

**JAGEX LIMITED**

**Consolidated Report and Financial Statements**

**31 December 2012**

20/03/2013

THURSDAY



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# **JAGEX LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2012**

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# **JAGEX LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2012**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

M Gerhard  
A C Crisses  
J Salter  
B Gardner  
C Mitchell  
J Quagliaroli  
J Horing

#### **SECRETARY**

Riaan Hodgson

#### **REGISTERED OFFICE**

St Johns Innovation Centre  
Cowley Road  
Cambridge  
CB4 0WS

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge  
United Kingdom

# 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 2012

### PRINCIPAL ACTIVITY

The principal activity of the Group (Jagex Limited and subsidiaries) is the development and publication of online games using proprietary software tools and web systems technologies in addition to best in class third party tools

The subsidiary undertakings principally affecting the profits or net assets of the Group in the period are listed in note 12 to the financial statements

### BUSINESS REVIEW

During the year ended 31 December 2012, Jagex Limited ("Jagex" or "the Company") continued to experience growth for its flagship and record-breaking game, RuneScape. On an annual basis, performance in respect of RuneScape increased significantly reflecting the increased investment in development resources. The management team is very pleased with the RuneScape performance and believe it is clear that the investment in talent and technology is having a positive impact on the playing community and financial results.

It has been a positive period in terms of new projects with the Company continuing to execute on its strategic plans which required investment in various areas to ensure its games are fun and exciting to play. This will enable Jagex to maintain its leading sector position in the online games space. These investments include:

- Continued investment in talent to enhance the studio developing the Transformers Universe game,
- Diversifying the portfolio of games beyond the 43 current games by investing in external talent both in the UK and US,
- Launching a third-party publishing studio working with external developers to produce fun and engaging content, and
- Investments in platform and technology to leapfrog other games in terms of visual quality and accessibility.

A number of significant milestones have been achieved by the Group in the year. These include:

- Release of Transformers Universe in Open Beta ahead of full Commercial Launch planned for 2013,
- Integration of microtransactions into RuneScape, allowing players to customise their characters,
- Successful launch of Ace of Spades in December 2012, and
- Encouraging launch with enthusiastic reviews for Carnage Racing.

The landscape is continuing to be very competitive but the Group is positive about the future, given the RuneScape growth, the upcoming launch of Transformers Universe and other new product launches emanating from the third party publishing studio in the coming financial year.

The Group has been successfully cash generative in the year, with the cash balance increasing by £11.0m to £22.8m as at 31 December 2012. Deferred income has risen from £3.2m to £4.7m during 2012, reflecting the revenue recognition policy and strong sale of membership packages in 2012.

Gross margin has increased from 38% to 45% reflecting higher value and volumes for the year. Headcount has decreased from an average of 490 in the nine months to 31 December 2011 to 472 in the year to 31 December 2012.

The Group continues to invest in research and development. This has resulted in a number of new products being launched recently which may make significant contributions to the growth of the business in future years. The directors regard investment in this area as a prerequisite for success in the medium to long-term future.

The directors expect the general level of investment to increase in the near future to allow the Group to accomplish its future launch targets, and thus grow during 2013 and beyond.

# JAGEX LIMITED

## DIRECTORS' REPORT (continued)

### 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,
- expenditure increasing without a commensurate increase in revenues, and rapid changes in market conditions could result in poor operating results,
- errors or defects in our products, which could negatively affect our revenues and the market acceptance of our products and increasing our costs,
- the return of unfavourable economic and market conditions, including significant fluctuations in foreign exchange rates,
- unsuccessful launch of new games,
- 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. Measures include aiming to develop compelling game content and successfully launch new games, whilst regularly monitoring games industry trends

### 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,
- Operating profit after exceptional items, and
- Headcount

Performance in the year ended 31 December 2012 and comparative information for the nine months ended 31 December 2011 is summarised below

	Year ended 31 December 2012 £'000	9 months ended 31 December 2011 £'000
Revenue	53,098	32,905
Operating profit (loss) after exceptional items	9,746	(9,869)
Headcount	472	490

An explanation for the movements in key performance indicators has been provided in the Business Review on page 2

### GOING CONCERN

The Group and Company continues 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 at least 12 months 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. The directors have therefore concluded it is appropriate to prepare the financial statements on a going concern basis.

