

MEDIA MOLECULE LIMITED

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**



Registered Number 05665849

MEDIA MOLECULE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2013

RESULTS AND DIVIDENDS

The profit for the financial year amounted to £3,895,000 (2012 £4,349,000) The directors do not recommend the payment of a dividend (2012 £nil)

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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

The company continued to develop games exclusively for Sony Computer Entertainment Europe Limited, including the Tearaway title for the Sony PlayStation VITA which was launched in November 2013 The company is also involved in developing new intellectual property for the PlayStation 4 platform, securing future revenue streams

The results for the company show a profit on ordinary activities before taxation of £4,864,000 (2012 £5,846,000) and turnover of £9,704,000 (2012 £10,769,000) As at 31 March 2013 the company has net assets of £18,629,000 (2012 £14,734,000)

BUSINESS ENVIRONMENT

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

The market in which the company operates continues to be extremely competitive with a number of global companies developing software for the major games platforms The company is also operating in a challenging economic climate with tightened consumer spending providing tough conditions for the sale of games software

In this challenging environment, the company has continued to develop and launch successful new titles, including Tearaway, for the PlayStation VITA and PlayStation 3 platforms

KEY PERFORMANCE INDICATORS

Turnover for the financial year of £9.7 million represent the continued strong success of the titles being developed for the PlayStation 3 and PlayStation VITA Turnover is recognised as contractual milestones are reached for the development of software for PlayStation platforms

The slight decrease in turnover compared to the previous year is due to the company's focus on development of titles for the new PlayStation 4 console, which launched in November 2013 Key milestones for some of these titles were yet to be reached at 31 March 2013 due to the release date of the console

The profit on ordinary activities before taxation for the year of £4.9 million compared to a profit last year of £5.8 million reflects the trend in revenue

MEDIA MOLECULE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

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

RESEARCH AND DEVELOPMENT

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

FUTURE DEVELOPMENTS

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

FINANCIAL RISK MANAGEMENT

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

POLITICAL AND CHARITABLE DONATIONS

Charitable donations of £4,159 were made during the financial year (2012: £4,479). These were in the form of various small donations to several charities. There were no political donations in the year (2012: nil).

DIRECTORS

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

J Ryan
M Denny
S Rutter

MEDIA MOLECULE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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,
- 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.

QUALIFYING THIRD PARTY INDEMNITY PROVISION

The company maintains liability insurance for its directors and officers. The company also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purpose of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force.

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

INDEPENDENT AUDITORS

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

On behalf of the Board


S Rutter
Director

19 December 2013

MEDIA MOLECULE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEDIA MOLECULE LIMITED

We have audited the financial statements of Media Molecule Limited for the year ended 31 March 2013 which comprise the Profit and Loss account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

MEDIA MOLECULE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEDIA MOLECULE LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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



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

19 December 2013

MEDIA MOLECULE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

		2013	2012
	Notes	£'000	£'000
TURNOVER	2	9,704	10,769
Cost of sales		<u>(31)</u>	<u>(90)</u>
GROSS PROFIT		9,673	10,679
Distribution costs		(6)	(19)
Administrative expenses		<u>(4,888)</u>	<u>(4,830)</u>
OPERATING PROFIT	3	4,779	5,830
Interest receivable and similar income	6	<u>85</u>	<u>16</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,864	5,846
Tax on profit on ordinary activities	7	<u>(969)</u>	<u>(1,497)</u>
PROFIT FOR THE FINANCIAL YEAR	14	<u>3,895</u>	<u>4,349</u>

All operations are continuing

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

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

MEDIA MOLECULE LIMITED
BALANCE SHEET AS AT 31 MARCH 2013

	Notes	2013 £'000	2013 £'000	2012 £'000	2012 £'000
FIXED ASSETS					
Tangible assets	8	<u>814</u>		<u>764</u>	
			814		764
CURRENT ASSETS					
Debtors	9	20,959		18,985	
Cash at bank and in hand		<u>100</u>		<u>1,036</u>	
			21,059		20,021
CREDITORS					
Amounts falling due within one year	10	<u>(2,860)</u>		<u>(5,641)</u>	
			(2,860)		(5,641)
NET CURRENT ASSETS					
			<u>18,199</u>		<u>14,380</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			<u>19,013</u>		<u>15,144</u>
CREDITORS amounts falling due after more than one year	11		<u>(384)</u>		<u>(410)</u>
NET ASSETS					
			<u>18,629</u>		<u>14,734</u>
CAPITAL AND RESERVES					
Called up share capital	13		-		-
Profit and loss account	14		<u>18,629</u>		<u>14,734</u>
TOTAL SHAREHOLDERS' FUNDS					
	15		<u>18,629</u>		<u>14,734</u>

These financial statements on pages 6 to 15 were approved by the Board on 19 December 2013, and signed on its behalf by



S Rutter
Director

Registered number 05665849

MEDIA MOLECULE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

1 ACCOUNTING POLICIES

Basis of preparation

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

Taxation

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

Full provision is made for timing differences and deferred tax. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to apply less tax in the future, have occurred at the balance sheet date.

