

Registered Number: 01804186

# Square Enix Limited

## Reports and Financial Statements

31 March 2019



**Directors**

P Rogers  
Y Matsuda

**Secretary**

A Chokshi

**Auditor**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**Bankers**

Lloyds TSB Bank plc  
10 Gresham Street  
London EC2V 7AE

The Bank of Tokyo-Mitsubishi, UFJ Limited  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AN

Sumitomo Mitsui Banking Corporation Europe Limited  
99 Queen Victoria Street  
London EC4V 4EH

Mizuho Corporate Bank Limited  
London Branch  
Bracken House  
1 Friday Street  
London EC4M 9JA

**Registered Office**

240 Blackfriars Road  
London  
SE1 8NW

Registered No. 01804186

## Strategic report

The directors present their strategic report for the year ended 31 March 2019.

### Principal activity and review of the business

The principal activities of the company are the publishing, licensing, marketing, distribution and development of entertainment software.

The company's key financial and other performance indicators during the year were as follows:-

	2019	2018	change
	£000	£000	%
Turnover	287,777	176,498	63
Gross profit (%)	72	52	38
Shareholder's deficit	(316,544)	(301,298)	5

The turnover for the year increased by 63% to £288,777,000 (2018 - £176,498,000). This was due to the timing schedule of major game title releases. Turnover for the current year included sales of Shadow of the Tomb Raider, Kingdom Hearts 3 and Just Cause 4 which were all key titles released in the year and represented a much fuller release schedule for the company than in the previous year.

The gross profit margin in the year increased from 52% to 72%. This is a result of a larger proportion of the turnover being earned from sales of games made using the company's own IP. Previous year turnover included a larger proportion of sales of Japanese developed titles, upon which the company pays an intra-group royalty and so earns a lower margin.

Exceptional costs of £nil (2018 - £632,000) were incurred during the year. The prior year charge related entirely to the impairment of capitalised development costs arising from reduction in carrying values or complete impairment of the assets.

The shareholder's deficit increased due to foreign exchange translation of the historic retained losses, despite a profit being reported for the current year.

### Principal risks and uncertainties

The company had the following principal risks and uncertainties. The directors regularly monitor all these risks and uncertainties and appropriate actions are taken to mitigate the risks or their potential outcomes.

#### Financial instruments

The company has exposure to foreign currency risk due to various intercompany balances, significant sales to customers and payments to suppliers in currencies other than the company's functional currency. The company seeks to balance the flows of currency across countries to minimise any imbalance of foreign currency receipts and payments.

#### Technological risk

The company has exposure to technological changes which may include the introduction of new hardware platforms and adaption of appropriate software technology to operate on these platforms.

#### Launch of products

The company has exposure to delays in the launch of new product titles, the subsequent impact of the additional costs related to those delays and compliance with new regulations required for a product to be launched in the market. This could impact on the financial performance of the company and its reputation in the market.

Registered No. 01804186

## Strategic report

### Principal risks and uncertainties (continued)

#### *Loss of key personnel*

The company has exposure to the loss of key personnel by way of having the appropriate employee skill base to develop new products which would be successful in the market.

#### *Brexit uncertainty*

The company has exposure to uncertainty caused by the UK's ongoing process of leaving the European Union ("Brexit"). Brexit uncertainty has potential impacts on foreign exchange gains and losses due to exchange rate volatility, movement of physical goods into and out of the UK plus associated VAT and customs duties, and freedom of movement and right to work in the UK for EU nationals.

On behalf of the Board



P Rogers  
Director  
19 December 2019

Registered No. 01804186

## Directors' report

The directors present their report and financial statements for the year ended 31 March 2019.

### Results and dividends

The profit for the year after taxation amounted to £20,461,000 (2018 – loss of £36,007,000). The directors do not recommend a final dividend (2018 – £nil). Increased turnover due to game release schedule, and foreign exchange gain were the most significant contributors to the current year fluctuation.

### Future developments

The directors aim to maintain the management policies and the strategic direction that will allow the company to continue to develop high quality games, enabling it to exploit the opportunities offered by this growing sector. In the coming years this will be achieved by exploiting a mixture of new IP and established game franchises.