# **JAGEX LIMITED**

## **DIRECTORS' REPORT (continued)**

### **RESULTS AND DIVIDENDS**

The profit for the financial year ended 31 December 2012, after taxation, amounted to £7,242,272 (9 months ended 31 December 2011 - loss of £9,538,747)

The directors paid dividends in the year of £nil (9 months ended 31 December 2011 - £nil)

### **DIRECTORS**

The directors who served throughout the year and to the date of this report are shown below

- M Gerhard
- J Horing
- A C Crisses
- J Salter
- B Gardner
- J Quagliaroli
- C Mitchell (resigned 11 March 2013)
- M Farrell (appointed 11 March 2013)

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 AND CHARITABLE CONTRIBUTIONS**

The Group made charitable donations amounting to £5,790 during the year (9 months ended 31 December 2011 - £207) Donations were made to a number of local and US based charities

### **FUTURE DEVELOPMENTS**

The Group hopes to continue to grow its player base by launching new, internally developed games in various languages as well as act as a publisher for third party developed games The Group intends to release at least one of the projects currently in development

# **JAGEX LIMITED**

## **DIRECTORS' REPORT (continued)**

### **FINANCIAL INSTRUMENTS**

The Group's activities expose it primarily to the financial risks of credit risk, foreign exchange 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

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

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

### **EMPLOYEE INVOLVEMENT**

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 circulating data regarding subscriber growth

### **DISABLED EMPLOYEES**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicants 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 that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees

### **AUDITOR**

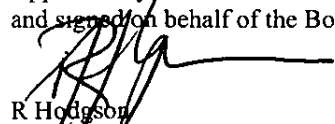
Each of the persons who is a director at the date of approval of this annual report confirms that

- 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 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 a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors  
and signed on behalf of the Board

  
R Hodgson  
Secretary

**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). 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 accounting standards have been followed, 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.



## **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 2012 which comprise the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 29. 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).

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. 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 the parent company's affairs as at 31 December 2012 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**

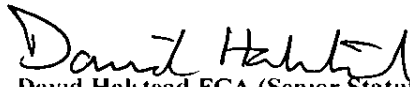
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAGEX 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

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

21 March 2013

# JAGEX LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2012

	Note	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
<b>TURNOVER</b>	2	53,098,126	32,905,077
Cost of sales		(28,994,457)	(20,147,373)
Gross profit		<u>24,103,669</u>	<u>12,757,704</u>
Administrative expenses			
Exceptional administrative expenses	3	609,142	(14,856,000)
Other administrative expenses		<u>(14,967,257)</u>	<u>(7,770,970)</u>
Total administrative expenses		<u>(14,358,115)</u>	<u>(22,626,970)</u>
<b>OPERATING PROFIT (LOSS)</b>	3	9,745,554	(9,869,266)
Interest receivable and similar income	6	92,509	30,898
Interest payable and similar charges	7	<u>(80,004)</u>	<u>(17,472)</u>
<b>PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		9,758,059	(9,855,840)
Tax on profit (loss) on ordinary activities	8	<u>(2,515,787)</u>	<u>317,093</u>
<b>PROFIT (LOSS) FOR THE FINANCIAL YEAR</b>	21	<u><u>7,242,272</u></u>	<u><u>(9,538,747)</u></u>

All activities derive from continuing operations

## JAGEX LIMITED

### CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 December 2012

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Profit for the financial year for the Group	7,242,272	(9,538,747)
Currency translation difference on foreign currency net investments	58,548	-
<b>Total recognised gains and losses relating to the year</b>	<b>7,300,820</b>	<b>(9,538,747)</b>

