

Jagex Limited

**Annual report and financial statements
for the year ended 31 December 2015**

Company Registration Number: 03982706

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Jagex Limited

Report and Financial Statements 31 December 2015

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Jagex Limited

Report and Financial Statements 31 December 2015

Officers and Professional Advisers

Directors

J Salter
B Gardner
M Farrell
J Horing
R Cousens
P Mansell

Secretary

Mark Fardell

Registered Office

St Johns Innovation Centre
Cowley Road
Cambridge
CB4 0WS

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge
United Kingdom

Jagex Limited

Strategic Report

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Jagex Limited and its subsidiary undertakings when viewed as a whole.

Review of the business

The video games industry continues to expand globally. It is forecasted to be an \$80 billion worldwide business in 2016, rising to \$20 billion in 2020 (Digi-Capital). This form of interactive entertainment has benefited from the digital transformation through greater online gameplay and digital distribution with deeper, longer engagement with consumers. It has seen expansion via smart devices and the Massively MultiPlayer Online segment has grown with Massive Online Battle Arenas content.

This form of interactive entertainment has given rise to new business models with live services and extra content driving long product engagement. The free to play business model has brought new consumers into gaming while subscription services provide consistent, predictable revenues. The importance of franchises is evidenced in the fact that the lion's share of industry profits are delivered by franchise titles and well known, well-loved franchises which in-turn reduces R&D risk. These high profile franchises provide leverage on new platforms and in new genres.

In being a participant in the video games industry, Jagex develops, markets and publishes games software content and services that can be played by consumers on a variety of platforms and devices.

A cornerstone of our strategy is to leverage our intellectual property to create a year round gaming experience on multiple platforms capable of delivering additional content and revenue streams over extended periods of time. Creating a master brand with mass consumer appeal enables iterative brand based products and services that can be sold across a range of platforms to an established consumer base over extended periods of time. Since its early beginnings in 2001, Jagex, through its master brand RuneScape, has attracted +243m players and has generated more than \$700 million in lifetime revenues. In 2015, the full year daily members users grew 23% year on year (2014 – 0%) and the hours spent on the game was up in the full year. The RuneScape franchise is proven, high profile and continues on a growth trajectory for the foreseeable future. In 2015, RuneScape franchise revenues grew 28.8% over 2014.

Block N Load launched in 2015 and whilst showing some early promise it did not meet our initial expectations for the game.

In 2015 Jagex's digital business model reach covered full game downloads, live services, extra content, subscriptions and free to play with micro transactions. Our business strategy in delivering our products and services across multiple platforms and devices is critical to maintaining and growing our overall consumer base which continues to evolve in response to the introduction of new platforms and platform business models. We have started to develop games for Mobile Phones and Tablets and allow for inter-operability on our franchises across platforms to enhance the consumer experience. We are extending our global operations and see this as further opportunity for growth.

Recently, we narrowed our focus, reduced costs and increased our potential to have a hit product. This strategic focus on execution drives results and has been pivotal in 2015 which has been an outstanding year for the Company with record revenues of £57.9m and record profits after tax of £23.7m. We improved operating cash flow and ended the year with £44.0m in cash and are positioned for long term growth and margin expansion across our product portfolio.

Jagex Limited

Strategic Report

Review of the business (continued)

RuneScape has continued to enjoy deep and consistent engagement from a massive and growing community that will continue to provide us with new opportunities to appeal to our audience. By offering outstanding gameplay and extending the franchise we are building a library of games for a broadening demographic to a widening global marketplace. RuneScape has clearly demonstrated a history of success and profitability and the players' passion for the brand has endured. It continues to attract a large and engaged community capable of generating operating profit over a long period of time.

With this as a bedrock on which to build, the Company has a clear pathway for innovation, inspiration and creativity. It provides for continued investment concentrated on enduring franchises and engaged communities with diversity across genres, demographic reach, platforms and business models.

We are looking to create deeply engaging interactive entertainment franchises offering up long term opportunity from new innovation and regular content update to drive engagement and support player investment. We are expecting continued growth beyond 2016 via a slate of exceptional content and new initiatives in Virtual Reality and e-Sports which have been identified as targeted bright spots that can build on our audience's entertainment preferences in the future.

Jagex is looking forward to on-going success in 2016 through the launch of RuneScape15 which will see a series of initiatives to celebrate the fifteenth anniversary of the game alongside new products such as Chronicle and RuneScape Idle Adventure, a strategic collaboration which will take us into new and rising segments and on to new platforms.

The Company employed 333 people as at the end of 2015 and the Board of Directors and shareholders are appreciative of their support and commitment in making it the best year on record.

