

Company registration number: 05280625

Rocksteady Studios Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020



Rocksteady Studios Limited

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Rocksteady Studios Limited

Company Information

Directors	S B Hill J S Gilbert-Rolfe H K Woodliffe
Secretary	S B Hill
Registered office	Warner House 98 Theobald's Road London WC1X 8WB
Auditor	Ernst & Young LLP 1 More London Place London SE1 2AF
Banker	Barclays Bank PLC 8/9 Hanover Square London W1A 4ZW

Rocksteady Studios Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their Strategic Report for the year ended 31 December 2020. In preparing this Strategic Report, the directors have complied with section 414c of the Companies Act 2006.

Principal activity

The principal activity of the company is the development of interactive entertainment. It charges the commissioning publisher company for the development activities undertaken, based upon costs incurred.

Results

The profit for the year after taxation amounted to £3,615,000 (2019 - £3,050,000).

Review of the business and KPIs

The company's key financial and other performance indicators during the year were as follows:

	Unit	2020	2019
Cost of sales	£'000	33,369	31,482
Profit for the financial year	£'000	3,615	3,050
Net profit margin	%	11	10
Number of employees		243	216

The company's cost of sales increased year on year by 6% owing to increased games development activity. Net profit has increased by 19%. Net profit margin has improved by 1%, this is due to a reduction in administrative expenses. The average number of employees increased year on year due to the increased level of games development activity.

Principal risks and uncertainties

An analysis of the risks and uncertainties of the AT&T Inc. group are discussed in the group's Annual Report which is publicly available.

The principal risks and uncertainties facing the company are detailed below.

The popularity of content is difficult to predict and can change rapidly, and low public acceptance of the company's content will adversely affect its results. The revenues derived from the sale, distribution and licensing of videogames and other content depend primarily on widespread public acceptance of that content, which is difficult to predict and can change rapidly. The company must invest substantial amounts in the research and development of its content before it learns whether such content will reach anticipated levels of popularity with consumers. The popularity of the company's content depends on many factors, only some of which are within the company's control.

The company is mitigating the risk of product reliance by investing in the development of new content and enhancing existing titles, to maintain market share and revenues.

The company's results could be adversely affected if the company's efforts to increase sales of its videogame content are not successful. Several factors have contributed to a change in the videogame marketplace in recent years, including shifts in consumer behaviour, new business models, competition from large developers, changing retailer strategies, mobile games and free to play models. Distribution models have shifted towards digital and streaming content. The company's results could be adversely affected if it cannot adapt to its changing marketplace.

Rocksteady Studios Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties (continued)

If the company fails to compete successfully against alternative sources of entertainment, there may be an adverse effect on the company's results. The company competes with other sources of entertainment, including television, premium pay television services, SVOD, and other OTT services, feature films, the Internet, home entertainment products, social networking and pirated content, for consumers' leisure and entertainment time and discretionary spending. Videogames are traditionally more expensive than substitutes such as film and television. The increased number of media and entertainment choices available to consumers has made it much more difficult to attract and obtain their attention and time.

Service disruptions or failures in information systems and networks as a result of computer viruses or misappropriation of data may disrupt the company's business, damage its reputation or have a negative impact on its results or operations. Although the company develops and maintains information security practices and systems designed to prevent these events occurring, development and maintenance of these systems is costly and is likely to increase as the threats become more sophisticated.

The company is subject to a variety of laws and regulations. The company could incur significant costs to comply with new laws or regulations or substantial penalties or other liabilities if it fails to comply with them. Compliance with new laws or regulations could also cause the company to change or limit its business practices in a manner that is adverse to its business.

The COVID-19 pandemic continues to leave the gaming sector largely unaffected and the development of new content has been able to continue up to the date of this report. Management do not foresee any future impact on the company relating to the pandemic.