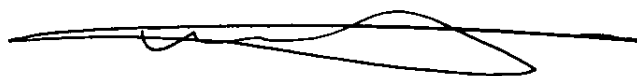
# JAGEX LIMITED

## CONSOLIDATED BALANCE SHEET 31 December 2012

	Note	2012 £	2011 £
<b>FIXED ASSETS</b>			
Intangible assets	10	5,830	40,810
Tangible assets	11	4,559,313	3,731,496
		<u>4,565,143</u>	<u>3,772,306</u>
<b>CURRENT ASSETS</b>			
Stocks	13	263,886	234,873
Debtors	14		
– due within one year		7,362,129	5,177,999
– due after one year		20,244	61,096
Cash at bank and in hand		22,833,032	11,844,012
		<u>30,479,291</u>	<u>17,317,980</u>
<b>CREDITORS</b> amounts falling due within one year	15	(21,872,401)	(14,870,614)
<b>NET CURRENT ASSETS</b>		<u>8,606,890</u>	<u>2,447,366</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		13,172,033	6,219,672
<b>CREDITORS</b> amounts falling due after more than one year	16	(3,422,107)	(3,507,065)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	(1,916,825)	(3,316,771)
<b>NET ASSETS (LIABILITIES)</b>		<u>7,833,101</u>	<u>(604,164)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	11,267	11,267
Share premium account	21	80	80
Share-based payment reserve	21	1,136,445	-
Profit and loss account	21	6,685,309	(615,511)
<b>SHAREHOLDERS' FUNDS (DEFICIT)</b>	22	<u>7,833,101</u>	<u>(604,164)</u>

The consolidated financial statements of Jagex Limited, registered number 03982706, were approved by the Board of Directors and authorised for issue on 20 March 2013

Signed on behalf of the Board of Directors



M Gerhard

Director

# JAGEX LIMITED

## COMPANY BALANCE SHEET 31 December 2012

	Note	2012 £	2011 £
<b>FIXED ASSETS</b>			
Intangible assets	10	5,830	40,810
Tangible assets	11	4,537,087	3,650,426
Investments	12	308,718	308,718
		<u>4,851,635</u>	<u>3,999,954</u>
<b>CURRENT ASSETS</b>			
Stocks	13	263,886	234,873
Debtors	14	7,377,011	5,184,077
Cash at bank and in hand		22,790,158	11,769,477
		<u>30,431,055</u>	<u>17,188,427</u>
<b>CREDITORS: amounts falling due within one year</b>	15	(22,128,914)	(15,339,004)
<b>NET CURRENT ASSETS</b>		<u>8,302,141</u>	<u>1,849,423</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		13,153,776	5,849,377
<b>CREDITORS: amounts falling due after more than one year</b>	16	(3,422,107)	(3,507,065)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	(1,916,825)	(2,941,304)
<b>NET ASSETS (LIABILITIES)</b>		<u>7,814,844</u>	<u>(598,992)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	11,267	11,267
Share premium account	21	80	80
Share-based payment reserve	21	1,136,445	-
Profit and loss account	21	6,667,052	(610,339)
<b>SHAREHOLDERS' FUNDS (DEFICIT)</b>		<u>7,814,844</u>	<u>(598,992)</u>

The financial statements of Jagex Limited, registered number 03982706, were approved by the Board of Directors and authorised for issue on 20 March 2013

Signed on behalf of the Board of Directors



M Gerhard  
Director

# JAGEX LIMITED

## CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2012

	Note	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Net cash flow from operating activities	23	13,536,490	1,536,085
Returns on investments and servicing of finance	24	12,505	13,426
Taxation		(152,802)	(2,858,018)
Capital expenditure and financial investment	24	(2,372,226)	(2,555,573)
<b>Net cash inflow (outflow) before financing</b>		<b>11,023,967</b>	<b>(3,864,080)</b>
Financing	24	(34,947)	177,941
<b>Increase (decrease) in cash in the year</b>		<b>10,989,020</b>	<b>(3,686,139)</b>

### Reconciliation of net cash flow to movement in net funds

		Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Increase (decrease) in cash in the year		10,989,020	(3,686,139)
Cash outflow (inflow) from change in debt and lease financing		34,947	(177,941)
<b>Change in net funds resulting from cash flows</b>		<b>11,023,967</b>	<b>(3,864,080)</b>
Repayment of (new) finance leases		246,616	(840,983)
<b>Movement in net funds in period</b>		<b>11,270,583</b>	<b>(4,705,063)</b>
Net funds at 1 January 2012		10,552,418	15,257,481
<b>Net funds at 31 December 2012</b>	25	<b>21,823,001</b>	<b>10,552,418</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2012**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The principal accounting policies adopted are described below. These have all been applied consistently throughout the current year and the preceding period.

**Accounting convention and basis of consolidation**

The financial statements are prepared under the historical cost convention. The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year.

**Going concern**

The Group and Company continues 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 at least 12 months 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. The directors have therefore concluded it is appropriate to prepare the financial statements on a going concern basis.

**Intangible fixed assets and amortisation**

Licences purchased by the Group are amortised in equal annual instalments over a period of 10 years which is their estimated useful economic life.

