

Company Registered Number: 6333300

ZeniMax Europe Limited

Annual Report and Consolidated Financial Statements

31 December 2017



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Registered Number: 6333300

Group Information

Directors

James L Leder
Cindy L Tallent

Secretary

John G Leshner

Independent Auditors

KPMG LLP
15 Canada Square
London, E14 5GL
United Kingdom

Bankers

Barclays Bank Plc
Slough Town Centre,
East Berkshire Group
PO Box 756,
Slough, SL1 4SG
United Kingdom

Registered Office

1st Floor, West Wing
Davidson House
Forbury Square
Reading, RG1 3EU
United Kingdom

Registration Number

6333300

Strategic Report

Business Review

The group publishes and distributes video games and related content, in markets throughout the world, by selling products either directly to local retailers (in the United Kingdom & Eire, France, Germany, the Benelux region and in Australia and New Zealand) or via arrangements with sub-distributors (as in the rest of mainland Europe, Russia, South Africa and the Middle East). The games are published on standard platforms, including Sony PlayStation®4, Microsoft Xbox One™ and Nintendo Switch™ as well as personal computers and mobile devices. The games are delivered to the end consumers by both physical and digital means, including downloads in the European region from Steam, Sony and Microsoft.

During 2017, the group launched the following titles: Prey, The Elder Scrolls Online: Morrowind, Dishonored: Death of the Outsider, Fallout 4 GOTY, The Evil Within 2, Fallout 4 VR, Wolfenstein 2: The New Colossus, Skyrim VR and DOOM VFR.

For the year ended 31 December 2017, the group made a gross profit of £111.6m (63% of turnover) (2016: £102.5m (60% of turnover)), after expensing all cost of goods and royalties payable to ZeniMax Media Inc. (as owner of the intellectual property in the games published), and is reporting a pre-tax profit of £65.9m (2016 pre-tax profit: £55.5m). The group ended the year with cash balances in hand of £180.6m (2016: £112.2m).

Pre-tax profit, gross profit, and cash generation are primary KPIs used by the directors to measure the success of the group.

During 2017 the subsidiaries (ZeniMax Germany GmbH, ZeniMax France SAS, ZeniMax Benelux BV and ZeniMax Australia Pty Limited) continued shipping product. These four companies distribute ZeniMax games directly to retailers in Germany, Austria, Switzerland, France, Belgium, The Netherlands, Luxembourg, Australia and New Zealand. ZeniMax Online Ireland Limited continued to provide administration and support services to customers during the year.

Going Concern

In accordance with their responsibilities, the directors of the company have considered the appropriateness of the going concern basis, which has been used in the preparation of these financial statements. The company's business activities during the period ended 31 December 2017 have been set out above. Further, the amounts due to creditors are stated under note 12 of these financial statements.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Principal Risks and Uncertainties

The main financial risks arising from the group's activities are credit risk and liquidity risk. These are monitored by the board of directors and were not considered to be significant at the balance sheet date.

The group's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made and to take out credit insurance on major customers where possible, and where possible, secure cash in advance of shipping games.

The group's policy in respect of liquidity risk is to regularly forecast future cash flows and ensure adequate funding is in place for future operations.

On behalf of the Board


J. G. Leshner
Secretary

Date: March 2018

Directors' Report

The directors present their report and audited financial statements of ZeniMax Europe Limited (the "company") for the year ended the 31 December 2017.

Directors

The directors who held office during the period were as follows:

James L Leder
Cindy L Tallent

Political and Charitable Donations

During the year, the company made no political donations (2016: £Nil) and no charitable donations (2016: £Nil).

Disclosure of Information to the Auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board



J G Leshner
Secretary

Date: March 2018

Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, 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 group and parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102).

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 those 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, including FRS 102;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report

to the members of ZeniMax Europe Limited

Opinion on the Financial Statements

We have audited the financial statements of ZeniMax Europe Limited ("the company") for the year ended 31 December 2017 which comprise the statements of Consolidated Profit and Loss Account, Consolidated Other Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, and Consolidated Cash Flow, and related notes including the Company's accounting policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report (continued)

to the members of ZeniMax Europe Limited

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Peter Hine (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London,
E14 5GL
Date:

Consolidated Profit and Loss Account

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> £	<i>2016</i> £
Turnover	2	178,568,912	169,513,749
Cost of sales		(66,948,798)	(67,029,284)
Gross Profit		111,620,114	102,484,465
Administrative expenses		(46,160,008)	(47,094,648)
Operating Profit		65,460,106	55,389,817
Interest receivable and similar income		470,544	81,997
Interest payable and similar expenses		(530)	(17,559)
Profit before taxation		65,930,120	55,454,255
Tax on profit	6	(12,861,281)	(12,557,520)
Profit for the Financial Year		53,068,839	42,896,735

All items dealt with in arriving at the above results relate to continuing operations.
The notes on pages 15 to 28 form an integral part of these Financial Statements.