### Going concern

The directors have relied upon parental support from the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, a company registered in Japan, to allow the directors to adopt the going concern basis of accounting. Parental support will allow the company to meet its obligations and liabilities as they fall due should this be required. The directors, having made inquiries of, and having assessed the responses of the directors of the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, consider the ultimate parent undertaking to have sufficient financial resources to fulfil the obligation to provide continuing financial support, to allow the company to meet its obligations and liabilities should financial support be necessary. They have thus concluded that the company is a going concern for at least 12 months from the date of approval of these financial statements.

### Directors

The directors who served the company during the year were as follows:

P Rogers

M Sherlock (resigned on 31 August 2018)

Y Matsuda

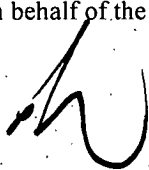
### Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

A resolution to reappoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting.

On behalf of the Board



P Rogers

Director

19 December 2019

## Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQUARE ENIX LIMITED

### Opinion

We have audited the financial statements of Square Enix Limited for the year ended 31 March 2019 which comprise Statement of comprehensive income, the Statement of financial position, Statement of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2019 and its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the annual report set out on pages 1 to 5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQUARE ENIX LIMITED  
(CONTINUED)

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error:

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SQUARE ENIX LIMITED  
(CONTINUED)

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

Stuart Darrington (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

23/12/14

## Statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
<b>Turnover</b>	2	287,777	176,498
Cost of sales		(80,941)	(84,575)
<b>Gross profit</b>		206,836	91,923
Selling and marketing		(43,569)	(15,573)
Research and development		(105,471)	(43,744)
Administrative expenses	5	(29,932)	(60,260)
Write off intercompany debtors	5	(140)	(2,604)
Exceptional items	8	-	(632)
<b>Operating profit/(loss)</b>	5	27,724	(30,890)
Interest receivable and similar income	6	1,653	1,489
Interest payable and similar charges	7	(8,063)	(6,360)
<b>Profit/(loss) on ordinary activities before taxation</b>		21,314	(35,761)
Tax on ordinary activities	9	(853)	(246)
<b>Profit/(loss) for the financial year and total comprehensive income</b>		<u>20,461</u>	<u>(36,007)</u>

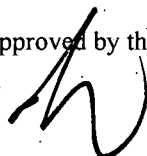
All amounts relate to continuing activities.

## Statement of financial position

at 31 March 2019

	Notes	2019 £000	2018 £000
<b>Fixed assets</b>			
Intangible assets	10	3,999	2,847
Capitalised development costs	13	145,419	64,566
Tangible assets	11	2,079	1,623
Investments	12	41,053	36,334
		<u>192,550</u>	<u>105,370</u>
<b>Current assets</b>			
Capitalised development costs	13	13,777	71,065
Stock	14	9,267	5,308
Debtors:			
amounts falling due within one year	15	57,266	36,637
amounts falling due after one year	15	3,087	2,163
		<u>60,353</u>	<u>38,800</u>
Cash at bank and in hand		<u>84,093</u>	<u>36,445</u>
		<u>167,490</u>	<u>151,618</u>
<b>Creditors:</b> amounts falling due within one year	16	(616,685)	(498,365)
Bank overdraft		(59,898)	(59,921)
<b>Net current liabilities</b>		<u>(509,093)</u>	<u>(406,668)</u>
<b>Net liabilities</b>		<u>(316,543)</u>	<u>(301,298)</u>
<b>Capital and reserves</b>			
Called up share capital	18	145,403	145,403
Share premium account		3,102	3,102
Capital redemption reserve		3	3
Hedging reserve		(117)	-
Foreign exchange reserve		1,580	3,456
Profit and loss account		(466,514)	(453,262)
<b>Shareholder's deficit</b>		<u>(316,543)</u>	<u>(301,298)</u>

Approved by the board



P Rogers

Director

19 December 2019

## Statement of changes in equity

for the year ended 31 March 2019

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Capital redemption reserve £000</i>	<i>Foreign exchange reserve £000</i>	<i>Hedging reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 April 2017	145,403	3,102	3	-	-	(431,068)	(282,560)
Loss for the year	-	-	-	-	-	(36,007)	(36,007)
Foreign exchange	-	-	-	3,456	-	13,813	17,269
At 1 April 2018	145,403	3,102	3	3,456	-	(453,262)	(301,298)
Profit for the year	-	-	-	-	-	20,461	20,461
Foreign exchange	-	-	-	(1,876)	(117)	(33,713)	(35,706)
At 31 March 2019	145,403	3,102	3	1,580	(117)	(466,514)	(316,543)

## Notes to the financial statements

at 31 March 2019

### 1. Accounting policies

#### *Statement of compliance*

Square Enix Limited is a limited liability company incorporated in England. The Registered Office is 240 Blackfriars Road, London, SE1 8NW.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 March 2019.