Management has also considered currency risks and opportunities due to ultimate parent company reporting in USD. Whilst revenue and profit reporting in USD would be harmed by a weaker GBP, this would be partially offset by GBP investment in infrastructure and UK film and television productions elsewhere in the Group.

On behalf of the Board


James GR (Oct 19, 2021 11:56 GMT+1)

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J S Gilbert-Rolfe
Director

Date: Oct 19, 2021

Rocksteady Studios Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their annual report on the affairs of Rocksteady Studios Limited ("the company") together with the financial statements for the year ended 31 December 2020.

Dividends

No interim dividends were paid during the year (2019 - £10,000,000). The directors do not recommend the payment of a final dividend (2019 - £nil).

Research and development

Research and development is concentrated on the development of interactive entertainment.

Future developments

The directors will continue to exploit the activities from continuing operations having regards to the principal risks and uncertainties described in the Strategic Report.

Going Concern

The directors have reviewed the current financial performance and position of the company and considered the impact of COVID-19 on the future trading of the company and are confident that it will not lead to the company no longer being a going concern. The operations of the company continue to be cash generative, and in the unlikely event that it is not possible for the company to meet its liabilities as they fall due and also due to the centralised cash pooling arrangements, the intermediary parent company Warner Media, LLC has agreed to provide continued financial support to the company for the foreseeable future, up to at least 31 December 2022, to meet its obligations as and when they fall due.

Warner Media LLC, whose results are publicly available as a segment of AT&T Inc, released its half year 2021 results on 22 July 2021, which demonstrates Warner Media LLC has generated an EBITDA of US\$3.98BN.

Taking into account the position of the intermediary parent company, the directors are of the view that there are no events expected to have a material adverse impact on the company's ability to continue as a going concern, for a period up to at least 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Directors

Except as noted below, the following were directors of the company who served throughout the year and were still directors at the date of this report:

S B Hill - Company secretary and director
J S Walker (resigned 10 September 2021)
T H Creighton (resigned 25 February 2021)

The following directors were appointed after the year end:

J S Gilbert-Rolfe - Director (appointed 25 February 2021)
H K Woodliffe - Director (appointed 3 September 2021)

The Articles of Association do not require directors to retire either by rotation or in the year of appointment.

Rocksteady Studios Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Directors qualifying third party indemnity provisions

The company may indemnify one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 and the company may purchase insurance for this purpose. Warner Media, LLC (formerly Time Warner Inc.) has purchased a directors and officers liability insurance policy for the benefit of the company and its directors and such policy was in force during the year and is in force as at the date of approving the Directors' Report.

Important non adjusting events after the financial period

On 17 May 2021 the ultimate parent company, AT&T Inc. announced they will combine the Warner Media content unit with Discovery, Inc. Under the agreement, AT&T Inc. will form a new media company with Discovery, Inc., which would be separate from AT&T Inc. This company is part of the Warner Media Group which will form part of the new media company. Whilst the deal has been announced, it is pending approval by the regulators and Discovery shareholders, and is not expected to formally close until the middle of 2022.

Disclosure of information to the 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/ she ought to have taken as a director in order to make himself/ herself 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 section 418 of the Companies Act 2006.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will continue in office.

On behalf of the Board


James GR (Oct 19, 2021 11:56 GMT+1)

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J S Gilbert-Rolfe
Director

Date: Oct 19, 2021

Rocksteady Studios Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

Rocksteady Studios Limited

Independent Auditor's Report to the Members of Rocksteady Studios Limited

Opinion

We have audited the financial statements of Rocksteady Studios Limited (the 'company') for the year ended 31 December 2020, which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, and notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period up to 31 December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Rocksteady Studios Limited

Independent Auditor's Report to the Members of Rocksteady Studios Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Rocksteady Studios Limited

Independent Auditor's Report to the Members of Rocksteady Studios Limited (continued)

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- o We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the financial reporting framework (FRS 102 and the Companies Act 2006), UK tax legislation, anti-bribery regulations, employment laws and regulations, and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

- o We understood how Rocksteady Studios Limited is complying with those frameworks by making enquiries of management and those charged with governance, including those responsible for legal and compliance procedures, to understand how the company maintains and communicates its policies and procedures in these areas. We corroborated our enquiries by reviewing supporting documentation such as the Code of Ethics, correspondence with local legal counsel, board meeting minutes, as well as consideration of the results of our audit procedures.