Key performance indicators

The Group has several key performance measures used internally to monitor and challenge performance and to assist investment decisions. Significant key performance indicators are:

- Revenue;
- Subscribers;
- Operating profit before exceptional items; and
- Headcount

Performance in the year ended 31 December 2015 and comparative information for the previous year is summarised below.

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue (£000)	57,857	44,862
Exceptional Items (£000)	1,527	579
Operating profit (£000)	20,437	766
Headcount (average)	338	466
Subscribers	1.945m	1.773m

An explanation for the movements in key performance indicators has been provided above.

Jagex Limited

Strategic Report

Principal risks and uncertainties

The key risks to which the business is exposed are summarised as follows:

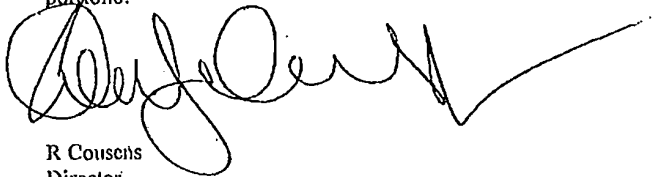
- competitive pressure, which could result in losing active players and subscription numbers to our key competitors or other on-line entertainment sites;
- failure to make sure that costs stay in line with our projected revenues and to keep within our development timeframes and cost bases for the new products coming to market in 2016 i.e. Chronicle & Idle Adventures.
- making sure that all new games and content added is to the highest quality and bug free to help our products succeed in the market place;
- the hiring and retention of qualified personnel; and
- possible claims by external parties of infringements on their intellectual property rights.

The Group aims to mitigate these risks as appropriate with measures including:

- aiming to continue innovating and testing new game concepts and mechanics making use of new technologies available to us by investing in training for our staff so we can utilise them.
- develop compelling new game content, by working closely with our in game communities to develop content that is desired within our player base.
- ensuring we have a robust monthly greenlight process for all new products and content to make sure we keep the quality of our offerings high.
- continue to perform and develop our focus group testing and running beta programmes focused on receiving feedback and identifying areas for improvement, implementing comprehensive testing programmes,
- launching new games whilst regularly monitoring the player behaviour utilising the high degree of skill we have in our analytic teams and interacting with the community as well as observing games industry trends
- continue to regularly review the employee benefits and compensation package to make sure we remain competitive in the market.

Future developments

The Group intends to release Chronicle – Runescape Legends during the 2016 financial year whilst also continuing to develop and proto-type new games with other projects already in the pipeline to expand our game portfolio.



R Cousins
Director
10 March 2016

Jagex Limited

Directors' Report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2015.

Future developments

Details of future developments can be found in the Strategic Report and forms part of this report by cross-reference.

Research and development

The Group is continually updating its current game offering. Development expenditure is not capitalised and is written off in the year it is incurred.

Going concern

The Group and Company continue to hold significant cash reserves and are forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts for the foreseeable future, being a period of two years from the date of approval of these financial statements. The directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

The key uncertainties around the business are noted in the Strategic Report which can be found on page 4.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including foreign exchange risk, credit risk and liquidity risk.

Foreign Exchange risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group seeks to minimise the exposure of this by matching foreign currency receipts to payments where possible.

Credit risk

The Group's principal financial assets are bank and cash balances and trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The majority of the Group's receivables are due from institutions regulated by the banking sector. Other receivables are monitored on a regular basis.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group reviews the working capital requirement on a weekly basis in light of the current business trends.

Dividends

The directors paid dividends in the year of £nil (year ended 31 December 2014 - £nil).

Jagex Limited

Directors' Report (continued)

Directors

The directors, who served throughout the year were as follows:

Rodney Cousens
Philip Mansell
John Salter
Jeff Horing
Brandon Gardner
Michael Parrell

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political contributions

No political donations were made during the year.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, as well as regular communication of KPIs (Key Performance Indicators).

Auditor

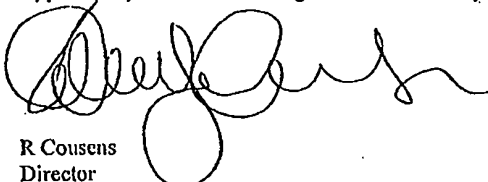
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



R Cousens
Director
10 March 2016

Jagex Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 FRS 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 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; 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 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.

Jagex Limited

Independent auditor's report to the members of Jagex Limited

We have audited the financial statements of Jagex Limited for the year ended 31 December 2015 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 27. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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.

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 Group's and the parent 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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 Group's and of the parent company's affairs as at 31 December 2015 and of the Group's 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Jagex Limited

Independent auditor's report to the members of Jagex Limited

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 by the parent company, 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.

