

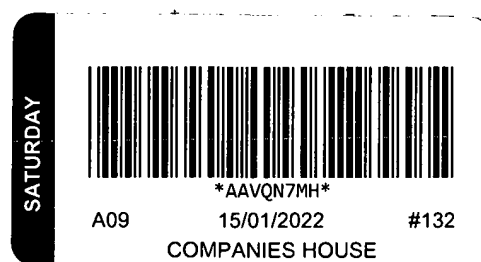
Epic Games Animation UK Ltd

Annual Report and Financial Statements

Period Ended

31 December 2020

Company Number 06823136



Epic Games Animation UK Ltd

Company Information

Directors	R Gelber J Lobeau
Registered number	06823136
Registered office	2-4 Packhorse Road Gerrards Cross Buckinghamshire United Kingdom SL9 7QE
Independent auditor	BDO LLP 3 Hardman Street Manchester M3 3AT
Bankers	Natwest Bank 19 Market Street Manchester M1 1WR JPMorgan Chase Bank 25 Bank Street London E14 5JP

Epic Games Animation UK Ltd

Contents

	Page
Directors' Report	1 - 2
Directors' Responsibilities Statement	3
Independent Auditor's Report	4 - 7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11 - 26

Epic Games Animation UK Ltd

Directors' Report For the Period Ended 31 December 2020

The Directors present their report together with the audited financial statements for the period ended 31 December 2020.

The accounting period has been shortened, therefore these financial statements cover the six month period from 1 July 2020 to 31 December 2020. The prior year comparatives cover the year ended 30 June 2020.

Principal activity

Epic Games Animation UK Ltd (the Company) is principally engaged in the provision of facial animation products and services to the entertainment industry.

Business review

Turnover for the period ended 31 December 2020 was £9.07m, an increase of 13.0% on last year (year ended 30 June 2020 - £8.03m). The Company profit for the year was £0.52m (year ended 30 June 2020 - profit of £1.88m).

The profit during the period is a direct result of the transition to a cost plus model following the acquisition of the parent company by Epic Games International S.à r.l. in March 2020.

The Directors are pleased with the performance of the Company during the period and look forward to a further year of investment in people, accelerating technology development and revenue growth in the year ahead.

Directors

The Directors who served during the period were:

R Gelber
J Lobeau (appointed 29 November 2020)
J T Farnsworth (resigned 29 November 2020)
A Hohaus (resigned 29 November 2020)

Going concern

Management have assessed the likely impact of the COVID-19 pandemic on the Company. On the whole the gaming industry has flourished during these uncertain times and the order book has not slowed since the pandemic started. The business is performing in line with forecasts. The ultimate parent company was acquired in March 2020 by Epic Games International S.à r.l.. There is a intercompany service agreement in place with Epic Games Animation UK Ltd and Epic Games, Inc. and Epic Games International S.à r.l. for research and development and sales and marketing costs. A profit margin is applied to these costs determined on an arm's length basis in accordance with the Organization for Economic Cooperation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2017, as amended, supplemented, updated, restated or replaced from time to time. Due to the positive cash position and trading status of the Company and the gaming industry as a whole, it has not had to take advantage of any of the Government support available through the use of the furlough scheme or deferral of the VAT/PAYE payments. We expect the Company to continue to trade in line with expectations and have a positive cash flow. Management note that the Company is in a strong net current assets position of £2.43m when excluding the impact of the intercompany creditor balance with it's immediate parent company, Tron Bidco Limited.

Epic Games Animation UK Ltd

Directors' Report (continued) For the Period Ended 31 December 2020

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed 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 ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

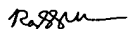
Small companies note

In preparing this report, the Directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 11 January 2022 and signed on its behalf.



R Gelber
Director

Epic Games Animation UK Ltd

Directors' Responsibilities Statement For the Period Ended 31 December 2020

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have 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;
- 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.