Rocksteady Studios Limited

Independent Auditor's Report to the Members of Rocksteady Studios Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

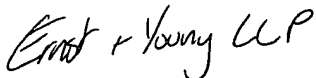
o We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by considering the risk of management override of controls, incorrect revenue recognition, and inappropriate cut-off of revenue. We performed audit procedures to address each identified fraud risk which were designed to provide reasonable assurance that the financial statements were free from material misstatement, whether due to fraud or error. We performed data analytics where applicable as well as analytical reviews, reasonableness of accruals, and tested specific transactions back to source documentation (i.e. contracts, invoices, third-party statements) as appropriate.

o Based on this understanding we designed our audit procedures to identify non-compliance with laws and regulations. Our procedures involved reviewing minutes from the Board of Directors, enquiries of management and legal, identification testing of entity level controls, and journal entry testing, with a focus on manual journals and journals indicating significant unusual transactions identified by specific risk criteria based on our understanding of the business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



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Stuart Darrington (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 October 2021

Date:.....

Rocksteady Studios Limited

Income Statement
for the Year Ended 31 December 2020

	Note	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Turnover	2	32,003	30,619
Cost of sales		<u>(33,369)</u>	<u>(31,482)</u>
Gross loss		(1,366)	(863)
Administrative expenses		<u>(100)</u>	<u>(166)</u>
Operating loss	3	(1,466)	(1,029)
Interest receivable and similar income	6	<u>10</u>	<u>32</u>
Loss on ordinary activities before taxation		(1,456)	(997)
Taxation on loss on ordinary activities	7	<u>5,071</u>	<u>4,047</u>
Profit for the financial year		<u><u>3,615</u></u>	<u><u>3,050</u></u>

All amounts relate to continuing operations.

There is no difference between profit for the financial year and total comprehensive income for the year, and accordingly no separate statement of comprehensive income has been presented.

The notes on pages 14 to 24 form an integral part of these financial statements.

Rocksteady Studios Limited

Statement of Changes in Equity for the Year Ended 31 December 2020

	Note	Share capital £ 000	Profit and loss account £ 000	Total shareholder's funds £ 000
At 1 January 2019		1	11,227	11,228
Profit for the year		-	3,050	3,050
Increase in equity related to equity settled share based payment transaction		-	67	67
At 31 December 2019		<u>1</u>	<u>14,344</u>	<u>14,345</u>
		Share capital £ 000	Profit and loss account £ 000	Total shareholder's funds £ 000
At 1 January 2020		1	14,344	14,345
Profit for the year		-	3,615	3,615
Increase in equity related to equity settled share based payment transaction		-	68	68
At 31 December 2020		<u>1</u>	<u>18,027</u>	<u>18,028</u>

The notes on pages 14 to 24 form an integral part of these financial statements.

Rocksteady Studios Limited

Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Fixed assets			
Tangible assets	8	2,537	2,409
Current assets			
Debtors	9	9,867	16,775
Cash at bank and in hand		11,660	1,116
		<u>21,527</u>	<u>17,891</u>
Creditors: amounts falling due within one year	10	<u>(6,036)</u>	<u>(5,955)</u>
Net current assets		<u>15,491</u>	<u>11,936</u>
Net assets		<u>18,028</u>	<u>14,345</u>
Capital and reserves			
Called up share capital	11	1	1
Profit and loss account		<u>18,027</u>	<u>14,344</u>
Total shareholder's funds		<u>18,028</u>	<u>14,345</u>

Approved by the Board and signed on its behalf by:

James GR
James GR (Oct 19, 2021 11:56 GMT+1)

.....
J S Gilbert-Rolfe
Director

Date: Oct 19, 2021

Company registration number: 05280625

The notes on pages 14 to 24 form an integral part of these financial statements.