When a deferred tax asset is regarded as recoverable, it is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rate that is expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities recognised have not been discounted.

Cash flow statement

The company is a wholly owned subsidiary company of a group headed by Sony Corporation, and is included in the consolidated financial statements of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within FRS 1 (revised 1996) 'Cash flow statements' from preparing a cash flow statement. (Copies of these financial statements can be obtained from Sony Global Treasury Services Plc, 15th Floor, Commercial Union Tower, 1 Undershaft, London, EC3A 8EE.)

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

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

The principal annual rates used for such assets are:

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

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

Leased assets

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

MEDIA MOLECULE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

1 ACCOUNTING POLICIES (CONTINUED)

Research and development

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

Foreign currencies

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

Turnover

Turnover is wholly derived from contracts with Sony Computer Entertainment Europe Limited for the development of titles for the PS4, PS3 and PSP consoles as well as the PSVITA console and the PlayStation Network.

Turnover is recognised as the contract activity progresses on a milestone basis as agreed with Sony Computer Entertainment Europe Limited.

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

Administrative Expenses

Administrative expenses reflect research and development and other operating costs of the Company. Research and development costs of £3,684,000 (2012: £4,367,000) include wages and salaries amounting to £3,532,000 (2012: £3,850,000).

Financial instruments

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

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

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

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

2 TURNOVER

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

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

3 OPERATING PROFIT

Operating profit is arrived at after charging

	2013 £'000	2012 £'000
Depreciation of tangible fixed assets – owned	339	153
Research & development	3,684	4,367
Operating leases charges – other	<u>233</u>	<u>233</u>

Costs for audit and non-audit services are currently borne by Sony Computer Entertainment Europe Limited as in the prior year. It has not been possible to separately identify the audit fee related to this entity.

4 DIRECTORS' EMOLUMENTS

J Ryan and S Rutter are directors of the immediate parent undertaking, Sony Computer Entertainment Europe Limited. J Ryan and S Rutter's total emoluments are included in the aggregate of directors costs disclosed in the financial statements of Sony Computer Entertainment Europe Limited.

M Denny is an employee of, and is paid by, the immediate parent undertaking, Sony Computer Entertainment Europe Limited. M Denny's total emoluments are included in the aggregate of employment costs disclosed in the financial statements of Sony Computer Entertainment Europe Limited.

No directors received remuneration in respect of services rendered for the management of this company (2012: £nil).

5 EMPLOYEE INFORMATION

The average number of persons, including executive directors, employed by the company during the financial year was none (2012: none).

No employees were contracted to the company during the financial year as all employee contracts are held by the immediate parent undertaking, Sony Computer Entertainment Europe Limited. The costs for these employees are recharged by this company to Media Molecule Limited. The costs totalled £3,532,000 (2012: £3,850,000) and are shown within administrative expenses.

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £'000	2012 £'000
Bank and other interest receivable	<u>85</u>	<u>16</u>

MEDIA MOLECULE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013****7 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2013 £'000	2012 £'000
Current tax		
UK corporation tax on profit in the year	996	1,518
Adjustments in respect of previous years	(28)	(10)
	<u>968</u>	<u>1,508</u>
Deferred tax		
Origination and reversal of timing differences	(29)	(42)
Adjustments in respect of previous years	28	31
Effect of tax rate change on opening balances	2	-
	<u>1</u>	<u>(11)</u>
	<u>969</u>	<u>1,497</u>

The tax assessed for the year is lower (2012 lower) than the standard rate of corporation tax in the UK (24%)

The differences are explained below

Profit on ordinary activities before tax	<u>4,864</u>	<u>5,846</u>
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 24% (2012 26%)	1,167	1,520
Expenses not deductible for tax purposes	1	25
Depreciation in excess of capital allowances	36	55
Short term differences	-	(5)
Enhanced expenditure deduction	(208)	(77)
Adjustments in respect of previous years	(28)	(10)
	<u>968</u>	<u>1,508</u>