**Tangible fixed assets**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Assets under finance lease	20% per annum
Computer equipment	33% per annum
Fixtures and fittings	20% per annum
Leasehold improvements	Life of lease (5 years)

**Investments**

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

**Leases**

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

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 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 rate of charge on the balance of capital repayments outstanding.

**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, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.



**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2012**

**1. ACCOUNTING POLICIES (continued)**

**Foreign exchange**

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities 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 sheets 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 total recognised gains and losses. All other exchange differences are included in the profit and loss account.

**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.

**Pensions**

The company operates a defined contribution pension scheme and the pension charge represents the 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.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. The cost of finished goods includes the cost of material plus expenditure incurred on freight and duty. Where necessary, provision is made for obsolete, slow moving and defective stock.

**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 period that a player has the right to use the service or item for,
- revenue from the sale of microtransactions that provide an instant acceleration of gameplay to a user's account, providing earlier access to free items, 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.

**Financial liabilities and equity**

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 company after deducting all of its liabilities.

**Share-based payment**

The company has applied the requirements of FRS 20 "Share-based Payment".

The company issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments 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 date of grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company'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. 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

Year ended 31 December 2012

### 2. ANALYSIS OF TURNOVER

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
<b>By activity</b>		
Game income	52,335,101	31,893,489
Advertising revenue	735,118	782,970
Other income	27,907	228,618
	<u>53,098,126</u>	<u>32,905,077</u>

Game income includes both subscription and microtransaction sales

Turnover by geographical location has not been disclosed as in the opinion of the directors such disclosures could be seriously prejudicial to the interests of the group

### 3. OPERATING PROFIT (LOSS)

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
<b>Operating profit (loss) is after charging (crediting)</b>		
Depreciation on tangible fixed assets		
Owned assets	1,311,561	817,161
Leased assets	168,197	27,355
Amortisation of intangible assets	34,980	26,235
The analysis of auditor's remuneration is as follows		
Fees payable to the Group's auditor for the audit of the Group and Company's annual accounts	33,000	29,000
Other services relating to tax	16,500	5,400
Corporate Finance services	-	40,524
Operating lease rentals		
Land and buildings	844,714	931,526
Other	29,916	33,385
Foreign exchange loss (gain)	776,698	(298,733)
Exceptional administrative expenses	<u>(609,142)</u>	<u>14,856,000</u>

Included within administrative expenses are exceptional costs, being costs incurred during the period outside the normal course of trading. The credit for the year ended 31 December 2012 relates to the release of the onerous lease provision

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 4 STAFF NUMBERS AND COSTS

	Year ended 31 December 2012	9 months ended 31 December 2011
	No	No
<b>Average number of persons employed by the Group (including directors) during the year</b>		
Directors	1	1
Commercial/Management	51	53
Development	243	236
Customer relations	90	120
Technical	87	80
	<u>472</u>	<u>490</u>
	£	£
<b>Staff costs incurred during the year in respect of these employees</b>		
Wages and salaries	18,619,144	13,928,108
Social security costs	1,884,546	1,195,909
Other pension costs	59,347	55,483
Share based payment	1,136,445	-
	<u>21,699,482</u>	<u>15,179,500</u>

### 5. REMUNERATION OF DIRECTORS

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Directors' emoluments	<u>437,166</u>	<u>284,303</u>

The highest paid director received remuneration of £437,166 (9 months ended 31 December 2011 £284,303), and exercised no share options (9 months ended 31 December 2011 none)

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Other income	76,288	931
Other interest receivable	16,221	29,967
	<u>92,509</u>	<u>30,898</u>

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Other finance charges	78,102	17,312
Other interest payable	1,902	160
	<u>80,004</u>	<u>17,472</u>

### 8. TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
<b>Current taxation</b>		
UK corporation tax	2,821,196	(389,548)
Adjustments in respect of prior periods	(325,647)	110,652
Total UK tax	<u>2,495,549</u>	<u>(278,896)</u>
Foreign tax	46,524	-
<b>Total current tax</b>	<u>2,542,073</u>	<u>(278,896)</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	(45,035)	(38,197)
Effect of changes in tax rate	18,749	-
Total deferred tax	<u>(26,286)</u>	<u>(38,197)</u>
Tax on profit (loss) on ordinary activities	<u>2,515,787</u>	<u>(317,093)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2012**

