 April 2001</b>	–
Provision for future rent commitments	1,524
<b>Balance as at 31 March 2002</b>	<u><u>1,524</u></u>

The provision represents the discounted value of future lease payments in respect of a vacant property which is currently leased by a subsidiary that was acquired during the period. The lease expires in 2008, however it is possible that a sublease may be granted in the future which would reduce the Group's liability.

### 7. Movement in shareholders' funds

	Ordinary shares		Share	Other	Profit	Total
	Number of shares	Amount £'000	Premium account £'000		and loss account £'000	
<b>Balance as at 1 April 2001</b>	103,931,470	2,079	85,822	707	(57,991)	30,617
Loss for the period	–	–	–	–	(14,171)	(14,171)
Translation adjustment	–	–	–	–	(246)	(246)
Goodwill written off through profit and loss account	–	–	–	–	4,304	4,304
Issue of new shares	34,659,306	693	50,938	–	–	51,631
Exercise of share options	1,061,739	21	1,228	–	–	1,249
<b>Balance as at 31 March 2002</b>	<u><u>139,652,515</u></u>	<u><u>2,793</u></u>	<u><u>137,988</u></u>	<u><u>707</u></u>	<u><u>(68,104)</u></u>	<u><u>73,384</u></u>

## EIDOS plc

### 8. Reconciliation of operating loss to net cash (outflow) / inflow from operating activities

	12 months to 31 March 2002 £'000	12 months to 31 March 2001 £'000
Operating loss	(15,538)	(52,973)
Loss on disposal of fixed assets	–	233
Depreciation of tangible fixed assets	2,248	2,428
Amortisation of goodwill	6,906	10,915
(Increase) / decrease in working capital	(9,064)	41,285
Net cash (outflow)/inflow from operating activities	<u>(15,448)</u>	<u>1,888</u>

### 9. Analysis of net funds

	At 1 April 2001 £'000	Cash flow £'000	Exchange and non-cash movements £'000	At 31 March 2002 £'000
Cash	28,355	(11,565)	(187)	16,603
Bank overdrafts	(368)	368	–	–
Total cash and demand debt	27,987	(11,197)	(187)	16,603
Loans repayable	(18,500)	18,434	–	(66)
	9,487	7,237	(187)	16,537
Short-term deposits	–	34,030	–	34,030
	9,487	41,267	(187)	50,567
Finance leases	(385)	223	(94)	(256)
<b>Net funds</b>	<u>9,102</u>	<u>41,490</u>	<u>(281)</u>	<u>50,311</u>

*The interim financial information set out above does not constitute audited statutory accounts. Audited accounts for the 15 months to 30 June 2002 will be prepared and delivered to the Registrar of Companies later in the year.*

*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 twelve months ended 31 March 2002.

KPMG Audit Plc  
Chartered Accountants  
London  
15 May 2002

EIDOS