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

1 Accounting policies

a) Statement of compliance

Rocksteady Studios Limited is a limited liability company incorporated in England & Wales. The Registered Office is Warner House, 98 Theobald's Road, London, WC1X 8WB.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 December 2020.

b) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and with applicable United Kingdom accounting standards.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

Going Concern

The directors have reviewed the current financial performance and position of the company and considered the impact of COVID-19 on the future trading of the company and are confident that it will not lead to the company no longer being a going concern. The operations of the company continue to be cash generative, and in the unlikely event that it is not possible for the company to meet its liabilities as they fall due and also due to the centralised cash pooling arrangements, the intermediary parent company Warner Media, LLC has agreed to provide continued financial support to the company for the foreseeable future, up to at least 31 December 2022, to meet its obligations as and when they fall due.

Warner Media LLC, whose results are publicly available as a segment of AT&T Inc, released its half year 2021 results on 22 July 2021, which demonstrates Warner Media LLC has generated an EBITDA of US\$3.98BN.

Taking into account the position of the intermediary parent company, the directors are of the view that there are no events expected to have a material adverse impact on the company's ability to continue as a going concern, for a period up to at least 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Statement of cash flows

The company has taken advantage of the exemption in FRS 102.1.12(b) Reduced disclosures for subsidiaries. A statement of cashflows has not been prepared as the company is a member of a group where the parent, AT&T Inc., prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 14).

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

b) Basis of preparation (continued)

Related parties

The company has taken advantage of the exemption in FRS 102.1.12(e) Reduced disclosures for subsidiaries. Key management remuneration has not been disclosed as the company is a member of a group where the parent, AT&T Inc., prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 14).

The company has taken advantage of the exemption in FRS 102.33.1A not to disclose related party transactions with fellow wholly-owned subsidiary undertakings of AT&T Inc., which prepares publicly available consolidated financial statements (see note 14).

Share based payments

The company has taken advantage of the exemption in FRS 102.1.12(d) Reduced disclosures for subsidiaries. Certain share based payment transaction disclosures have not been presented as the company is a member of a group where the parent, AT&T Inc., prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 14).

c) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Taxation

The company recognises liabilities for anticipated uncertain corporation tax positions based on reasonable estimates of whether additional taxes will be due and the timing of those additional taxes. Further details are contained in note 7.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits.

d) Significant accounting policies

Deferred taxation

Deferred tax is recognised without discounting in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

d) Significant accounting policies (continued)

Useful economic lives of tangible assets

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

Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.

Royalty income is recognised based on the level of actual sales in the period on an accruals basis. Games development revenue is recognised on completion of each agreed deliverable within a contract.

Pensions

The company operates a defined contribution scheme. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate.

Interest receivable and payable

Interest income and expense are recognised on an accruals basis.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entities functional currency by applying the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Share based payments

Certain employees of the company received nonvested stock and stock units under AT&T Inc. plans. Under AT&T plans, restricted stock and stock units are granted and are valued at the market price of AT&T common stock at the date of grant and predominantly vest over a four- or five-year period. In accordance with FRS 102.26.16 the company recognises and measures the share based payment expense on the basis of the allocation of expense it receives from its ultimate parent undertaking. As a qualifying entity, the company avails itself of the exemption available under FRS 102.1.12 in relation to the disclosure requirements of section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23.

