Square Enix Limited

Reports and Financial Statements

31 March 2018

Directors
P Rogers
Y Matsuda

Secretary
A Chokshi

Auditor
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London SE1 2AF

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London EC2V 7AE

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London Branch
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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 2018.

Principal activity and review of the business

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

During the year 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 key financial and other performance indicators during the year were as follows:-

	2018	*2017*	*change*
	£000	*£000*	*%.*
Turnover	176,498	288,061	(39)
Gross profit (%)	52	69	(24)
Shareholder's deficit	(301,298)	(282,560)	7

The turnover for the year decreased by 39% to £176,498,000 (2017 - £288,061,000). This was due to the timing schedule of major game title releases. Turnover for the prior year included sales of Final Fantasy XV which was a particularly high selling title in the year, and saw higher sales than any key title released in the current year.

The gross profit margin in the year decreased from 69% to 52%. This is a result of increased intra-group royalty costs payable on sales made by the company of Japanese developed titles. Current year cost of sales includes a transfer pricing adjustment relating to royalties payable on Japanese title sales made in both the current and previous year.

Exceptional costs of £632,000 (2017 - £2,169,000) were incurred during the year. The current and prior year charges 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 the retained loss for the 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.

On behalf of the Board

P Rogers
Director
17 December 2018

Registered No. 01804186

Directors' report

The directors present their report and financial statements for the year ended 31 March 2018.

Results and dividends

The loss for the year after taxation amounted to £36,007,000 (2017 – profit of £1,329,000). The directors do not recommend a final dividend (2017 – £nil). Decreased turnover due to game release timing, and loss on disposal of investments 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
17 December 2018

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 2018 which comprise the 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 including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 2018 and of its loss 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, 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.

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.

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

Philip Young (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

20 December 2018

Statement of comprehensive income

for the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Turnover	2	176,498	288,061
Cost of sales		(84,575)	(90,220)
Gross profit		91,923	197,841
Selling and marketing		(15,573)	(35,969)
Research and development		(43,744)	(101,315)
Administrative expenses	5	(60,260)	(48,318)
Write off intercompany debtors	5	(2,604)	(1,853)
Exceptional items	8	(632)	(2,169)
Operating (loss)/profit	5	(30,890)	8,217
Interest receivable and similar income	6	1,489	1,473
Interest payable and similar charges	7	(6,360)	(8,312)
(Loss)/profit on ordinary activities before taxation		(35,761)	1,378
Tax on ordinary activities	9	(246)	(49)
(Loss)/profit for the financial year and total comprehensive income		(36,007)	1,329

All amounts relate to continuing activities.

Statement of financial position

at 31 March 2018

	Notes	£000	2018 £000	£000	2017 £000
Fixed assets					
Intangible assets	10		2,847		2,978
Capitalised development costs	13		64,566		60,321
Tangible assets	11		1,623		691
Investments	12		36,334		59,612
			105,370		123,602
Current assets					
Capitalised development costs	13		71,065		3,830
Stock	14		5,308		4,079
Debtors:					
amounts falling due within one year		36,637		56,330	
amounts falling due after one year		2,163		1,442	
	15		38,800		57,772
Cash at bank and in hand			36,445		103,875
			151,618		169,555
Creditors: amounts falling due within one year	16		(498,365)		(515,806)
Bank overdraft			(59,921)		(58,911)
Net current liabilities			(406,668)		(406,162)
Net liabilities			(301,298)		(282,560)
Capital and reserves					
Called up share capital	18		145,403		145,403
Share premium account			3,102		3,102
Capital redemption reserve			3		3
Foreign exchange reserve			3,456		-
Profit and loss account			(453,262)		(431,068)
Shareholder's deficit			(301,298)		(282,560)

Approved by the board

P Rogers

Director

17 December 2018

Statement of changes in equity

for the year ended 31 March 2018

	Share capital	*Share premium*	*Capital redemption reserve*	*Foreign exchange reserve*	*Profit and loss account*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 April 2016	145,403	3,102	3	-	(432,397)	(283,889)
Profit for the year	-	-	-	-	1,329	1,329
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 31 March 2018	145,403	3,102	3	3,456	(453,262)	(301,298)

Notes to the financial statements

at 31 March 2018

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 2018.

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 2018 since Sterling remained the functional currency of the company for the majority of the year.