Consolidated Other Comprehensive Income

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> £	<i>2016</i> £
Profit/(Loss) for the financial year		53,068,839	42,896,735
Currency translation differences		389,461	847,132
Total recognised profit for the financial year		<u>53,458,300</u>	<u>43,743,867</u>

The notes on pages 15 to 28 form an integral part of these Financial Statements.

Consolidated Balance Sheet

At 31 December 2017

	Notes	2017 £	2016
Fixed Assets			
Tangible assets	7	1,205,546	1,575,639
		1,205,546	1,575,639
Current Assets			
Stock	10	2,372,404	4,887,515
Debtors	11	31,012,600	39,079,756
Cash at bank and in hand		180,556,047	112,248,303
		213,941,051	156,215,574
 Creditors: amounts falling due within one year	12	(55,898,452)	(52,001,368)
 Net Current Assets		158,042,599	104,214,206
 Total Assets Less Current Liabilities		159,248,145	105,789,845
 Net Assets		159,248,145	105,789,845
 Capital and Reserves			
Called up share capital	13	100	100
Profit and loss account		159,248,045	105,789,745
 Shareholders' Funds		159,248,145	105,789,845

The Financial Statements were approved and authorised for issue by the Board and were signed on its behalf on the 15th March 2018.



C L Tallent
Director

The notes on pages 15 to 28 form an integral part of these Financial Statements.


Registered Number: 6333300

Company Balance Sheet

At 31 December 2017

	Notes	2017 £	2016 £
Fixed Assets			
Tangible assets	8	520,800	367,469
Investments	9	209,847	209,847
		<u>730,647</u>	<u>577,316</u>
Current Assets			
Stock	10	1,184,884	2,550,522
Debtors	11	34,468,790	41,776,301
Cash at bank and in hand		165,713,027	100,204,230
		<u>201,366,701</u>	<u>144,531,053</u>
Creditors: amounts falling due within one year	12	(42,406,942)	(36,462,376)
Net Current Assets		158,959,759	108,068,677
Total Assets Less Current Liabilities		159,690,406	108,645,993
Net Assets		<u>159,690,406</u>	<u>108,645,993</u>
Capital and Reserves			
Called up share capital	13	100	100
Profit and loss account		159,690,306	108,645,893
Shareholders' Funds		<u>159,690,406</u>	<u>108,645,993</u>

The Financial Statements were approved and authorised for issue by the Board and were signed on its behalf on the 15th March 2018.


C L Tallent
Director

The notes on pages 15 to 28 form an integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

	Notes	Called up share capital £	Profit and loss account £	Total equity £
Balance at 1 January 2016		100	62,045,878	62,045,978
Profit for the financial period		-	42,896,735	42,896,735
Currency translation differences		-	847,132	847,132
Total comprehensive income for the year		-	43,743,867	43,743,867
Balance at 31 December 2016		100	105,789,745	105,789,845

	Notes	Called up share capital £	Profit and loss account £	Total equity £
Balance at 1 January 2017		100	105,789,745	105,789,845
Profit for the financial period		-	53,068,839	53,068,839
Currency translation differences		-	389,461	389,461
Total comprehensive income for the year		-	53,458,300	53,458,300
Balance at 31 December 2017		100	159,248,045	159,248,145

The notes on pages 15 to 28 form an integral part of these Financial Statements.

Company Statement of Changes in Equity

	Notes	Called up share capital £	Profit and loss account £	Total equity £
Balance at 1 January 2016		100	62,359,044	62,359,144
Profit for the financial period		-	46,286,849	46,286,849
Currency translation differences		-	-	-
Total comprehensive income for the year		<u>-</u>	<u>46,286,849</u>	<u>46,286,849</u>
Balance at 31 December 2016		<u><u>100</u></u>	<u><u>108,645,893</u></u>	<u><u>108,645,993</u></u>

	Notes	Called up share capital £	Profit and loss account £	Total equity £
Balance at 1 January 2017		100	108,645,893	108,645,993
Profit for the financial period		-	51,044,413	51,044,413
Currency translation differences		-	-	-
Total comprehensive income for the year		<u>-</u>	<u>51,044,413</u>	<u>51,044,413</u>
Balance at 31 December 2017		<u><u>100</u></u>	<u><u>159,690,306</u></u>	<u><u>159,690,406</u></u>