#### *Basis of preparation*

The financial statements have been prepared on the historical cost basis.

The nature of operations and its principal activity are set out in the Directors' report.

The financial statements are prepared in Sterling. During the year ended 31 March 2018 there was a change in the company's functional currency from Sterling to US Dollars, effective 1 January 2018. The change in functional currency was a result of a change in the contracted currency for royalty payments made between the company and Square Enix Co. Ltd, a fellow group company registered in Japan.

The company's management has decided that the presentational currency of the financial statements remains Sterling for the year ended 31 March 2019.

#### *Going concern*

The company's business activities, together with the factors likely to affect its future development and position, are set out above. The directors have relied upon parental support from the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, a company registered in Japan, to allow the directors to adopt the going concern basis of accounting. Parental support will allow the company to meet its obligations and liabilities as they fall due should this be required. The directors, having made inquiries of, and having assessed the responses of the directors of the company's ultimate parent undertaking, Square Enix Holdings Co., Ltd, consider the ultimate parent undertaking to have sufficient financial resources to fulfil the obligation to provide continuing financial support, to allow the company to meet its obligations and liabilities should financial support be necessary. They have thus concluded that the company is a going concern for at least 12 months from the date of approval of these financial statements.

#### *Group financial statements*

The financial statements contain information about Square Enix Limited as an individual company and do not contain financial statements information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirements to prepare group financial statements for the period to 31 March 2019 as it and its subsidiary undertakings are included in the group financial statements of its ultimate parent undertaking, Square Enix Holdings Co., Ltd, a company registered in Japan.

#### *Statement of cash flows*

The company has taken advantage of the exemption to prepare a statement of cash flows under Financial Reporting Standard 102. The company is a wholly owned subsidiary of a Japanese parent. Square Enix Holdings Co., Ltd. Square Enix Holdings Co., Ltd prepares group financial statements, which are publicly available from Shinjuku Eastside Square, 6-27-30 Shinjuku, Shinjuku-ku, Tokyo, 160-8430, Japan.

#### *Disclosure exemptions*

In accordance with FRS 102 Section 33, the company has taken advantage of the exemptions for subsidiary undertakings, whose 100% of voting rights are controlled within a group, from the requirement to disclose related party transactions.

#### *Judgements and key sources of estimation uncertainty*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

## Notes to the financial statements

at 31 March 2019

### 1. Accounting policies (continued)

#### *Taxation*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

#### *Operating lease commitments*

The Company has entered into property, plant and equipment leases as a lessee. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the requires an asset and liability to be recognised in the balance sheet.

#### *Provision for price protection*

Management judgement is required to determine the amount of provision to be recognised for price protection sales credit notes. Judgement is based on management's knowledge of market conditions, analysis of the performance of individual titles and evidence obtained from previous price protection claims.

#### *Capitalisation and amortisation of development costs*

Management judgement is applied in determining whether the criteria for capitalising costs incurred in the development of new games have been met. Additionally, judgement based on management's knowledge and experience of expected revenue flows is used to determine appropriate periods over which the costs are amortised.