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 2018 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 publically 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 2018

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 a 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 2018

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 2018

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.

Agency agreement

Square Enix (2009) Limited appointed Square Enix Limited as its authorised agent pursuant to an agency agreement between both parties entered into on 9 November 2009. Under the agreement, Square Enix Limited transferred to Square Enix (2009) Limited the revenue it collected as its agent, and charged a management charge for performing its duties. The agency agreement ended on 1 April 2016.

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 2018

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

	2018	*2017*
	£000	*£000*
United Kingdom	27,530	39,830
France	14,293	12,916
Germany	33,715	68,018
Rest of Europe	35,375	51,193
United States of America	27,728	66,965
Rest of the world	37,858	49,139
	176,498	288,061

3. Staff costs

Staff costs consist of:

	2018	*2017*
	£000	*£000*
Wages and salaries	12,039	10,529
Social security costs	1,442	1,203
Other pension costs	916	845
Payments in lieu of notice	4	50
	14,401	12,627

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

	2018	*2017*
	No.	*No.*
Administration	133	126
Development	95	90
	228	216

Notes to the financial statements

at 31 March 2018

4. Directors' remuneration

	2018	2017
	£000	£000
Remuneration	527	685
Company contributions paid to defined contribution pension schemes	0	10

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

	2018	2017
	£000	£000
Remuneration	527	488
Company contributions paid to defined contribution pension schemes	-	-

5. Operating (loss)/profit

This is stated after charging/(crediting):

			2018	2017
			£000	£000
Depreciation of owned fixed assets			535	740
Amortisation of intangible fixed assets			1,664	1,391
Auditor's remuneration – audit services			465	437
Auditor's remuneration – tax services			43	34
Rentals under operating leases	–	plant and machinery	2	9
	–	other operating leases	925	910
Loss on foreign exchange			2,664	11,564
Write off intercompany debtors			2,604	1,853

6. Interest receivable and similar income

	2018	2017
	£000	£000
Amounts receivable from group undertakings	1,489	1,473
	1,489	1,473

7. Interest payable and similar charges

	2018	2017
	£000	£000
Amounts payable to group undertakings	5,992	7,954
Other interest payable	368	358
	6,360	8,312

Notes to the financial statements

at 31 March 2018

8. Exceptional items

This is stated after charging:

	2018	*2017*
	£000	*£000*
Impairment of capitalised development costs	632	2,169
	632	2,169

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

9. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2018	*2017*
	£000	*£000*
Current tax:		
UK corporation tax	170	-
Prior year adjustment	23	-
Withholding tax expense	53	49
Total current tax (note 9(b))	246	49

(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% (2017 – 20%). The differences are explained below:

	2018	*2017*
	£000	*£000*
(Loss)/profit on ordinary activities before tax	(35,760)	1,378
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 – 20%)	(6,794)	276
Effects of:		
Expenses disallowed for tax purposes	8,739	2,035
Previously unrecognised losses utilised in the current year	(1,143)	(2,311)
Previously unrecognised differences between tax allowances and book depreciation of fixed assets	(632)	-
Withholding tax expense	53	49
Prior year adjustment	23	-
Current tax for the year (note 9(a))	246	49

Notes to the financial statements

at 31 March 2018

9. Tax (continued)

(c) Factors that may affect future tax charges

On 26 October 2015 the Summer Finance Bill 2015, which reduces the main rate of corporation tax to 18% from April 2020, was substantially enacted.

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 18% in the current period.

10. Intangible fixed assets

	Computer software £000	*Internally developed software £000*	*Total £000*
Cost:			
At 1 April 2017	4,203	9,014	13,217
Additions	199	1,441	1,640
Disposals	(13)	-	(13)
Foreign exchange difference	(154)	(357)	(511)
At 31 March 2018	4,236	10,098	14,333
Depreciation:			
At 1 April 2017	3,789	6,450	10,239
Charge for the year	283	1,381	1,664
Disposals	(13)	-	(13)
Foreign exchange difference	(140)	(263)	(403)
At 31 March 2018	3,918	7,569	11,487
Net book value:			
At 31 March 2018	318	2,529	2,847
At 1 April 2017	415	2,564	2,978