David Halstead

David Halstead FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

10 March 2016

Jagex Limited

Consolidated profit and loss account For the year ended 31 December 2015

		2015 £	2014 £
	Note		
Turnover	3	57,857,097	44,861,918
Cost of sales			
Exceptional cost of sales expenses	5	(237,061)	(578,659)
Other cost of sales		(21,469,923)	(30,014,383)
Total cost of sales		(21,706,984)	(30,593,042)
Gross profit		36,150,113	14,268,876
Administrative expenses			
Exceptional administrative expenses	5	(1,289,959)	-
Other administrative expenses		(14,423,152)	(13,503,256)
Total administrative expenses		(15,713,111)	(13,503,256)
Operating profit		20,437,002	765,620
Finance income/(costs) (net)	4	9,861	(10,532)
Profit on ordinary activities before taxation	5	20,446,863	755,088
Tax on profit on ordinary activities	8	3,229,872	7,865
Profit for the financial year		23,676,735	762,953

All activities derive from continuing operations.

Jagex Limited

Consolidated statement of comprehensive income For the year ended 31 December 2015

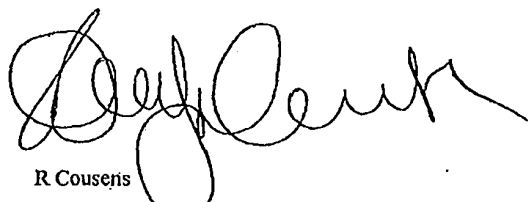
	2015	2014
	£	£
Profit for the financial year	<u>23,676,735</u>	<u>762,953</u>
Currency translation difference on foreign currency net investments	-	(11,098)
Other comprehensive income	-	(11,098)
Total comprehensive income	<u><u>23,676,735</u></u>	<u><u>751,855</u></u>

Jagex Limited

Consolidated balance sheet At 31 December 2015

	Note	2015 £	2014 £
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	1,866,327	3,662,972
		<u>1,866,327</u>	<u>3,662,972</u>
Current assets			
Stocks	14	214,686	341,940
Debtors			
– due within one year	15	10,513,206	7,712,970
– due after one year	15	226,914	254,113
Cash at bank and in hand		43,970,747	18,118,472
		<u>54,925,553</u>	<u>26,427,495</u>
Creditors: Amounts falling due within one year	16	<u>(18,748,292)</u>	<u>(16,202,311)</u>
Net current assets		<u>36,177,261</u>	<u>10,225,184</u>
Total assets less current liabilities		<u>38,043,588</u>	<u>13,888,156</u>
Creditors: Amounts falling due after more than one year	17	-	(44,200)
Provisions for liabilities	18	<u>(4,970,792)</u>	<u>(4,489,236)</u>
Net assets		<u>33,072,796</u>	<u>9,354,720</u>
Capital and reserves			
Called-up share capital	21	11,267	11,267
Share premium account	21	80	80
Share-based payment reserve	21	2,579,047	2,537,706
Profit and loss account	21	30,482,402	6,805,667
Shareholders' funds		<u>33,072,796</u>	<u>9,354,720</u>

The financial statements of Jagex Limited, registered number 03982706, were approved by the board of directors and authorised for issue on 10 March 2016. They were signed on its behalf by:

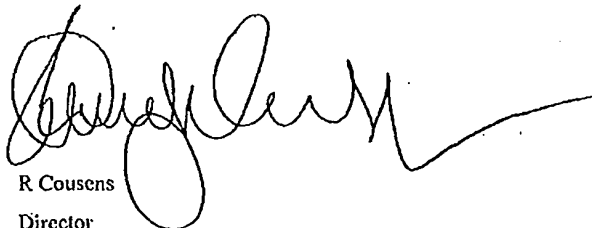

R Cousins
Director

Jagex Limited

Company balance sheet At 31 December 2015

	Note	2015 £	2014 £
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	1,866,327	3,662,972
Investments	13	-	-
		<u>1,866,327</u>	<u>3,662,972</u>
Current assets			
Stocks	14	214,686	341,940
Debtors			
– due within one year	15	10,513,206	7,680,441
– due after one year	15	226,914	249,554
Cash at bank and in hand		43,901,796	18,080,480
		<u>54,856,602</u>	<u>26,352,415</u>
Creditors: Amounts falling due within one year	16	<u>(18,747,953)</u>	<u>(16,195,881)</u>
Net current assets		<u>36,108,649</u>	<u>10,156,534</u>
Total assets less current liabilities		<u>37,974,976</u>	<u>13,819,506</u>
Creditors: Amounts falling due after more than one year	17	-	(44,200)
Provisions for liabilities	18	<u>(4,970,792)</u>	<u>(4,489,236)</u>
Net assets		<u>33,004,184</u>	<u>9,286,070</u>
Capital and reserves			
Called-up share capital	21	11,267	11,267
Share premium account	21	80	80
Share-based payment reserve	21	2,579,047	2,537,706
Profit and loss account	21	<u>30,413,790</u>	<u>6,737,017</u>
Shareholders' funds		<u>33,004,184</u>	<u>9,286,070</u>

