

MEDIA MOLECULE LIMITED

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**



Registered Number 05665849

MEDIA MOLECULE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2012

RESULTS AND DIVIDENDS

The profit for the year amounted to £4,349k (2011 £3,437k) The directors do not recommend the payment of a dividend (2011 £nil)

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activities of the company consist of the development of computer software for the games industry

The company continued to develop games exclusively for Sony Computer Entertainment Europe with much effort spent developing the Tearaway title for the Sony PSVita which will be launched in the future Media Molecule Limited is currently working on two new IPs which will provide further revenue streams for Media Molecule Limited

The results for the company show a before taxation profit of £5,846k (2011 pre-tax profit of £4,534k) and turnover of £10,769k (2011 £10,422k) The company has net assets of £14,734k (2011 £10,385k)

BUSINESS ENVIRONMENT

The market in which the company and the group operate is competitive with a number of global companies such as Nintendo and Microsoft operating within this area

Whilst the PlayStation 2 has been the predominant video game consoles for many years, Nintendo's "Dual Screen" has been a competitor for PSP, a handheld console which was launched by the group in September 2005 Nintendo's Wii and Microsoft's Xbox 360 provide competition for the PS3 which was launched by the group in March 2007 Subsequently, the group launched a new iteration of the PSP, the PSP Go! as well as a new slim-line version of the PlayStation 3 A new peripheral the PlayStation Move, a handheld motion controller wand, was launched in 2010 The group launched a new portable gaming device, PSVITA on 22 February 2012

KEY PERFORMANCE INDICATORS

Turnover for the financial year of £10,769k represent the continued strong success of the titles being developed for the PlayStation 3 and PSVITA Turnover is in line with the previous year, having increased very slightly by 3%

The profit on ordinary activities before taxation for the year of £5,846k compared to a profit last year of £4,534k

MEDIA MOLECULE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

Key risks for the company include competition from other external software publishers, the downward price pressure on software and the increasing costs to develop high quality next generation software titles. All of these risks are carefully monitored and controlled by the management team who build effective strategies to control these risks.

RESEARCH AND DEVELOPMENT

It is vital for Media Molecule Limited to focus a high proportion of its resources on R&D to allow it to maintain its world leading position as a developer of innovative games for the PlayStation platform. To achieve this, the company must remain at the forefront of technological advances, and must bring new and often risky innovations to market in products of the highest quality to compete in a competitive global market. Media Molecule Limited is currently investing in R&D in many areas.

FUTURE DEVELOPMENTS

Media Molecule Limited is continuing to develop quality content for Sony Computer Entertainment Europe Limited and its PlayStation platforms, including new and innovating IP.

FINANCIAL RISK MANAGEMENT

Financial risk management is the ultimate responsibility of the boards of Media Molecule Limited and the immediate parent company Sony Computer Entertainment Europe Limited, and is monitored by the finance team.

POLITICAL AND CHARITABLE DONATIONS

Charitable donations of £4,479 were made during the financial year (2011: £3,183). These were in the form of various small donations.

DIRECTORS

The directors of the company who held office as at the date of this report and up to the date of signing this report are as follows:

A House (resigned 5 October 2011)
J Ryan
M Denny
S Rutter (appointed 5 October 2011)

MEDIA MOLECULE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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,
- 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 adequate 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.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that so far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware. Each director has taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP were appointed as auditors during the year and have expressed their willingness to continue in office. A resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

20 December 2012



S Rutter
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEDIA MOLECULE LIMITED

We have audited the financial statements of Media Molecule Limited for the year ended 31 March 2012 which comprise the Profit and Loss account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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



Robert Girdlestone (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

20 December 2012

MEDIA MOLECULE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

		2012	2011
	Notes	£'000	£'000
TURNOVER	1, 2	10,769	10,422
Cost of sales		<u>(90)</u>	<u>(735)</u>
GROSS PROFIT		10,679	9,687
Distribution costs		(19)	(18)
Administrative costs		<u>(4,830)</u>	<u>(5,136)</u>
OPERATING PROFIT		5,830	4,533
Interest receivable and similar income	6	<u>16</u>	<u>1</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	5,846	4,534
Tax on profit on ordinary activities	7	<u>(1,497)</u>	<u>(1,097)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>4,349</u>	<u>3,437</u>

All operations are continuing

The company has no recognised gains or losses other than the results shown above and therefore no separate statement of total recognised gains and losses has been presented

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

MEDIA MOLECULE LIMITED
BALANCE SHEET AS AT 31 MARCH 2012

	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	8	<u>764</u>		<u>707</u>	
			764		707
CURRENT ASSETS					
Debtors	9	18,985		11,050	
Cash at bank and in hand		<u>1,036</u>		<u>257</u>	
			20,021		11,307
CREDITORS					
Amounts falling due within one year	10	<u>(5,641)</u>		<u>(1,527)</u>	
NET CURRENT ASSETS			<u>14,380</u>		<u>9,780</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>15,144</u>		<u>10,487</u>
CREDITORS amounts falling due after more than one year	11		<u>(410)</u>		<u>(102)</u>
NET ASSETS			<u>14,734</u>		<u>10,385</u>
CAPITAL AND RESERVES					
Called up share capital	13		-		-
Profit and loss account	14		<u>14,734</u>		<u>10,385</u>
TOTAL SHAREHOLDERS' FUNDS		15	<u>14,734</u>		<u>10,385</u>

These financial statements on pages 5 to 14 were approved by the Board on 20 December 2012, and signed on its behalf by



S Rutter
Director

Registered number 05665849

MEDIA MOLECULE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 2006. These financial statements have been prepared on a going concern basis and using consistently applied accounting policies.