**8. TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES (continued)**

*Factors affecting the tax charge for the current period*

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 24.5% (9 months ended 31 December 2011 - 26%). The actual tax charge for the current and the previous period differs from the standard tax rate for the reasons set out in the following reconciliation

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Profit / (loss) on ordinary activities before tax	9,758,059	(9,855,840)
Tax on profit / (loss) on ordinary activities at standard rate	2,390,724	(2,562,518)
Effects of		
Expenses not deductible for tax purposes	408,895	2,084,364
Capital allowances in deficit of depreciation	91,187	50,597
Other timing differences	(31,441)	38,009
Higher tax rates on overseas earnings	8,355	-
Adjustments in respect of prior periods	(325,647)	110,652
Total actual amount of current tax	2,542,073	(278,896)

*Factors that may affect future tax charges*

At the period end charitable donations and pension contributions were unpaid for which relief will be claimed in future periods

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively.

In December 2012, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 21% effective 1 April 2014, but this change has not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

**9. PROFIT (LOSS) ATTRIBUTABLE TO THE COMPANY**

The profit for the financial year dealt with in the financial statements of the parent company was £7,277,391 (9 months ended 31 December 2011 - loss of £9,538,747). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 10. INTANGIBLE FIXED ASSETS

Group and Company	Intellectual property £
<b>Cost</b>	
At 1 January 2012 and 31 December 2012	349,800
<b>Amortisation</b>	
At 1 January 2012	308,990
Charge in year	34,980
At 31 December 2012	343,970
<b>Net book value</b>	
At 31 December 2012	5,830
At 31 December 2011	40,810

### 11. TANGIBLE FIXED ASSETS

Group	Leasehold improve- ment £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 January 2012	1,698,343	244,265	3,741,598	5,684,206
Additions	147,552	136,195	2,091,928	2,375,675
Disposals	(1,615)	(8,480)	(77,224)	(87,319)
At 31 December 2012	1,844,280	371,980	5,756,302	7,972,562
<b>Depreciation</b>				
At 1 January 2012	77,869	32,987	1,841,854	1,952,710
Charge in year	356,635	57,552	1,065,571	1,479,758
Disposals	(81)	(1,231)	(17,907)	(19,219)
At 31 December 2012	434,423	89,308	2,889,518	3,413,249
<b>Net book value</b>				
At 31 December 2012	1,409,857	282,672	2,866,784	4,559,313
At 31 December 2011	1,620,474	211,278	1,899,744	3,731,496

The net book value of fixed assets includes £645,431 (2011 - £813,628) of fixed assets held under finance leases

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 11. TANGIBLE FIXED ASSETS (continued)

Company	Leasehold improve- ment £	Fixtures and fittings £	Computer equipment £	Total £
<b>Cost</b>				
At 1 January 2012	1,698,343	230,264	3,660,289	5,588,896
Additions	147,552	136,195	2,091,928	2,375,675
Disposals	(1,615)	(1,502)	(26,804)	(29,921)
At 31 December 2012	1,844,280	364,957	5,725,413	7,934,650
<b>Depreciation</b>				
At 1 January 2012	77,869	31,552	1,829,049	1,938,470
Charge in year	356,635	56,189	1,056,764	1,469,588
Disposals	(81)	(515)	(9,899)	(10,495)
At 31 December 2012	434,423	87,226	2,875,914	3,397,563
<b>Net book value</b>				
At 31 December 2012	1,409,857	277,731	2,849,499	4,537,087
At 31 December 2011	1,620,474	198,712	1,831,240	3,650,426

The net book value of fixed assets includes £645,431 (2011 - £813,628) of fixed assets held under finance leases

### 12. INVESTMENTS

Company	Subsidiary undertakings £		
<b>Cost</b>			
At 1 January 2012 and 31 December 2012			308,718
<b>Subsidiary undertakings:</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>%</b>
Jagex Holdings Limited, Inc	United States	Game development and publishing	100

### 13. STOCKS

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Finished goods and goods for resale	263,886	234,873	263,886	234,873