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

d) Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are recorded at cost, less accumulated depreciation and provision for impairment. The company provides depreciation in equal annual instalments over the estimated lives of the assets down to their estimated residual value, at the following rates:

Leasehold improvements	- over the shorter of the lease term and 10 years
Furniture, fittings and equipment	- between 2 and 5 years

The carrying value of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Research and development

Research and development expenditure is written off to the income statement in the year in which it is incurred, except that development expenditure is deferred when its future recoverability can be reasonably regarded as assured. Deferred development expenditure is matched against games development revenue and then recognised in the income statement when milestone deliverables are achieved.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material the provisions are discounted to their present value at the statement of financial position date.

Leasing commitments

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Financial instruments

The company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments. The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities such as trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Basic financial liabilities including trade and other payables and interest bearing loans and borrowing are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the liability is measured at present value of the future payments discounted at a market rate of interest. Basic financial liabilities, other than short term payables, are subsequently carried at amortised cost, using the effective interest rate method. The effective interest rate amortisation is included in interest payable and similar expenses in the income statement. Short term trade and other payables with no stated interest rate which are payable within one year are recorded at transaction price.

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Basic financial assets including trade and other receivables and investments in loan notes are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. These basic financial assets, other than short term receivables, are subsequently carried at amortised cost using the effective interest method. Short term trade and other receivables with no stated interest rate which are receivable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in administrative expenses.

2 Turnover

An analysis of turnover by geographical market is given below:

	Year ended 31 December 2020 £'000	Year ended 31 December 2020 %	Year ended 31 December 2019 £'000	Year ended 31 December 2019 %
United States of America and Canada	32,003	100%	30,619	100%

3 Operating loss

This is stated after charging/(crediting):

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Auditor's remuneration - audit of the financial statements	35	37
Depreciation of tangible fixed assets	760	589
Operating lease rentals - land and buildings	834	946
Foreign exchange loss	66	2

4 Directors' remuneration

Certain directors of the company were paid by the company. The other directors of the company were paid by fellow group undertakings; they have minimal qualifying services to the company and receive no remuneration in respect of the company.

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Aggregate remuneration in respect of qualifying services	737	830
Aggregate company contributions paid to defined contribution pension scheme	-	34

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

4 Directors' remuneration (continued)

	No.	No.
Members of defined contribution pension scheme	<u>2</u>	<u>2</u>

The amounts in respect of the highest paid director are as follows:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Remuneration in respect of qualifying services	<u>383</u>	<u>445</u>
Company contributions paid to defined contribution pension scheme	<u>-</u>	<u>15</u>

1 director exercised share options during the year (2019 - nil).

2 directors exercised RSU's during the year (2019 - 2).

5 Staff costs

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Wages and salaries	16,014	14,844
Equity-settled share based payments	68	67
Social security costs	2,099	1,865
Other pension costs	<u>959</u>	<u>788</u>
	<u>19,140</u>	<u>17,564</u>

The average monthly number of employees during the year was 243 (2019 - 216), all of whom were engaged in game development and administration.

6 Interest receivable and similar income

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Interest receivable from group undertakings	<u>10</u>	<u>32</u>
	<u>10</u>	<u>32</u>

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

7 Taxation

a) The charge/(credit) based on the loss for the year is made up as follows:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Current tax		
UK corporation tax at 19% (2019 - 19%)	(4,423)	(4,205)
Tax (over)/under provided in previous years	<u>(648)</u>	<u>158</u>
Total tax on (loss) on ordinary activities (note b below)	<u><u>(5,071)</u></u>	<u><u>(4,047)</u></u>

b) Factors affecting the total tax charge:

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2019 - 19%).