The notes on pages 15 to 28 form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

At 31 December 2017

	2017 £	2016 £
Cash flows from operating activities	70,222,596	47,742,987
Net cash generated for operating activities	70,222,596	47,742,987
 Cash flows for investing activities		
Acquisition of tangible fixed assets	(310,216)	(610,145)
Proceeds from sale of tangible fixed assets	-	167,150
Movement in Exchange Rates	26,912	-
Interest received	470,544	81,997
Net cash (used in) investing activities	187,240	(360,998)
 Cash flows for financing activities		
Interest paid	(530)	(17,559)
Net cash generated/(used in) financing activities	(530)	(17,559)
 Cash and cash equivalents at the beginning of the year	112,248,303	57,931,514
 Net Increase in cash at bank and in hand	68,307,744	54,316,789
 Effect of exchange rates on cash held	(2,101,562)	6,952,359
 Cash and cash equivalents at the end of the year	180,556,047	112,248,303
 Reconciliation of Operating Profit to Net Cash Flows from Operating Activities	£	£
Operating profit	65,460,106	55,389,817
Depreciation charges	707,221	3,696,521
Unrealised foreign exchange loss/(gain)	2,349,545	(9,192,011)
Loss/(profit) on disposals	-	1,375,229
Share based payment charges	1,207,614	1,077,734
Decrease/(increase) in stock	2,515,111	(1,685,741)
Decrease in debtors	8,378,068	46,945,296
Increase/(decrease) in creditors	3,401,052	(32,517,385)
Tax Paid	(13,796,121)	(17,346,473)
Net Cash Inflow from Operating Activities	70,222,596	47,742,987

Notes to the Financial Statements

For the year ended 31 December 2017

1. Accounting policies

ZeniMax Europe Limited (the “company”) is a company limited by shares and incorporated and domiciled in the UK.

The financial statements are prepared on the historical cost basis.

These group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2015. The amendments to FRS 102 issued in July 2016 and effective immediately have been applied. The presentation currency of these financial statements is sterling.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included;
- Certain disclosures required by FRS 102.26 Share Based Payments are not provided; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1 have not been included.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

1.1 Change in accounting policy/prior period adjustment

In these financial statements, the group and company have not changed their accounting policies, nor have there been any prior period adjustments.

1.2 Going Concern

The group and company had net current assets at the year end and have prepared forecasts that suggest that they will continue to meet their liabilities as they fall due for the foreseeable future. The group benefits from support from ZeniMax Media Inc. through a distribution agreement. Accordingly, the financial statements have been prepared on a going concern basis.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.4 Revenue recognition

Turnover represents sales to external customers based on what has been received or receivable; net of VAT and other sales related taxes. Turnover is recognised when the risks and rewards of owning the goods have been transferred to the customer.

Consistent with industry practices the group recognises, as a reduction of turnover, reserves for returns and future price concessions based on both contractual and commercial considerations, in line with management's ability to reliably estimate such items, in the year in which the sale is recognised. Trade debtors are shown net of these reserves and any allowances for doubtful debts. Where the reserves for a customer exceed the trade debtor balance the trade debtor net of the reserves for returns and future price concessions are included in current liabilities.

Royalty revenue is recognised in the year earned based on royalty reports received.

When the company sells products with multiple deliverables (elements), the company allocates revenue to each element of the product, using fair values, if possible. If fair value information is not available, revenue for products with multiple deliverables, including games played online, is recognised rateably over the estimated service period. Membership and virtual currency revenue are also recognised rateably over the applicable estimated service period.

1.5 Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Gains and losses arising on these translations are taken to reserves.

1.6 Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	-	20% per annum
Computers and electronics	-	33% per annum
Fixtures, fittings and equipment	-	33% per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.7 Basic financial investments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.8 Other financial instruments

Financial instruments not considered to be Basic Financial Instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

1.9 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

1.10 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.10 Taxation (continued)

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.11 Related party transactions

The company does not disclose transactions with members of the same group that are wholly owned.

1.12 Employee benefits

Share-based payment transactions

Share-based payment arrangements in which the entity receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the entity.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured based on an observable market price, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the entity receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the entity's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

1.13 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Interest receivable and Interest payable

Interest payable and similar charges includes interest payable.