The financial statements of Jagex Limited, registered number 03982706, were approved by the board of directors and authorised for issue on 10 March 2016. They were signed on its behalf by:



R Cousens
Director

Jagex Limited

Consolidated statement of changes in equity At 31 December 2015

	Called-up share capital £	Share premium account £	Share-based payment reserve £	Profit and loss account £	Total £
At 31 December 2013 as previously stated	11,267	80	2,314,723	7,066,890	9,392,960
Changes on transition to FRS 102 (see note 27)	-	-	-	(1,013,078)	(1,013,078)
At 1 January 2014 as restated	11,267	80	2,314,723	6,053,812	8,379,882
Profit for the financial year	-	-	-	762,953	762,953
Currency translation difference on foreign currency net investments	-	-	-	(11,098)	(11,098)
Total comprehensive income	-	-	-	751,855	751,855
Credit to equity for equity settled share-based payment	-	-	222,983	-	222,983
At 31 December 2014	11,267	80	2,537,706	6,805,667	9,354,720
Profit for the financial year	-	-	-	23,676,735	23,676,735
Total comprehensive income	-	-	-	23,676,735	23,676,735
Credit to equity for equity settled share-based payment	-	-	41,341	-	41,341
At 31 December 2015	11,267	80	2,579,047	30,482,402	33,072,796

Jagex Limited

Company statement of changes in equity At 31 December 2015

	Called-up share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 31 December 2013 as previously stated	11,267	80	2,314,723	7,008,634	9,334,704
Changes on transition to FRS 102 (see note 27)	-	-	-	(1,013,078)	(1,013,078)
At 1 January 2014 as restated	11,267	80	2,314,723	5,995,556	8,321,626
Profit for the financial year	-	-	-	741,461	741,461
Total comprehensive income	-	-	-	741,461	741,461
Credit to equity for equity settled share-based payment	-	-	222,983	-	222,983
At 31 December 2014	11,267	80	2,537,706	6,737,017	9,286,070
Profit for the financial year	-	-	-	23,676,773	23,676,773
Total comprehensive income	-	-	-	23,676,773	23,676,773
Credit to equity for equity settled share-based payment	-	-	41,341	-	41,341
At 31 December 2015	11,267	80	2,579,047	30,413,790	33,004,184

Jagex Limited

Consolidated cash flow statement For the year ended 31 December 2015

	Note	2015 £	2014 £
Net cash flows from operating activities	22	26,317,546	3,459,771
Cash flows from investing activities			
Purchase of equipment		(500,399)	(1,457,857)
Interest received		28,450	21,468
Interest paid		(18,589)	(32,000)
Net cash flows from investing activities		(490,538)	(1,468,389)
Cash flows from financing activities			
Repayments of obligations under finance leases		106,411	179,199
Net cash flows from financing activities		106,411	179,199
Net increase in cash and cash equivalents		25,933,419	2,170,581
Cash and cash equivalents at beginning of year		18,118,472	16,380,836
Effect of foreign exchange rate changes		(81,144)	(432,945)
Cash and cash equivalents at end of year		<u>43,970,747</u>	<u>18,118,472</u>
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		<u>43,970,747</u>	<u>18,118,472</u>
Cash and cash equivalents		<u>43,970,747</u>	<u>18,118,472</u>

Jagex Limited

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a. General information and basis of accounting

Jagex Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the group's operations and its principal activities are set out in the strategic report on pages 2 to 4.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 27.

The functional currency of Jagex Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Jagex Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year.

c. Going concern

The Group and Company continue to hold significant cash reserves and are forecast to remain cash generative. The directors have reviewed the historic trading performance of the business and prepared forecasts for the foreseeable future, being a period of two years from the date of approval of these financial statements. These forecasts show that the Group has sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future. Thus the directors have concluded that it is appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	33% per annum
Fixtures and fittings	20% per annum
Leasehold improvements	Term of lease

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

1. Accounting policies (continued)

e. Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

f. Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

g. Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on 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 pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, 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 using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

1. Accounting policies (continued)

h. Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period, and their balance at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the statement of comprehensive income. All other exchange differences are included in the profit and loss account.

i. Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

j. Pensions

The company operates a defined contribution pension scheme and the pension charge represents amounts payable by the company to the fund in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

k. Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes the cost of material plus expenditure incurred on freight and duty. Cost is calculated using the Weighted Average method. Provision is made for obsolete, slow-moving or defective items where appropriate.