The current tax credit for the year differs from the standard rate for the reasons in the reconciliation below:

	Year ended 31 December 2020 £ 000	Year ended 31 December 2019 £ 000
Loss before tax	<u>(1,456)</u>	<u>(997)</u>
Corporation tax at standard rate	(277)	(189)
Factors affecting the tax charge:		
Disallowable expenses	3	75
Non qualifying depreciation	21	21
Creative tax credits	(4,423)	(4,205)
Current year movement in unrecognised deferred tax	317	129
Group relief (received) for nil consideration	(64)	(36)
Tax (over)/under provided in previous years	<u>(648)</u>	<u>158</u>
Total tax credit (see note 7(a) above)	<u><u>(5,071)</u></u>	<u><u>(4,047)</u></u>

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

7 Taxation (continued)

c) Deferred tax

The company has not provided for deferred tax assets on timing differences. By agreement with other companies in the group the company is entitled to claim group relief for nil consideration and has the obligation to surrender future tax losses for nil consideration. Therefore no deferred tax asset is recognised.

d) Factors affecting future tax charges

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end.

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Tangible fixed assets

	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost			
At 31 December 2019	3,920	2,274	6,194
Additions	-	887	887
At 31 December 2020	<u>3,920</u>	<u>3,161</u>	<u>7,081</u>
Depreciation			
At 31 December 2019	2,210	1,574	3,784
Charged during the year	353	407	760
At 31 December 2020	<u>2,563</u>	<u>1,981</u>	<u>4,544</u>
Net book value			
At 31 December 2020	<u>1,357</u>	<u>1,180</u>	<u>2,537</u>
At 31 December 2019	<u>1,710</u>	<u>700</u>	<u>2,410</u>

9 Debtors

	31 December 2020 £ 000	31 December 2019 £ 000
Other debtors	3	-
Prepayments and accrued income	321	284
Amounts owed by group undertakings	4,702	8,440
VAT receivable	418	449
Corporation tax receivable	<u>4,423</u>	<u>7,602</u>
	<u>9,867</u>	<u>16,775</u>

All amounts owed by fellow group undertakings are unsecured, interest free and repayable on demand.

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Creditors

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Due within one year			
Trade creditors		2,546	1,694
Other creditors		28	-
Other taxes and social security costs		656	691
Corporation tax payable	7	-	158
Accruals and deferred income		2,261	2,917
Amounts owed to group undertakings		545	495
		<u>6,036</u>	<u>5,955</u>

All amounts owed to fellow group undertakings are unsecured, interest free and repayable on demand.

11 Called up share capital

	Issued, allotted, called up and fully paid 31 December 2020		31 December 2019	
	Number	£	Number	£
Ordinary shares of £0.01 each	<u>100,000</u>	<u>1,000</u>	<u>100,000</u>	<u>1,000</u>

12 Obligations under leases and hire purchase contracts

Future minimum rentals payments under non-cancellable operating leases are as follows:

	31 December 2020 £ 000	31 December 2019 £ 000
Not later than one year	890	890
Later than one year and not later than five years	519	1,409
Later than five years	-	-
	<u>1,409</u>	<u>2,299</u>

Rocksteady Studios Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 Contingent liabilities

The company has entered into a group composite accounting agreement with its bankers. The terms of the agreement permit the bankers, without notice, to draw down funds deposited into the system, and to offset borrowings drawn down from the system by other group members who are also parties to these arrangements. At the statement of financial position date, funds deposited by the company into the system, and potentially at risk to cover liabilities elsewhere in the group, amounted to £11,660,248 (2019 - £1,115,846)

14 Ultimate parent undertaking

The company's immediate parent undertaking is Time Warner Entertainment Limited.

At 31 December 2020, AT&T Inc., a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the smallest and largest group of undertakings of which the company is a member and for which group financial statements are drawn up. Copies of AT&T Inc.'s financial statements can be obtained from 208 S. Akard St, Dallas, TX 75202, USA.

15 Non adjusting events after the financial period

On 17 May 2021 the ultimate parent company, AT&T Inc. announced they will combine the Warner Media content unit with Discovery, Inc. Under the agreement, AT&T Inc. will form a new media company with Discovery, Inc., which would be separate from AT&T Inc. This company is part of the Warner Media Group which will form part of the new media company. Whilst the deal has been announced, it is pending approval by the regulators and Discovery shareholders, and is not expected to formally close until the middle of 2022.