Other interest receivable and similar income includes interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

2. Turnover

The table below sets out the turnover for each of the group's geographical areas of operation. All revenues are derived from the group's sole industry segment being the provision of video game software.

	2017 £	2016 £
Geographical markets supplied:		
UK	37,174,700	40,679,592
Europe (excluding UK)	105,924,045	94,368,395
Rest of World	35,470,167	34,465,762
	<u>178,568,912</u>	<u>169,513,749</u>

3. Expenses and auditor's remuneration

Included in profit/loss are the following;	2017 £	2016 £
Loss on sale of fixed assets	-	1,375,229
Exchange differences	2,349,545	(9,192,011)
Operating lease charges	2,052,490	1,682,851
Depreciation of tangible fixed assets (Note 7)	<u>707,221</u>	<u>3,696,521</u>
Audit of these financial statements	55,581	60,953

Disclosures below based on amounts receivable in respect of other services to the group and its subsidiaries

Amounts receivable by the group's auditor and its associates in respect of:

Audit of financial statements of the group's subsidiaries	64,081	62,770
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Notes to the Financial Statements (continued)

4. Staff numbers and costs

The average monthly number of employees during the year was:	<i>2017</i>	<i>2016</i>
	<i>No.</i>	<i>No.</i>
	106	99

The aggregate payroll costs of these persons were as follows:

	<i>2017</i>	<i>2016</i>
	£	£
Wages and salaries	8,203,055	6,419,724
Share based payment	1,207,614	1,077,734
Social security costs	1,202,179	1,142,349
Pension costs	229,105	287,518
	<u>10,841,953</u>	<u>8,927,325</u>

5. Directors' remuneration

The directors' remuneration, including fees; was borne by the ultimate parent undertaking in the current year. The directors are also directors of other companies within the ZeniMax Media Inc. group. These directors' services are not significant to the company and therefore they have received no emoluments in relation to the company for the year to 31 December 2017 (2016: £Nil).

Notes to the Financial Statements (continued)

6. Tax on Profit/loss on Ordinary Activities

	2017 £	2016 £
Taxation on profit/(loss) on ordinary activities comprises:		
UK Corporation Tax		
Current Tax on income for the period	12,224,638	11,898,041
Adjustments in respect of prior periods	-	(12,745)
Foreign Tax:		
Current tax on income for the period	355,028	608,158
Adjustments in respect of prior periods	235,557	132
Total Current Tax Charge	12,815,223	12,493,586
Deferred Tax		
Origination / reversal of timing differences	46,058	43,849
Effect of decreased / increased tax rate	-	(810)
Adjustment in respect of previous years	-	-
	-	20,895
Total Deferred Tax	46,058	63,934
Tax charge on profit from ordinary activities	12,861,281	12,557,520
Reconciliation of Total Tax Charge:		
Profit on ordinary activities before tax	65,930,120	55,454,255
Profit on ordinary activities multiplied by standard rate of UK Corporation Tax of 19.25% (2016: 20%)	12,691,548	11,090,851
Effects of:		
Tax rates on overseas earnings	(325,985)	221,824
Fixed assets not deductible for tax purposes	-	-
Expenses not deductible for tax purposes	42,770	39,354
Capital allowances for the period in excess of depreciation	3,594	32,197
Adjustments to tax charges	449,354	269,121
Other timing differences not recognised as a deferred tax asset	-	904,173
Tax Charge for the Period	12,861,281	12,557,520
Deferred tax asset reconciliation		
Capital Allowances in advance of depreciation	(17,213)	(6,661)
Other timing differences	923,997	983,585
Tax losses carried forward	-	-
Total Deferred Tax Asset	906,784	976,924

The deferred tax assets are treated as recoverable as, in the directors' opinion, there will be suitable taxable profits within the ZeniMax Europe group from which the future reversal of the underlying timing differences can be deducted.

Notes to the Financial Statements (continued)

7. Tangible Fixed Assets – Group

	Leasehold Improvements	Computer & Electronics	Fixtures & Fittings	Total
Cost	£	£	£	£
At 1 January 2017	525,499	11,279,502	208,300	12,013,301
Additions	109,756	162,279	38,181	310,216
Disposals	-	-	-	-
Adjustment	-	-	-	-
Movement in exchange rates	2,229	404,064	3,394	409,687
	<u>637,484</u>	<u>11,845,845</u>	<u>249,875</u>	<u>12,733,204</u>
Depreciation				
At 1 January 2017	244,238	10,098,568	94,856	10,437,662
Charge for the year	56,649	623,911	26,661	707,221
Disposals	-	-	-	-
Adjustment	-	-	-	-
Movement in exchange rates	2,040	379,307	1,428	382,775
	<u>302,927</u>	<u>11,101,786</u>	<u>122,945</u>	<u>11,527,658</u>
Net book value				
At 31 December 2017	<u>334,557</u>	<u>744,059</u>	<u>126,930</u>	<u>1,205,546</u>
At 31 December 2016	281,261	1,180,934	113,444	1,575,639