Factors which may affect future tax charges

Legislation to reduce the main rate of corporation tax to 23% from 1 April 2013 was included in the Finance Act 2012. The Finance Act 2012 was substantively enacted at the balance sheet date. Legislation to reduce the corporation tax rate further to 21% from 1 April 2014 and 20% from 1 April 2015 is included in the Finance Act 2013. The Finance Act was substantively enacted on 2 July 2013. The rate reductions to 21% and 20% had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

MEDIA MOLECULE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

8 TANGIBLE FIXED ASSETS

	Fixtures and fittings £'000	Computer Equipment £'000	Leasehold Property £'000	Total £'000
Cost				
At 1 April 2012	395	656	229	1,280
Additions	37	352	-	389
Disposals	-	(115)	-	(115)
At 31 March 2013	432	893	229	1,554
Accumulated depreciation				
At 1 April 2012	157	313	46	516
Charge for the year	77	238	24	339
Disposals	-	(115)	-	(115)
At 31 March 2013	234	436	70	740
Net book amount				
At 31 March 2013	198	457	159	814
At 31 March 2012	238	343	183	764

9 DEBTORS

	2013 £'000	2012 £'000
Amounts owed by group undertakings	20,720	18,775
Deferred tax asset (Note 12)	91	92
Other debtors	-	58
Prepayments and accrued income	148	60
	<u>20,959</u>	<u>18,985</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

10 CREDITORS amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	134	215
Group relief payable	2,518	2,808
Other taxation and social security	182	2,592
Accruals and deferred income	26	26
	<u>2,860</u>	<u>5,641</u>

MEDIA MOLECULE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013****11 CREDITORS amounts falling due after more than one year**

	2013 £'000	2012 £'000
Accruals and deferred income	384	410
	<u>384</u>	<u>410</u>

Maturity of creditors falling due after more than one year,

Within 1-2 years	26	26
Within 2-5 years	78	78
Over 5 years	280	306
	<u>384</u>	<u>410</u>

All creditors falling due over 5 years are deemed to be non-instalment debts

12 DEFERRED TAXATION**Deferred tax asset recognised**

	2013 £'000	2012 £'000
At 1 April	92	81
Credit in profit and loss account in respect of		
Current year	27	42
Prior year	<u>(28)</u>	<u>(31)</u>
At 31 March	<u>91</u>	<u>92</u>
Analysed as follows		
Excess of book depreciation of fixed assets over tax allowance	<u>91</u>	<u>92</u>
Deferred tax asset	<u>91</u>	<u>92</u>

The proposed reductions of the main rate of corporation tax by 1% per year to 20% by 1 April 2015 are expected to be enacted separately each year

The overall effect of the changes in the tax rate to 20% by 1 April 2015, if applied to the deferred tax balance as at 31 March 2013, would reduce the deferred tax asset by £12k (being £8k recognised in 2014, £4k recognised in 2015)

MEDIA MOLECULE LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

13 CALLED UP SHARE CAPITAL

	2013 £	2012 £
Authorised 1,050 (2012 1,050) Ordinary shares of £0 10 each	<u>105</u>	<u>105</u>
Called-up, allotted and fully paid 1,049 (2012 1,049) Ordinary shares of £0 10 each	<u>105</u>	<u>105</u>

14 PROFIT AND LOSS ACCOUNT

	Profit and loss account £'000
At 1 April 2012	14,734
Profit for the financial year	<u>3,895</u>
At 31 March 2013	<u>18,629</u>

15 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

	2013 £'000	2012 £'000
Profit for the financial year	<u>3,895</u>	<u>4,349</u>
Net movement in total shareholders' funds	3,895	4,349
Opening total shareholders' funds	<u>14,734</u>	<u>10,385</u>
Closing total shareholders' funds	<u>18,629</u>	<u>14,734</u>

16 FINANCIAL COMMITMENTS

Operating lease commitments

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

	2013 £'000	2012 £'000
Land and buildings		
Leases expiring		
Within 1 year	-	-
Within 2-5 years	-	-
Over 5 years	<u>259</u>	<u>259</u>
	<u>259</u>	<u>259</u>

MEDIA MOLECULE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

17 IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking is Sony Computer Entertainment Europe Limited

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

Sony Corporation is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 March 2013. The consolidated financial statements of Sony Corporation are available from Sony Global Treasury Services Plc, 15th Floor, Commercial Union Tower, 1 Undershaft, London, EC3A 8EE

18 RELATED PARTY TRANSACTIONS

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