#### *Intangible assets*

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are restated at cost less amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

Computer software	—	33% per annum straight line
Internally developed software	—	33% per annum straight line

If there are indicators that the carrying value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ, the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

## Notes to the financial statements

at 31 March 2019

### 1. Accounting policies (continued)

Leasehold improvements	—	over the life of the lease
Fixtures, fittings and office equipment	—	20% per annum straight line
Computer equipment	—	33% per annum straight line

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Investments**

Investments held as fixed assets are stated at cost less provision for any permanent impairment in value. The carrying values are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Capitalised development costs**

Capitalised development costs correspond to the costs incurred in the development of new games to the extent that the company has determined that:

- the game is technically and commercially feasible;
- the game clearly is defined and related expenditure is separately identifiable;
- current and future costs are expected to be exceeded by future earnings;
- the company has the intention and ability to complete the game; and
- adequate resources exist for the product to be completed;

Game costs are amortised over the period that, based on historical experience, prudently simulates the expected flow of revenues from the game, in the period starting from the month of release. Internally developed software costs are amortised on a straight line basis at 33% per annum.

At the close of each fiscal year game costs are reviewed by project for any loss of value compared to the net book value at that time. Where the expected future contribution of a game does not exceed the total expected costs to complete the development an impairment provision is made.

#### **Impairment of non-financial assets**

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment charge in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

#### **Stocks**

Stocks comprise finished goods for resale, and are stated at the lower of cost and net realisable value. Cost is calculated as cost of materials. Net realisable value is based on estimated selling price, less further disposal costs.

#### **Cash**

Cash and cash equivalents in the balance sheet comprise cash banks and in hand and short term deposits with an original maturity date of three months or less.

#### **Short term debtors and creditors**

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

## Notes to the financial statements

at 31 March 2019

### 1. Accounting policies (continued)

#### *Revenue recognition*

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

#### *Sales of goods*

Sales of games to retailers and external distributors at invoiced and accrued amounts less value added tax and provision against any subsequent returns. Turnover from sales of games is recognised at the point at which the game is delivered. The company makes provision against any subsequent returns or price protection.

#### *Royalty revenue from distributors*

Royalty payments received or accrued from external distributors under licence of the right to distribute games in certain territories. Where advance payments against royalties are received under licence in so far as the company's obligations have been fulfilled such advances are recognised at the point at which they become non-returnable; and

#### *Royalty revenue from licence agreements*

Royalty payments received or accrued from third parties under licence of the right to exploit the Group's intellectual property on other media. These are recognised on an accruals basis in accordance with the substance of the relevant contracts.

#### *Interest income*

Revenue is recognised as interest accrues.

#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Research expenditure*

Research expenditure is written off as incurred, except for development expenditure incurred on an individual project which is capitalised when it is relatively assured there will be future economic benefits generated.

#### *Foreign currencies*

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.



## Notes to the financial statements

at 31 March 2019

### 1. Accounting policies (continued)

#### *Operating leases*

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

#### *Pensions*

The company pays specified pension contributions to certain employees' private pension schemes on a monthly basis. Other than this, the company has no ongoing commitment. Consequently no provision for pension obligations is necessary. Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

### 2. Turnover

All turnover and profits originate from the UK and relate to the principal activity of the company.

#### *Segmental analysis by geographical areas by destination*

	2019 £000	2018 £000
United Kingdom	41,631	27,530
France	15,326	14,293
Germany	65,189	33,715
Rest of Europe	44,951	35,375
United States of America	66,017	27,728
Rest of the world	54,663	37,858
	<u>287,777</u>	<u>176,498</u>

### 3. Staff costs

Staff costs consist of:

	2019 £000	2018 £000
Wages and salaries	12,144	12,039
Social security costs	1,478	1,442
Other pension costs	1,226	916
Payments in lieu of notice	20	4
	<u>14,868</u>	<u>14,401</u>

The average number of employees, including directors, during the year was:

	2019 No.	2018 No.
Administration	157	133
Development	112	95
	<u>269</u>	<u>228</u>

## Notes to the financial statements

at 31 March 2019

### 4. Directors' remuneration

	2019 £000	2018 £000
Remuneration	796	527

In respect of the highest paid director of Square Enix Limited:

	2019 £000	2018 £000
Remuneration	796	527

### 5. Operating profit/(loss)

This is stated after charging/(crediting):

	2019 £000	2018 £000
Depreciation of owned fixed assets	835	535
Amortisation of intangible fixed assets	1,804	1,664
Amortisation of capitalised development costs	103,293	12,352
Provisions against investments	-	21,956
Auditor's remuneration – audit services*	385	375
Auditor's remuneration – tax services	73	43
Rentals under operating leases – plant and machinery	2	2
– other operating leases	1,040	925
(Profit)/loss on foreign exchange	(17,428)	2,664
Write off intercompany debtors	140	2,604