Notes to the Financial Statements (continued)

8. Tangible Fixed Assets – Company

	Leasehold Improvements	Computer & Electronics	Fixtures & Fittings	Total
Cost	£	£	£	£
At 1 January 2017	464,610	191,253	100,100	755,963
Additions	<u>109,757</u>	<u>122,674</u>	<u>27,645</u>	<u>260,076</u>
At 31 December 2017	574,367	313,927	127,745	1,016,039
Depreciation				
At 1 January 2017	189,170	145,841	53,483	388,494
Depreciation charge for the year	<u>55,302</u>	<u>35,884</u>	<u>15,559</u>	<u>106,745</u>
At 31 December 2017	244,473	181,724	69,042	495,239
Net Book Value				
At 31 December 2017	<u>329,894</u>	<u>132,203</u>	<u>58,703</u>	<u>520,800</u>
At 31 December 2016	<u>275,440</u>	<u>45,412</u>	<u>46,617</u>	<u>367,469</u>

9. Fixed Asset Investments - Company

	Shares in Group Undertaking
Cost	£
At beginning of year	209,847
Additions	-
Disposals	-
At end of year	<u>209,847</u>
Net Book Value	
At 31 December 2017	<u>209,847</u>
At 31 December 2016	<u>209,847</u>

Notes to the Financial Statements (continued)

9. Fixed Asset Investments – Company (continued)

The undertakings in which the company's interest at the year-end is more than 20% are as follows:

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary</i>	<i>Principal Activity</i>
<i>ZeniMax Benelux B.V</i>	<i>The Netherlands</i>	<i>100%</i>	<i>Games distributor</i>
<i>Registered address: Grote Berg 18E, 5611 KK Eindhoven</i>			
<i>ZeniMax France SAS</i>	<i>France</i>	<i>100%</i>	<i>Games distributor</i>
<i>Registered address: 1-3 rue du Depart, 75014 Paris</i>			
<i>ZeniMax Germany GmbH</i>	<i>Germany</i>	<i>100%</i>	<i>Games distributor</i>
<i>Registered address: Schillerstr. 15-17, 60313 Frankfurt am Main</i>			
<i>ZeniMax Australia Pty Ltd</i>	<i>Australia</i>	<i>100%</i>	<i>Games distributor</i>
<i>Registered address: BC LAW PTY Ltd, Level 12, 60 Castlereagh St, Sydney, NSW 2000</i>			
<i>Bethesda Softworks Europe Ltd</i>	<i>Great Britain</i>	<i>100%</i>	<i>Dormant company</i>
<i>Registered address: 1st Floor, West Wing Davidson house, Forbury Square, Reading, Berkshire, RG1 3EU</i>			
<i>ZeniMax Online Ireland Ltd</i>	<i>Ireland</i>	<i>100%</i>	<i>Support Services</i>
<i>Registered address: 6th Floor, South Bank House, Barrow Street, Dublin 4, D04 TR29</i>			

10. Stock

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Finished goods and goods for resale	1,956,772	4,748,249	769,252	2,411,256
Work in progress	415,632	139,266	415,632	139,266
	2,372,404	4,887,515	1,184,884	2,550,522

11. Debtors

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade debtors	29,351,871	17,613,685	21,764,993	11,095,600
Prepayments	264,420	686,189	116,743	310,575
Corporation tax receivable	62,869	99,702	-	-
Deferred tax asset	906,784	976,924	18,178	23,828
Amount owed by group undertakings	-	19,290,708	12,526,622	30,304,044
Other debtors	426,656	412,548	42,254	42,254
	31,012,600	39,079,756	34,468,790	41,776,301

Notes to the Financial Statements (continued)

12. Creditors

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade creditors	3,536,954	2,367,058	2,264,198	1,102,522
Amount owed to group undertakings	417,886	-	-	-
Corporation tax payable	4,280,506	5,020,514	4,616,704	4,898,041
Other taxation and social security	1,250,192	2,046,391	1,987,180	2,808,296
Accruals and deferred income	30,508,917	31,825,680	21,624,104	20,274,779
Reserve for future price concessions	15,903,997	10,741,725	11,914,756	7,378,738
	<u>55,898,452</u>	<u>52,001,368</u>	<u>42,406,942</u>	<u>36,462,376</u>

13. Called up Share Capital

	Ordinary Shares 2017 £
On issue at 1 January	100
Issued for cash	
On issue at 31 December – fully paid	<u>100</u>

	2017 £	2016 £
Allotted, Called Up and Fully Paid:		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
	<u>100</u>	<u>100</u>

All shares were subscribed at par and there is no share premium reserve.