l. Turnover

Turnover represents the amounts (excluding Value Added Tax) derived from the provision of goods and services to customers and is recognised as follows:

- revenue from the sale of subscriptions is recognised rateably over the period of the subscription, calculated on a daily basis;
- revenue from the sale of microtransactions that provide an ongoing benefit to a user's account is recognised over the expected engagement period of the game;
- revenue from the sale of microtransactions that provide an instant acceleration of gameplay to a user's account, providing an acceleration to in-game progression, is recognised at the point of acceleration. This is typically at the point of usage;
- advertising revenue is recognised in the accounting period in which it was earned. This is typically the period in which the advertisements are hosted;
- revenue relating to unused loyalty points is deferred at the balance sheet date to the extent that these are expected to be redeemed.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

1. Accounting policies (continued)

m. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

n. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

o. Share-based payment

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in FRS 102 Section 23 Revenue. Revenue relating to unused loyalty points has been deferred at the balance sheet date to the extent that these are expected to be redeemed. This deferral is based on the balance of outstanding, accumulated loyalty points and the expected usage of these based on historical data collated on their use within the game. The directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate.

Key source of estimation uncertainty – Global Sales Tax Provisions

Determining whether, and to what extent, a potential Global Sales Tax liability exists in overseas countries requires an estimation based on available information and lack of final clarification from the local tax authorities.

The provision is based on our best estimates of the tax treatment in the countries in question taking into account the applicable tax rates, interest and potential penalties. The outcome of these potential liabilities is unclear although the directors believe the liabilities are probable and have recognised provisions accordingly.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

3. Turnover

An analysis of the Group's turnover is as follows:

	2015 £	2014 £
Subscription revenue	37,622,226	29,532,607
Microtransaction revenue	19,662,958	14,706,668
Advertising revenue	469,949	493,675
Other income	101,964	128,968
	<u>57,857,097</u>	<u>44,861,918</u>

Other income includes revenue from ticket event sales and the sale of merchandise.

Turnover by geographic location has not been disclosed as, in the opinion of the directors, such disclosures could be seriously prejudicial to the interests of the Group.

4. Finance income/ (costs) (net)

	2015 £	2014 £
Interest payable and similar charges	(18,589)	(32,000)
Less: Investment income	28,450	21,468
	<u>9,861</u>	<u>(10,532)</u>

Interest payable and similar charges

	2015 £	2014 £
Other finance charges	(18,589)	(31,927)
Other interest payable	-	(73)
	<u>(18,589)</u>	<u>(32,000)</u>

Investment income

	2015 £	2014 £
Other income	3,555	2,222
Other interest income	24,895	19,246
	<u>28,450</u>	<u>21,468</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2015 £	2014 £
Depreciation of tangible fixed assets (note 12)	2,250,560	2,430,371
Loss on disposal of fixed assets (note 12)	46,483	42,156
Bad debt expense	(10,997)	8,706
Research and development	826,187	971,107
Operating lease rentals	893,119	782,898
Foreign exchange gain	(626,356)	(242,289)
Exceptional cost-of sales expenses	237,061	578,659
Exceptional administrative expenses	1,289,959	-

Included within current year cost of sales are exceptional costs being £354,825 of costs incurred relating to redundancies and a credit of £117,764 relating to the release of an unused component of the redundancy provision.

Included within prior year cost of sales are exceptional costs being £578,659 of costs incurred relating to redundancies resulting from the termination of Transformers: Universe development.

Included within current year administrative expenses are exceptional costs being £1,397,514 relating to corporate finance activity costs incurred and a credit of £107,555 relating to the recovery of costs incurred in the termination of Transformers: Universe development.

The analysis of the auditor's remuneration is as follows:

	2015 £	2014 £
Fees payable to the Group's auditor and its associates for the audit of the Group and Company's annual accounts	68,000	46,000
Fees payable to the company's auditor and its associates for other services to the Group		
Tax consultancy	73,500	39,000
Other services relating to tax	5,925	5,750
Other services (non-tax)	166,085	750
Total non-audit fees	245,510	45,500

Fees payable to Deloitte LLP and its associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

No services were provided pursuant to contingent fee arrangements.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

6. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2015 Number	2014 Number
Directors	2	2
Commercial/Management	70	60
Development	158	277
Customer relations	46	46
Technical	62	81
	<u>338</u>	<u>466</u>

Their aggregate remuneration comprised:

	2015 £	2014 £
Wages and salaries	15,896,943	20,978,302
Social security costs	1,751,037	2,083,060
Other pension costs	422,111	330,755
Share-based payment	41,341	222,983
	<u>18,111,432</u>	<u>23,615,100</u>