\*Ernst & Young LLP member firms also audit overseas subsidiaries and charge fees of £90,000 (2018 - £90,000)

### 6. Interest receivable and similar income

	2019 £000	2018 £000
Amounts receivable from group undertakings	1,650	1,489
Other interest receivable	3	-
	1,653	1,489

### 7. Interest payable and similar charges

	2019 £000	2018 £000
Amounts payable to group undertakings	7,482	5,992
Other interest payable	581	368
	8,063	6,360

## Notes to the financial statements

at 31 March 2019

### 8. Exceptional items

This is stated after charging:

	2019 £000	2018 £000
Impairment of capitalised development costs	-	632
	<u>-</u>	<u>632</u>

This charge relates to the impairment of capitalised development costs of products that were in development during the prior year.

### 9. Tax

#### (a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2019 £000	2018 £000
<b>Current tax:</b>		
UK corporation tax	806	170
Prior year adjustment	-	23
Withholding tax expense	47	53
Total current tax (note 9(b))	<u>853</u>	<u>246</u>

#### (b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019 £000	2018 £000
Profit/(loss) on ordinary activities before tax	<u>21,315</u>	<u>(35,760)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 – 19%)	4,050	(6,794)
<b>Effects of:</b>		
Expenses disallowed for tax purposes	1,145	8,739
Income not included in determining taxable profit	(1,994)	-
Previously unrecognised losses utilised in the current year	(1,756)	(1,143)
Movement in previously unrecognised deferred tax	(639)	(632)
Withholding tax expense	47	53
Prior year adjustment	-	23
Current tax for the year (note 9(a))	<u>853</u>	<u>246</u>

## Notes to the financial statements

at 31 March 2019

### 9. Tax (continued)

(c) Factors that may affect future tax charges

On 15 September 2016, Finance Act 2016 was substantively enacted. As per Section 46 of Finance Act 2016, the main rate of corporation tax will reduce from 19% to 17% as of 1 April 2020. At the date of preparation, no other legislation has been introduced or enacted which will impact this.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date. Therefore, the unrecognised deferred tax is measured at 17% in the current period.

### 10. Intangible fixed assets

	<i>Computer software</i> £000	<i>Internally developed software</i> £000	<i>Total</i> £000
Cost:			
At 1 April 2018	4,236	10,098	14,333
Additions	144	2,609	2,753
Disposals	(13)	-	(13)
Foreign exchange difference	315	748	1,064
At 31 March 2019	<u>4,682</u>	<u>13,455</u>	<u>18,137</u>
Depreciation:			
At 1 April 2018	3,918	7,569	11,487
Charge for the year	197	1,607	1,804
Disposals	(13)	-	(13)
Foreign exchange difference	292	568	861
At 31 March 2019	<u>4,394</u>	<u>9,744</u>	<u>14,139</u>
Net book value:			
At 31 March 2019	<u>288</u>	<u>3,711</u>	<u>3,999</u>
At 1 April 2018	<u>318</u>	<u>2,529</u>	<u>2,847</u>

## Notes to the financial statements

at 31 March 2019

### 11. Tangible fixed assets

	<i>Leasehold improvements</i> £000	<i>Computer equipment</i> £000	<i>Fixtures and fittings</i> £000	<i>Total</i> £000
Cost:				
At 1 April 2018	323	3,553	45	3,921
Additions	328	768	86	1,182
Disposals	-	(104)	-	(104)
Foreign exchange difference	19	271	(2)	288
At 31 March 2019	670	4,488	129	5,287
Depreciation:				
At 1 April 2018	323	1,941	34	2,298
Charge for the year	50	774	11	835
Disposals	-	(97)	-	(97)
Foreign exchange difference	24	145	3	172
At 31 March 2019	397	2,763	48	3,208
Net book value:				
At 31 March 2019	273	1,725	81	2,079
At 1 April 2018	-	1,612	11	1,623

The company does not hold any assets held under finance leases.