Notes to the Financial Statements (continued)

14. Financial Instruments

The group and company have the following financial investments.

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Financial assets that are debt instruments measured at amortised cost				
Amounts owed by group undertakings	-	19,290,708	12,526,622	30,304,044
Other receivables	31,012,600	19,789,048	21,942,169	11,472,257
Cash and cash equivalents	180,556,047	112,248,303	165,713,027	100,204,230
	211,568,647	151,328,059	200,181,818	141,980,531

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Financial liabilities measured at amortised cost				
Amounts owed to group undertakings	417,886	-	-	-
Other creditors	55,480,566	52,001,368	42,406,944	36,462,376
	55,898,452	52,001,368	42,406,944	36,462,376

15. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
In less than one year				
Land and building	1,187,652	1,031,232	480,883	480,780
Other	71,409	32,892	43,380	10,866
Between one and five years				
Land and building	2,677,103	916,697	1,683,092	491,646
Other	153,867	20,051	117,119	-
More than five years				
Land and building	-	-	-	-

During the year £2,052,490 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £1,682,851).

Notes to the Financial Statements (continued)

16. Employee benefits in relation to share-based payments

The share-based remuneration expense (note 4) comprises:

	2017 £	2016 £
Equity-settled schemes	1,207,614	1,077,734

The group did not enter into any share-based payment transactions with parties other than employees in the current or preceding year. The scheme is denominated in US Dollars and translated at 1.3493 (2016: 1.2305).

The parent company operates an equity-settled share option scheme for employees of the group so they may participate in the stock of the parent company, ZeniMax Media Inc. The exercise price of each option equals the fair market value of ZeniMax Media Inc.'s stock on the date of the grant, as estimated by the board of directors of ZeniMax Media Inc., and unexercised options expire after a period of 10 years from the date of the grant. Employee options generally vest over a 4 or 5 year period or cliff vest at the end of such periods.

Details of the share based payments and weighted average exercise price (WAEP) outstanding are as follows:

	2017 No.	2017 WAEP £	2016 No.	2016 WAEP £
Outstanding at beginning of the year	254,500	50.93	232,500	54.22
Granted during the year	-	-	22,000	16.25
Cancelled during the year	-	-	-	-
Outstanding at 31 December	254,500	46.45	254,500	50.93

Of the total number of options outstanding at the end of the year, 238,000 (2016: 70,500) had vested and were exercisable at the year end.

The company utilises a standard option pricing model, the Black-Scholes model, to measure the fair value of the stock options issued. The inputs into the Black-Scholes option pricing model are as follows:

	2017 £	2016 £
Weighted average exercise price at grant date	14.82	16.25
Expected volatility	33.96%	33.96%
Weighted average expected life (year)	6.357	6.357
Risk-free rate	1.43%	1.43%

Since ZeniMax Media Inc. is a private company, expected volatility was determined using the "calculated method" to reasonably estimate its expected volatility, which is based on the historic volatility of an appropriate industry sector index over the period which is approximately equal to the expected life of the options being valued.

Notes to the Financial Statements (continued)

17. Related Party Transactions

The company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the group.

Total compensation of key management personnel in the year amounted to £3M (2016: £2.8M).

18. Controlling party

The immediate and ultimate parent undertaking is ZeniMax Media Inc., a company incorporated in the United States of America.

19. Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Accounting assumptions/estimates

For the purpose of the figures disclosed herein, we have made estimates relating to the reserves required for future price concessions. These estimates are based upon the inventory of each title still in the channel during the period following the balance sheet date, the post balance sheet date rate of sell through of those titles in each of our markets and other factors.

With respect to the deferred income for our MMOG: The Elder Scrolls Online and DOOM, we have made estimates as to the average time, that each player of the game continues to play beyond the initial purchase of the game, based on data collected via the game systems.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 7&8 for the carrying amount of the property, plant and equipment and note 1.6 for the useful economic lives for each class of assets.