Notes to the financial statements
at 31 March 2018

11. Tangible fixed assets

	Leasehold improvements £000	*Computer equipment £000*	*Fixtures and fittings £000*	*Total £000*
Cost:				
At 1 April 2017	335	4,433	45	4,813
Additions	-	1,475	1	1,476
Disposals	-	(2,256)	-	(2,256)
Foreign exchange difference	(12)	(96)	(2)	(110)
At 31 March 2018	335	3,652	46	4,034
Depreciation:				
At 1 April 2017	259	3,835	28	4,122
Charge for the year	76	451	8	535
Disposals	-	(2,255)	-	(2,255)
Foreign exchange difference	(12)	(89)	(1)	(102)
At 31 March 2018	335	2,032	36	2,403
Net book value:				
At 31 March 2018	-	1,613	9	1,623
At 1 April 2017	76	598	17	691

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

12. Investments

	Subsidiary undertakings £000
Cost:	
At 1 April 2017	67,238
Additions	-
Disposals	-
Foreign exchange difference	(2,361)
At 31 March 2018	64,877
Provision against investments:	
At 1 April 2017	7,626
Additions	21,956
Disposals	-
Foreign exchange difference	(1,039)
At 31 March 2018	28,543
Carrying amount at 31 March 2018	36,334
Carrying amount at 1 April 2017	59,612

The subsidiary undertakings at 31 March 2018 were as follows:

Notes to the financial statements

at 31 March 2018

12. Investments (continued)

Name	*Country of incorporation*	*Class of shares held*	*Proportion of ordinary share capital held*	*Nature of business*
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 of €7,623	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 of DKK1000 each	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, 6th 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, 12th & 13th Floors, London, SE1 8NW

13. Capitalised development costs

	2018	*2017*
	£000	*£000*
At 1 April 2017	64,151	65,550
Capitalised in the year	88,599	69,271
Released to profit and loss	(12,352)	(68,501)
Impairment released to profit and loss (note 8)	(632)	(2,169)
Foreign exchange difference	(4,135)	-
At 31 March 2018	135,631	64,151

Notes to the financial statements
at 31 March 2018

14. Stocks

	2018 £000	2017 £000
Raw materials and consumables	732	1,054
Finished goods	4,576	3,025
	5,308	4,079

15. Debtors

	2018 £000	2017 £000
Trade debtors	9,047	8,313
Other debtors	2,572	2,589
Prepayments and accrued income	16,069	13,561
Amounts receivable from fellow group undertakings	8,948	31,867
	36,637	56,330

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

	2018 £000	2017 £000
Prepayments and accrued income	2,111	1,388
Amounts receivable from fellow group undertakings	52	54
	2,163	1,442

16. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	4,660	3,525
Amounts payable to fellow group undertakings	474,921	478,330
Other creditors	564	111
Accruals and deferred income	18,205	33,536
Corporation tax	15	-
Other taxes and social security costs	-	304
	498,365	515,806

Notes to the financial statements

at 31 March 2018

17. Deferred taxation

	2018 £000	2017 £000
Recognised tax assets		
Tax effect of recognising previously unrecognised tax losses	(1,143)	(2,311)
Current year charge	1,143	2,311
Deferred tax for the year	-	-

	2018 £000	2017 £000
Unrecognised tax assets		
Difference between tax allowances and book depreciation of fixed assets	2,729	3,153
Tax effect of losses carried forward	60,399	58,302
	63,128	61,456

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.

18. Issued share capital

Allotted, called up and fully paid	*No.*	*2018 £000*	*No.*	*2017 £000*
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	145,403	1,855,475,556	145,403

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.

Notes to the financial statements

at 31 March 2018

19. Financial instruments

	2018	2017
	£000	£000
Financial assets that are equity instruments measured at cost less impairment		
Unlisted investments	37,656	59,612
Financial assets that are debt instruments measured at amortised cost		
Cash	36,334	43,963
Debtors	20,567	42,769
Financial liabilities measured at amortised cost		
Creditors	(480,160)	(492,456)

20. Other financial commitments

At 31 March 2018 the company had total commitments under non-cancellable operating leases as set out below:

		2018		2016
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	2,008	2	2,329	2
In two to five years	1,211	5	3,219	7
Over five years	-	-	-	-
	3,219	7	5,549	9

21. Ultimate parent undertaking and controlling party

As at 31 March 2018, 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.