### 12. Investments

	<i>Subsidiary undertakings</i> £000	<i>Associates</i> £000	<i>Total</i> £000
Cost:			
At 1 April 2018	64,877	-	64,877
Additions	-	2,017	2,017
Foreign exchange difference	4,825	-	4,825
At 31 March 2019	69,702	2,017	71,719
Provision against investments:			
At 1 April 2018	28,543	-	28,543
Foreign exchange difference	2,123	-	2,123
At 31 March 2019	30,666	-	30,666
Carrying amount at 31 March 2019	39,036	2,017	41,053
Carrying amount at 1 April 2018	36,334	-	36,334

## Notes to the financial statements

at 31 March 2019

### 12. Investments (continued)

The subsidiary undertakings at 31 March 2019 were as follows:

<i>Name</i>	<i>Country of incorporation</i>	<i>Class of shares held</i>	<i>Proportion of ordinary share capital held</i>	<i>Nature of business</i>
Crystal Dynamics, Inc* (1)	USA	Ordinary shares	100%	Developer of entertainment software
Eidos Interactive Corporation (2)	Canada	Ordinary shares	100%	Developer of entertainment software
Eidos Creative Software Development (Shanghai) Co. Limited** (3)	China	Ordinary shares	100%	Interactive Entertainment Software
Square Enix SARL (4)	France	Ordinary shares	100%	Promotion of entertainment software
Square Enix GmbH (5)	Germany	Ordinary shares	100%	Promotion of entertainment software
Eidos Inc (6)	USA	Ordinary shares	100%	Parent undertaking
IO Interactive Holdings S/A (7)	Denmark	Ordinary shares	100%	Parent undertaking
SCi Games Limited (8)	England	Ordinary shares	100%	Parent undertaking

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

\* Held indirectly through Eidos Inc \*\*Held indirectly by SCi Games Limited

The Registered office address of each of the companies listed above is

- (1) 1400A Seaport Blvd, Suite 300, Redwood City, CA 94063, USA
- (2) 400 de Maisonneuve West, 6<sup>th</sup> Floor, Montreal, Quebec, Canada, H3A 1L4
- (3) 'Bridge 8', Room 9201, #25 Jian Guo Zhong Road Shanghai, 200025 China
- (4) 43 Rue Raspail, 92300 Levallois-Perret, France
- (5) Domstrasse 17, 20095 Hamburg, Germany
- (6) 1400A Seaport Blvd, Suite 300, Redwood City, CA 94063, USA
- (7) Gammel Mont 2-4, DK-1117 Copenhagen, Denmark
- (8) 240 Blackfriars Road, 12 & 13<sup>th</sup> Floors, London, SE1 8NW

The addition to investments in associates in the year is the acquisition of a 22.23% shareholding in Bulkhead Interactive Limited, a company registered in England and Wales.

## Notes to the financial statements

at 31 March 2019

### 13. Capitalised development costs

	2019 £000	2018 £000
At 1 April 2018	135,631	64,151
Capitalised in the year	115,428	88,599
Released to profit and loss	(103,293)	(12,352)
Impairment released to profit and loss (note 8)	-	(632)
Foreign exchange difference	11,430	(4,135)
At 31 March 2019	<u>159,196</u>	<u>135,631</u>
Current	13,777	71,065
Non current	<u>145,419</u>	<u>64,566</u>
	<u>159,196</u>	<u>135,631</u>

### 14. Stocks

	2019 £000	2018 £000
Raw materials and consumables	1,642	732
Finished goods	<u>7,625</u>	<u>4,576</u>
	<u>9,267</u>	<u>5,308</u>

### 15. Debtors

	2019 £000	2018 £000
Trade debtors	10,711	9,047
Other debtors	1,471	2,572
Prepayments and accrued income	12,494	16,069
Amounts receivable from fellow group undertakings*	<u>32,590</u>	<u>8,948</u>
	<u>57,266</u>	<u>36,637</u>

Amounts falling due after more than one year included above are:

	2019 £000	2018 £000
Prepayments and accrued income	3,035	2,111
Amounts receivable from fellow group undertakings	<u>52</u>	<u>52</u>
	<u>3,087</u>	<u>2,163</u>

\* Balance is intercompany trading balances with no fixed payment terms. Interest is charged at Prime Business Rate plus 0.5% for balances with Canadian entities and at WSJ Prime Rate plus 0.5% for balances with US entities.