7. Directors' remuneration and transactions

	2015 £	2014 £
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Directors' remuneration

Emoluments	1,647,322	653,656
Company contributions to money purchase pension schemes	15,875	7,085
	<u>1,663,197</u>	<u>660,741</u>

	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	2	3
Had awards receivable in the form of shares under a long-term incentive scheme	<u>2</u>	<u>3</u>

	2015 £	2014 £
Remuneration of the highest paid director:		
Emoluments	1,166,982	264,650
Company contributions to money purchase schemes	6,875	4,006
	<u>1,173,857</u>	<u>268,656</u>

The highest paid director did not exercise any share options in the year (2014: nil).

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

8. Tax on profit on ordinary activities

The tax credit comprises:

	2015 £	2014 £
Current tax on profit on ordinary activities		
UK corporation tax	(532,844)	519,757
Adjustments in respect of prior years	(3,459,201)	(276,262)
Total current tax	(3,992,045)	243,495
Deferred tax		
Origination and reversal of timing differences	-	(273,656)
Change in recognition of deferred tax asset	762,173	-
Effect of increase in tax rate on opening liability	-	22,296
Total deferred tax (see note 19)	762,173	(251,360)
Total tax on profit on ordinary activities	(3,229,872)	(7,865)

The standard rate of tax applied to reported profit on ordinary activities is 20.25 per cent (2014: 21.50 per cent).

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted in July 2013 now standing at 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

In the Budget on 8 July 2015, the UK Government proposed, amongst other things, to further reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. These rate changes were substantively enacted in the Finance Bill 2015 on 26 October 2015 and existing temporary differences may therefore unwind in periods subject to these reduced rates.

The closing deferred tax assets and liabilities have been calculated at 19% in accordance with the rates enacted at the balance sheet date.

There is no expiry date on timing differences, unused tax losses or tax credits.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £	2014 £
Group profit on ordinary activities before tax	20,446,863	755,088
Tax on Group profit on ordinary activities at blended standard UK corporation tax rate of 20.25 per cent (2014: 21.50 per cent)	4,140,490	162,344
Effects of:		
- Expenses not deductible for tax purposes	56,313	83,757
- Fixed asset timing differences - deferred tax not recognised	114,060	-
- Effect of increase in tax rate on opening liability	-	22,296
- Other timing differences - deferred tax not recognised	(363,099)	-
- Utilisation of tax losses - deferred tax not recognised	(92,856)	-
- Video games tax relief	(2,197,843)	-
- Effect of other tax rates – video games tax relief	(101,240)	-
- Patent box	(2,088,669)	-
- Change in deferred tax asset	762,173	-
- Adjustments to tax charge in respect of previous periods – current tax	(3,459,201)	(276,262)
Group total tax credit for period	(3,229,872)	(7,865)

9. Profit attributable to the Company

The profit for the financial year dealt with in the financial statements of the parent Company was £23,676,773 (2014: £741,461). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

10. Share-based payments

Equity-settled share option schemes

The Company has a share option scheme for certain employees of the Company. Options are exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The vesting period is up to five years. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2015		2014	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	61,759,148	0.13	97,611,135	0.13
Forfeited during the period	(41,869,513)	0.13	(35,851,987)	0.13
Outstanding at the end of the period	<u>19,889,635</u>	0.13	<u>61,759,148</u>	0.13
Exercisable at the end of the period	<u>-</u>		<u>-</u>	

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Group recognised total expenses of £41,341 and £222,983 related to equity-settled share-based payment transactions in 2015 and 2014 respectively.

11. Intangible fixed assets

Group and Company

	Intellectual property £
Cost	
At 1 January 2015 and 31 December 2015	<u>349,800</u>
Amortisation	
At 1 January 2015 and 31 December 2015	<u>349,800</u>
Net book value	
At 31 December 2015	<u>-</u>
At 31 December 2014	<u>-</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

12. Tangible fixed assets

Group and Company	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 January 2015	1,896,606	421,337	7,438,446	9,756,389
Additions	31,964	-	468,435	500,399
Disposals	(81,250)	-	(1,688,050)	(1,769,300)
At 31 December 2015	1,847,320	421,337	6,218,831	8,487,488
Depreciation				
At 1 January 2015	1,169,860	253,102	4,670,456	6,093,417
Charge for the year	380,919	79,015	1,790,626	2,250,560
Disposals	(67,702)	-	(1,655,114)	(1,722,816)
At 31 December 2015	1,483,077	332,117	4,805,967	6,621,161
Net book value				
At 31 December 2015	364,243	89,220	1,412,864	1,866,327
At 31 December 2014	726,746	168,235	2,767,991	3,662,972
Leased assets included above:				
Net book value				
At 31 December 2015	140,841	-	-	140,841
At 31 December 2014	309,038	-	-	309,038