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 that result in an obligation to pay more tax in the future, or a right to apply less tax in the future, have occurred at the balance sheet date.

When a deferred tax asset is regarded as recoverable, it is recognised only when, on the basis of all available evidence, it can be regarded as 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 at the average tax rate that is expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities recognised have not been discounted.

Cash flow statement

The company has taken advantage of the exemption not to publish a cash flow statement under the terms of Financial Reporting Standard number 1 (revised 1996) 'Cash flow statements' as it is part of the Sony Corporation group which is incorporated in Japan and which publishes consolidated financial statements that contain a cash flow statement.

Depreciation

Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down would be charged to operating profit.

The principal annual rates used for such assets are

Fixtures and fittings	20%	straight line basis
Computer equipment	33%	straight line basis

Leasehold property assets are depreciated over the term of the lease.

Leased assets

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account as incurred.

Research and development

All research and development expenditure is written off in the year in which it is incurred.

MEDIA MOLECULE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

Pensions

The company participates in a defined contribution scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

The schemes assets are held in separately administered funds.

Turnover

Turnover is wholly derived from contracts with Sony Computer Entertainment Europe for the development of titles for the PS3 and PSP consoles as well as the PSVITA console, which launched during the current financial year, and the PlayStation Network.

Milestone invoices are raised to Sony Computer Entertainment Europe as the contract activity progresses. Turnover is recognised at the date of invoice to Sony Computer Entertainment Europe.

Royalty income is also generated from the sale of software titles on PlayStation consoles. This is generated once the milestone advances have recouped and is calculated on a per unit basis dependent on the number of titles sold into the market by Sony Computer Entertainment Europe.

Financial instruments

Credit risk – All sales income is derived from the ultimate parent company Sony Computer Entertainment Limited. All borrowing/deposits are with parent undertakings.

Interest risk - All deposits and loans are in sterling and are with parent undertakings at floating interest rates. This will be impacted directly by future variances in interest rates.

Market risk - The vast majority of sales and purchases are made in the company's functional currency hence there is limited currency risk. Liquidity risk is minimal as the company has no borrowings and any future required funds are available from parent undertakings as necessary.

Price risk – Financial risk management is the ultimate responsibility of the boards of Media Molecule Limited and the immediate parent company Sony Computer Entertainment Europe Limited, and is monitored by the finance team.

2 TURNOVER

Media Molecule Limited is involved in the development of computer software for the games industry which occurs in one business segment. All of these activities occur in the UK.

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

3 OPERATING PROFIT

Operating profit is arrived at after charging

	2012 £'000	2011 £'000
Depreciation of tangible fixed assets – owned	153	220
Research & development	4,367	4,162
Operating leases charges – other	233	233
Pension costs	106	156
	<u>4,859</u>	<u>4,771</u>

Costs for audit and non-audit services are currently borne by Sony Computer Entertainment Europe Limited as in the prior year

4 DIRECTORS' EMOLUMENTS

The emoluments of J Ryan, S Rutter and M Denny are paid by the parent company which makes no recharge to the company. All directors are also employees of the parent company and it is not possible to make an accurate apportionment of their emoluments in respect of each company. Their total emoluments are included in the aggregate of employment costs disclosed in the financial statements of the parent company.

No directors received remuneration in respect of services rendered for the management of this company (2011 £nil)

5 EMPLOYEE INFORMATION

The average number of persons, including executive directors, employed by the company during the financial year was none (2011 none)

No employees were contracted to the company during the financial year as on 1 March 2011 all employee contracts were transferred to Sony Computer Entertainment Europe Limited. The costs for these employees are recharged by this company to Media Molecule Limited.