## Notes to the financial statements

at 31 March 2019

### 16. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	6,562	4,660
Amounts payable to fellow group undertakings*	562,577	474,921
Other creditors	612	564
Accruals and deferred income	46,128	18,205
Corporation tax	806	15
Other taxes and social security costs	-	-
	<u>616,685</u>	<u>498,365</u>

\* Balance includes intercompany trading balances with no fixed payment terms. Interest is charged at Bank of England Base Rate plus 2% for balances with UK entities, Euribor rate plus 1.75% for balances with EU entities, Prime Business Rate plus 0.5% for balances with Canadian entities and at WSJ Prime Rate plus 0.5% for balances with US entities. Balance also includes formal loans from fellow group entities which are repayable on demand. Interest is charged at rates between 1.2% and 3.2% on the various loans.

### 17. Deferred taxation

	2019 £000	2018 £000
Recognised tax assets		
Tax effect of recognising previously unrecognised tax losses	(1,756)	(1,143)
Current year charge	1,756	1,143
Deferred tax for the year	<u>-</u>	<u>-</u>
	2019 £000	2018 £000
Unrecognised tax assets		
Difference between tax allowances and book depreciation of fixed assets	2,299	2,729
Tax effect of losses carried forward	54,112	60,399
	<u>56,411</u>	<u>63,128</u>

In accordance with FRS 19, the recognition of a deferred tax asset has been limited to the extent that the company anticipates making sufficient taxable profits in the near future to absorb the reversal of the underlying timing differences.



## Notes to the financial statements

at 31 March 2019

### 18. Issued share capital

<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>2019</i> <i>£000</i>	<i>No.</i>	<i>2018</i> <i>£000</i>
Ordinary shares of £1 each	33,668,515	33,669	33,668,515	33,669
Ordinary 'A' shares of 5p each	1,800,076,760	90,004	1,800,076,760	90,004
Ordinary 'B' shares of £1 each	21,730,281	21,730	21,730,281	21,730
	1,855,475,556	<u>145,403</u>	1,855,475,556	<u>145,403</u>

The 'A' ordinary shares are non-voting but otherwise rank pari passu with the £1 ordinary shares.

On 24 June 2004 the company increased its authorised share capital from £206,750 to £25,206,750 by the creation of 25,000,000 'B' ordinary shares of £1 each. The new class of "B" ordinary shares rank pari passu with the ordinary shares except as expressly provided otherwise in the company's Articles of Association.

On 1 September 2015 the company issued 33,500,552 new £1 ordinary shares at par. The shares were issued to the company's immediate parent at the time, Square Enix of Europe Holdings Limited, in a debt to equity conversion. The value of the consideration received was £33,500,552.

### 19. Financial instruments

	<i>2019</i> <i>£000</i>	<i>2018</i> <i>£000</i>
<i>Financial assets that are equity instruments measured at cost less impairment</i>		
Unlisted investments	39,036	36,334
<i>Financial assets that are debt instruments measured at amortised cost</i>		
Cash	84,093	36,445
Debtors	44,772	20,568
<i>Financial liabilities measured at amortised cost</i>		
Creditors	(570,558)	(480,158)

### 20. Other financial commitments

At 31 March 2019 the company had total commitments under non-cancellable operating leases as set out below:

	<i>2019</i> <i>£000</i>	<i>2018</i> <i>£000</i>
	<i>Land and buildings</i>	<i>Land and buildings</i>
	<i>Other</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire:		
Within one year	1,457	2
In two to five years	143	4
Over five years	-	-
	<u>1,600</u>	<u>6</u>
		<u>3,219</u>
		<u>7</u>

## Notes to the financial statements

at 31 March 2019

### 21. Ultimate parent undertaking and controlling party

As at 31 March 2019, the company's immediate and ultimate parent undertaking and controlling party was Square Enix Holdings Co., Ltd, incorporated in Japan. Square Enix Holdings Co., Ltd is the parent of the smallest and largest group of undertakings for which group financial statements are prepared. Group financial statements for Square Enix Holdings Co., Ltd are available from Shinjuku Eastside Square, 6-27-30 Shinjuku, Shinjuku-ku, Tokyo 160-8430, Japan.