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

13. Fixed asset investments

Company

	Other investments £	Subsidiary undertakings £	Total £
Cost			
At 1 January 2015 and 31 December 2015	135,000	308,718	443,718
Provisions for impairment			
At 1 January 2015 and 31 December 2015	135,000	308,718	443,718
Net book value			
At 31 December 2015	-	-	-
At 31 December 2014	-	-	-

Jagex Holdings Limited, Inc. has been treated as a subsidiary undertaking because the Group exercises dominant influence over this investment, directing its financial and operating policies.

Other investments are held at cost less impairment because their fair value cannot be measured reliably.

Principal Group investments

The parent Company and the Group have investments in the following subsidiary undertakings and other significant investments.

	Country of incorporation	Principal activity	Holding*	%
Subsidiary undertakings				
Jagex Holdings Limited, Inc. +	United States	Dormant	Ordinary	100
Jagex Management Limited, Inc. +	United States	Dormant	Ordinary	100
Other investments				
Omnigon Games Limited +	United Kingdom	Games Development	Ordinary	35

+ Held directly by Jagex Limited.

14. Stocks

	Group and Company	
	2015	2014
	£	£
Finished goods and goods for resale	214,686	341,940

There is no material difference between the balance sheet value of stock and their replacement cost.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

15. Debtors

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	6,294,726	3,607,630	6,294,726	3,607,630
Prepayments and accrued income	2,135,191	2,606,531	2,135,191	2,605,394
Other debtors	4,190	3,747	4,190	3,747
Corporation tax	2,079,099	732,889	2,079,099	701,497
Deferred tax asset (see note 19)	-	762,173	-	762,173
	<u>10,513,206</u>	<u>7,712,970</u>	<u>10,513,206</u>	<u>7,680,441</u>
Amounts falling due after more than one year:				
Other debtors	226,914	254,113	226,914	249,554
	<u>10,740,120</u>	<u>7,967,083</u>	<u>10,740,120</u>	<u>7,929,995</u>

16. Creditors – amounts falling due within one year

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Obligations under finance leases and hire purchase contracts (see note 17)	44,200	97,104	44,200	97,104
Trade creditors	1,869,734	1,551,744	1,869,395	1,545,314
Other taxation and social security	1,232,447	1,077,855	1,232,447	1,077,855
Other creditors	71,530	352,470	71,530	352,470
Accruals and deferred income	15,530,381	13,123,138	15,530,381	13,123,138
	<u>18,748,292</u>	<u>16,202,311</u>	<u>18,747,953</u>	<u>16,195,881</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

17. Creditors – amounts falling due after more than one year

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Obligations under finance leases and hire purchase contracts	-	44,200	-	44,200

Finance leases are repayable as follows:

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Finance leases				
Between one and two years	-	44,200	-	44,200
On demand or within one year	44,200	97,104	44,200	97,104
	<u>44,200</u>	<u>141,304</u>	<u>44,200</u>	<u>141,304</u>

18. Provisions for liabilities

	Redundancy provision £	Provisions for Global Sales Tax £	Total £
Group and Company			
At 1 January 2015	696,424	3,792,812	4,489,236
Charged to profit and loss account	400,937	1,041,162	1,442,099
Released unused	(117,764)	(264,119)	(381,883)
Utilisation of provision	(578,660)	-	(578,660)
At 31 December 2015	<u>400,937</u>	<u>4,569,855</u>	<u>4,970,792</u>

Redundancy provision

The provision for redundancies represents management's estimate of the amount payable to former employees and includes estimated costs payable in settlement of action brought in respect of the redundancy consultation period.

Provisions for Global Sales Tax

The provision for global sales tax represents management's estimate of tax which could become due on sales in territories outside the United Kingdom. The provision is based on our best estimates of the tax treatment in the countries in question taking into account the applicable tax rates, interest and potential penalties. The outcome of these potential liabilities is unclear although the directors believe the liabilities are probable and have recognised provisions accordingly.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

19. Deferred tax asset

Deferred tax is recognised as follows:

	2015 £	2014 £
Group and Company		
Accelerated capital allowances	-	389,190
Other timing differences	-	372,983
	<u>-</u>	<u>762,173</u>

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the group.

Unrecognised deferred tax asset

A deferred tax asset not is not recognised in the current year as in the Directors' opinion there is no certainty of future taxable profits to offset these against.