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

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 14 DEBTORS

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Due within one year				
Trade debtors	2,613,220	3,143,157	2,613,220	3,143,157
Prepayments and accrued income	4,570,429	769,115	4,569,451	768,848
Other debtors	1,254	5,664	1,254	5,664
Corporation tax	-	1,109,123	-	1,109,123
Net deferred tax asset (note 18)	177,226	150,940	177,226	150,940
	<u>7,362,129</u>	<u>5,177,999</u>	<u>7,361,151</u>	<u>5,177,732</u>
Due after more than one year				
Other debtors	20,244	61,096	15,860	6,345
	<u>7,382,373</u>	<u>5,239,095</u>	<u>7,377,011</u>	<u>5,184,077</u>

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Obligations under finance leases and hire purchase contracts	272,674	305,481	272,674	305,481
Other loans	6,120	35,050	6,120	35,050
Trade creditors	3,122,836	1,250,507	3,110,701	1,211,195
Corporation tax	1,380,054	-	1,333,531	-
Amounts payable to intercompany creditors	-	-	409,776	1,192,234
Other taxes and social security	4,560,298	3,745,078	4,560,234	3,745,011
Other creditors	2,725,026	2,571,501	2,725,026	2,571,501
Accruals and deferred income	9,805,393	6,962,997	9,710,852	6,278,532
	<u>21,872,401</u>	<u>14,870,614</u>	<u>22,128,914</u>	<u>15,339,004</u>

### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Obligations under finance leases and hire purchase contracts	320,502	534,311	320,502	534,311
Other loans	-	6,017	-	6,017
Other long term creditors	2,690,870	2,556,002	2,690,870	2,556,002
Advanced development fee	410,735	410,735	410,735	410,735
	<u>3,422,107</u>	<u>3,507,065</u>	<u>3,422,107</u>	<u>3,507,065</u>



# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Other loans represent unsecured amounts repayable to Andrew Gower of £5,250 (2011 - £36,750) and Paul Gower of £870 (2011 - £4,317). Each loan is repayable monthly at a rate of £2,625 and £290 respectively and are interest free and will be fully repaid by 31 March 2013

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Finance lease are repayable as follows				
Between one and two years	179,197	305,481	179,197	305,481
Between two and five years	141,305	228,830	141,305	228,830
	<u>320,502</u>	<u>534,311</u>	<u>320,502</u>	<u>534,311</u>
On demand or within one year	272,674	305,481	272,674	305,481
	<u>593,176</u>	<u>839,792</u>	<u>593,176</u>	<u>839,792</u>

### 17. PROVISIONS FOR LIABILITIES

#### Group

	Onerous lease provisions £
At 1 January 2012	3,316,771
Release unused	(609,142)
Utilisation of provision	(790,804)
At 31 December 2012	<u>1,916,825</u>

#### Company

	Onerous lease provisions £
At 1 January 2012	2,941,304
Release unused	(499,479)
Utilisation of provision	(525,000)
At 31 December 2012	<u>1,916,825</u>

The property onerous lease provision represents management's estimates of the future excess costs associated with the properties not currently utilised by the business

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 18. DEFERRED TAX ASSET

	2012 £	2011 £
<b>Group and Company</b>		
At 1 January 2012	150,940	112,743
Credit to profit and loss account	26,286	38,197
	<u>177,226</u>	<u>150,940</u>
At 31 December 2012		
The deferred taxation balance is made up as follows		
Accelerated capital allowances	139,501	121,761
Other timing differences	37,725	29,179
	<u>177,226</u>	<u>150,940</u>

### 19. CALLED UP SHARE CAPITAL

	2012 £	2011 £
<b>Allotted, called up and fully paid</b>		
1,126,753,628 ordinary shares of 10p each	<u>11,267</u>	<u>11,267</u>

### 20. 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. Options are forfeited if the employee leaves the company before the options vest.

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

	31 December 2012 Number of share options	Weighted average exercise price £
Outstanding at beginning of year	-	-
Granted during the year	60,991,647	-
Forfeited during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
	<u>60,991,647</u>	-
Outstanding at the end of the year		
Exercisable at the end of the year	<u>-</u>	

There was no comparable scheme in the period to 31 December 2011

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

### 20. SHARE BASED PAYMENTS (continued)

The inputs into the Black-Scholes model are as follows

	2012	2011
Weighted average share price (£)	0.13	-
Weighted average exercise price (£)	0.13	-
Expected volatility	73.44%	-
Expected life (years)	3.5	-
Risk-free rate (%)	2.32%	-
Expected dividend yield (%)	0%	-

Expected volatility was determined by referring to the share price of a selection of comparable companies. 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.