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £'000	2011 £'000
Bank and other interest receivable	<u>16</u>	<u>1</u>

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £'000	2011 £'000
Current tax		
UK corporation tax on profit in the year	1,518	1,179
Adjustments in respect of previous years	<u>(10)</u>	<u>(12)</u>
	1,508	1,167
Deferred tax		
Origination and reversal of timing differences	(42)	(72)
Adjustments in respect of prior years	<u>31</u>	<u>2</u>
	<u>(11)</u>	<u>(70)</u>
	<u>1,497</u>	<u>1,097</u>

The tax assessed for the year is lower (2011 lower) than the standard rate of corporation tax in the UK

The differences are explained below

Profit on ordinary activities before tax	<u>5,846</u>	<u>4,534</u>
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 26% (2011 – 28%)	1,520	1,270
Expenses not deductible for tax purposes	25	8
Transfer pricing adjustment	-	40
Accelerated capital allowance	55	78
Short term differences	(5)	-
Enhanced expenditure deduction	(77)	(217)
Adjustments in respect of prior years	<u>(10)</u>	<u>(12)</u>
	<u>1,508</u>	<u>1,167</u>

Factors which may affect future tax charges

On 26 March 2012 a resolution passed by Parliament reduced the main corporation tax rate from 26% to 24% effective from 1 April 2012

This change was announced in the March 2012 Budget Statement together with the intention to reduce the main rate of corporation tax to 22% by 1 April 2014. A further announcement was included in the 2012 Autumn Statement to reduce the main rate of corporation tax to 21% by 1 April 2014.

Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is included in the Finance Act 2012. The rate reductions from 24% to 21% had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

8 TANGIBLE FIXED ASSETS

	Fixtures and fittings £'000	Computer Equipment £'000	Leasehold Property £'000	Total £'000
Cost				
At 1 April 2011	369	476	229	1,074
Additions	27	184	-	211
Disposals	(1)	(4)	-	(5)
At 31 March 2012	395	656	229	1,280
Accumulated depreciation				
At 1 April 2011	112	231	24	367
Charge for the year	46	85	22	153
Disposals	(1)	(3)	-	(4)
At 31 March 2012	157	313	46	516
Net book amount				
At 31 March 2012	238	343	183	764
At 31 March 2011	257	245	205	707

9 DEBTORS

	2012 £'000	2011 £'000
Amounts owed by group undertakings	18,775	10,942
Other debtors	58	27
Prepayments	60	-
Deferred tax asset (Note 12)	92	81
	<u>18,985</u>	<u>11,050</u>

10 CREDITORS: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	215	8
Corporation tax payable	2,808	1,129
Other taxation	2,592	142
Other creditors	26	-
Accruals and deferred income	-	248
	<u>5,641</u>	<u>1,527</u>

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

11 CREDITORS. amounts falling due after more than one year

	2012 £'000	2011 £'000
Accruals	<u>410</u>	<u>102</u>
	<u>410</u>	<u>102</u>
Maturity of creditors falling due after more than one year,		
Within 1-2 years	26	13
Within 2-5 years	78	39
Over 5 years	<u>306</u>	<u>50</u>
	<u>410</u>	<u>102</u>

12 DEFERRED TAXATION

Deferred tax asset recognised

	2012 £'000	2011 £'000
At 1 April	81	11
Credit in profit and loss account		
Current year	42	72
Prior year	<u>(31)</u>	<u>(2)</u>
At 31 March	<u>92</u>	<u>81</u>
Analysed as follows		
Excess of book depreciation of fixed assets over tax allowance	<u>92</u>	<u>81</u>
Deferred tax asset	<u>92</u>	<u>81</u>

The proposed reductions of the main rate of corporation tax by 1% per year to 22% by 1 April 2014 are expected to be enacted separately each year

The overall effect of these changes from 24% to 22%, if applied to the deferred tax balance as at 31 March 2012, would reduce the deferred tax asset by £7.6k (being £3.8k recognised in 2013 and £3.8k recognised in 2014)

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

13 CALLED UP SHARE CAPITAL

	2012 £	2011 £
Authorised 1,050 (2011 1,050) Ordinary shares of £0 10 each	<u>105</u>	<u>105</u>
Allotted and fully paid 1,049 (2011 1,049) Ordinary shares of £0 10 each	<u>105</u>	<u>105</u>

14 RESERVES

	Profit and loss account £'000
At 1 April 2011	10,385
Profit for the financial year	<u>4,349</u>
At 31 March 2012	<u>14,734</u>

15 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
Profit for the financial year	<u>4,349</u>	<u>3,437</u>
Net movement in total shareholders' funds	4,349	3,437
Opening total shareholders' funds	<u>10,385</u>	<u>6,948</u>
Closing total shareholders' funds	<u>14,734</u>	<u>10,385</u>

16 FINANCIAL COMMITMENTS

Operating lease commitments

The payments which the company is committed to make in the next year under operating leases are as follows

	2012 £'000	2011 £'000
Land and buildings		
Leases expiring		
Within 1 year	-	-
Within 2-5 years	-	-
Over 5 years	<u>233</u>	<u>233</u>
	<u>233</u>	<u>233</u>

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

17 IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking is Sony Computer Entertainment Europe Limited

The ultimate parent undertaking and controlling party is Sony Corporation, a company incorporated in Japan

Sony Corporation is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 March 2012. The consolidated financial statements of Sony Corporation are available from Sony Global Treasury Services Plc, 15th Floor, Commercial Union Tower, 1 Undershaft, London, EC3A 8EE

18 RELATED PARTY TRANSACTIONS

As 100% of share capital is held by its parent (Sony Computer Entertainment Europe Limited), advantage has been taken of paragraph 3 of FRS8 "Related party disclosures" not to disclose transactions with other group companies