	2015 £	2014 £
Group and Company		
Accelerated capital allowances	471,881	-
Tax losses available	1,850,800	-
Other timing differences	32,590	-
	<u>2,355,271</u>	<u>-</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

20. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Financial assets				
Measured at undiscounted amount receivable				
• Trade and other debtors (see note 15)	8,661,021	6,472,021	8,661,021	6,466,325
Equity instruments measured at cost less impairment				
• Fixed asset investments in unlisted equity instruments (see note 13)	443,718	443,718	-	-
	<u>9,104,739</u>	<u>6,915,739</u>	<u>8,661,021</u>	<u>6,466,325</u>
Financial liabilities				
Measured at amortised cost				
• Obligations under finance leases (see note 16 and 17)	44,200	141,304	44,200	141,304
Measured at undiscounted amount payable				
• Trade and other creditors (see note 16)	18,704,094	16,105,207	18,704,094	16,098,780
	<u>18,748,294</u>	<u>16,246,511</u>	<u>18,748,294</u>	<u>16,240,084</u>

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	Group		Company	
	2015	2014	2015	2014
	£	£	£	£
Interest income and expense				
Total interest expense for financial liabilities at amortised cost	<u>18,589</u>	<u>-</u>	<u>18,589</u>	<u>-</u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

21. Called-up share capital and reserves

	2015 £	2014 £
Alotted, called-up and fully-paid		
1,126,753,628 ordinary shares of 10p each	<u>11,267</u>	<u>11,267</u>

The Company has one class of ordinary shares which carry no right to fixed income.

The Group and Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The share-based payment reserve contains cumulative expenses relating to equity settled share-based payment transactions.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

22. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	2015 £	2014 £
Operating profit	20,437,002	765,620
Adjustment for:		
Share-based payment expense	41,341	222,983
Depreciation and amortisation	2,250,560	2,430,371
Loss on sale of tangible fixed assets	46,483	42,156
Taxation received/(paid)	<u>2,620,568</u>	<u>(323,846)</u>
Operating cash flow before movement in working capital	25,395,954	3,137,284
Decrease/(increase) in stocks	127,254	(9,558)
Increase in debtors	(2,189,001)	(1,372,336)
Increase in creditors	2,501,783	2,213,142
Increase/(decrease) in provisions	<u>481,556</u>	<u>(508,761)</u>
Cash generated by operations	<u><u>26,317,546</u></u>	<u><u>3,459,771</u></u>

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

23. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2015		2014	
	Land and buildings £	Other £	Land and buildings £	Other £
Group and Company				
- within one year	1,025,873	18,917	1,025,873	18,917
- between one and five years	4,355,948	1,576	4,355,948	1,576
- after five years	3,811,455	-	3,811,455	-
	<u>9,193,276</u>	<u>20,493</u>	<u>9,193,276</u>	<u>20,493</u>

24. Employee benefits

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to profit or loss in the year ended 31 December 2015 was £422,111 (2014: £330,755).

25. Related party transactions

The total remuneration for key management personnel for the period totalled £2,697,823 (2014: £1,528,442), being remuneration disclosed in note 7 of £2,697,823 (2014: £1,528,442) and share-based payment expenses of £15,024 (2014: £40,144).

26. Controlling party

The controlling party is Insight Venture Partners, as a result of controlling directly 55 per cent of the issued share capital of the Company.

Jagex Limited

Notes to the financial statements For the year ended 31 December 2015

27. Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Reconciliation of equity

	Group		Company	
	At 1 January 2014 £	At 31 December 2014 £	At 1 January 2014 £	At 31 December 2014 £
Equity reported under previous UKGAAP	9,392,960	10,750,164	9,334,704	10,681,514
Adjustments to equity on transition to FRS 102				
<i>Deferral of revenue relating to loyalty points</i>	<u>(1,013,078)</u>	<u>(1,395,444)</u>	<u>(1,013,078)</u>	<u>(1,395,444)</u>
Equity reported under FRS 102	<u>8,379,882</u>	<u>9,354,720</u>	<u>8,321,626</u>	<u>9,286,070</u>

Notes to the reconciliation of equity at 1 January 2014

Revenue relating to unused loyalty points has been deferred at the balance sheet date to the extent that these are expected to be redeemed.

Reconciliation of profit or loss for 2014

	Group £	Company £
Profit for the financial year under previous UK GAAP	1,145,319	1,123,824
<i>Deferral of revenue relating to loyalty points</i>	<u>(382,366)</u>	<u>(382,366)</u>
Profit for the financial year under FRS 102	<u>762,953</u>	<u>741,458</u>

Notes to the reconciliation of profit or loss for 2014

Revenue relating to unused loyalty points has been deferred at the balance sheet date to the extent that these are expected to be redeemed.