The company recognised total expenses of £1,136,445 (9 months ended 31 December 2011 - £nil) related to equity-settled share-based payment transactions in 2012.

### 21. STATEMENT OF MOVEMENTS ON RESERVES

	Share premium account £	Share-based payment reserve £	Profit and loss account £
<b>Group</b>			
At 1 January 2012	80	-	(615,511)
Share-based payment expense	-	1,136,445	-
Currency translation difference on foreign currency subsidiaries	-	-	58,548
Profit for the financial year	-	-	7,242,272
At 31 December 2012	80	1,136,445	6,685,309
<b>Company</b>			
At 1 January 2012	80	-	(610,339)
Share-based payment expense	-	1,136,445	-
Profit for the financial year	-	-	7,277,391
At 31 December 2012	80	1,136,445	6,667,052

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 22. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS / (DEFICIT)

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Profit / (loss) for the financial year	7,242,272	(9,538,747)
Currency translation difference on foreign currency subsidiaries	58,548	-
Share based payments	1,136,445	-
Net increase (decrease) in shareholders' funds	8,437,265	(9,538,747)
Opening shareholders' (deficit) funds	(604,164)	8,934,583
Closing shareholders' funds (deficit)	7,833,101	(604,164)

### 23. NET CASH FLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
Operating profit / (loss)	9,745,554	(9,869,266)
Amortisation of intangible fixed assets	34,980	26,235
Depreciation of tangible fixed assets	1,479,758	845,440
Loss on disposal of tangible fixed assets	44,655	185,047
Share based payments	1,136,445	-
(Increase) / decrease in stocks	(29,013)	25,378
(Increase) / decrease in debtors	(3,226,115)	186,456
Increase in creditors	5,750,172	6,820,024
(Decrease) / increase in provisions	(1,399,946)	3,316,771
Net cash inflow from operating activities	13,536,490	1,536,085

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 24. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	Year ended 31 December 2012 £	9 months ended 31 December 2011 £
<b>Returns on investments and servicing of finance</b>		
Interest received	92,509	30,898
Interest paid	(80,004)	(17,472)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<u>12,505</u>	<u>13,426</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,375,675)	(2,555,573)
Sale of tangible fixed assets	3,449	-
<b>Net cash outflow from capital expenditure and financial investment</b>	<u>(2,372,226)</u>	<u>(2,555,573)</u>
<b>Financing</b>		
Repayment of loans	(34,947)	(26,235)
Advanced development fee	-	205,367
Capital element of finance lease rental payments	-	(1,191)
<b>Net cash (outflow) inflow from financing</b>	<u>(34,947)</u>	<u>177,941</u>

### 25. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2012 £	Cash flow £	Other non- cash changes £	At 31 December 2012 £
Cash at bank and in hand	11,844,012	10,989,020	-	22,833,032
Debt				
falling due within one year	(35,050)	28,930	-	(6,120)
falling due after more than one year	(416,752)	6,017	-	(410,735)
Finance leases	(839,792)	-	246,616	(593,176)
<b>Net funds</b>	<u>10,552,418</u>	<u>11,023,967</u>	<u>246,616</u>	<u>21,823,001</u>

# JAGEX LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

### 26 PENSION COMMITMENTS

The Group operates a defined contributions pension schemes. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £59,347 (9 months ended 31 December 2011 - £55,483). The unpaid contributions accrued at the year end were £34,156 (31 December 2011 - £16,130).

### 27. FINANCIAL COMMITMENTS

At 31 December 2012 the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2012	2011	2012	2011
	£	£	£	£
Leases which expire				
Between one and five years	575,059	1,556,538	26,775	26,775

At 31 December 2012 the company had capital commitments amounting to £nil (2011 - £58,112)

### 28. RELATED PARTY TRANSACTIONS

Included within creditors are obligations under loan notes which are due to A and P Gower former shareholders and directors, and is non interest bearing. At 31 December 2012, the balance outstanding amounted to £6,120 (2011 - £41,067). The balance outstanding is interest free and repayable on a monthly basis at a rate of £2,915.

The Group has taken the exemption provided by FRS 8 "Related Party Disclosures" in respect of disclosure of transactions between two or more members of a group, as all subsidiaries are wholly-owned by the Group.

### 29. CONTROLLING PARTY

The controlling party is Insight Venture Partners, as a result of controlling directly 55% of the issued share capital of the company.