Epic Games Animation UK Ltd

Independent Auditor's Report to the Members of Epic Games Animation UK Ltd

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the period 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.

We have audited the financial statements of Epic Games Animation UK Ltd ("the Company") for the period ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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. 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.

Independence

We remain 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.

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 of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Epic Games Animation UK Ltd

Independent Auditor's Report to the Members of Epic Games Animation UK Ltd (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this gives rise to 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the 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; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of directors

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, 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.

Epic Games Animation UK Ltd

Independent Auditor's Report to the Members of Epic Games Animation UK Ltd (continued)

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.

Extent to which the audit was 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding and accumulated knowledge of the Company and the sector in which it operates we considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud and whether such actions or non-compliance might have a material effect on the financial statements. These included but were not limited to those that relate to the form and content of the financial statements, such as the Company accounting policies, United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice) and the UK Companies Act 2006; those that relate to the payment of employees; and industry related such as compliance with health and safety legislation. All team members were briefed to ensure they were aware of any relevant regulations in relation to their work.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates as well as inappropriate revenue cut-off. Our audit procedures included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted with specific keywords and manual journals to revenue;
- Testing a sample of revenue recognised either side of the period end to ensure revenue has been recognised in the correct period;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud; and

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Epic Games Animation UK Ltd

Independent Auditor's Report to the Members of Epic Games Animation UK Ltd (continued)

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.

DocuSigned by:

Steven Roberts

499D0A55E7C14AD...

Steven Roberts (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

Manchester

United Kingdom

13 January 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Epic Games Animation UK Ltd

Statement of Comprehensive Income For the Period Ended 31 December 2020

	Note	6 month period ended 31 December 2020 £	Year ended 30 June 2020 £
Turnover		9,072,262	8,028,830
Cost of sales		(1,845,593)	(2,527,004)
Gross profit		7,226,669	5,501,826
Administrative expenses		(7,201,588)	(7,170,075)
Other operating income	4	494,810	3,580,472
Operating profit	5	519,891	1,912,223
Interest receivable and similar income		-	9,503
Profit before tax		519,891	1,921,726
Tax charged on profit	7	-	(46,712)
Profit for the financial year		519,891	1,875,014
Other comprehensive income		-	-
Total comprehensive income for the period/year		519,891	1,875,014

The notes on pages 11 to 26 form part of these financial statements.

Epic Games Animation UK Ltd

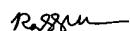
Registered number:06823136

**Statement of Financial Position
As at 31 December 2020**

	Note	31 December 2020 £	31 December 2020 £	30 June 2020 £	30 June 2020 £
Fixed assets					
Intangible assets	8		25,118		34,532
Tangible assets	9		1,416,403		655,645
			<u>1,441,521</u>		<u>690,177</u>
Current assets					
Stocks	10	16,821		30,218	
Debtors: amounts falling due within one year	11	4,456,261		3,382,354	
Bank and cash balances		1,496,119		593,874	
		<u>5,969,201</u>		<u>4,006,446</u>	
Creditors: amounts falling due within one year	12	(6,661,821)		(4,641,039)	
Net current liabilities			<u>(692,620)</u>		<u>(634,593)</u>
Provisions for liabilities					
Deferred tax	13	(94,455)		(48,076)	
Dilapidation provision	14	(104,016)		(77,550)	
		<u></u>		<u></u>	
Net assets/(liabilities)			<u>550,430</u>		<u>(70,042)</u>
Capital and reserves					
Called up share capital	15		800		800
Share premium account	16		118,177		118,177
Capital contribution reserve	16		608,338		507,757
Profit and loss account	16		(176,885)		(696,776)
Total equity/(deficit)			<u>550,430</u>		<u>(70,042)</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved and authorised for issue by the board on 11 January 2022 and were signed on its behalf.



R Gelber
Director

The notes on pages 11 to 26 form part of these financial statements.

Epic Games Animation UK Ltd

Statement of Changes in Equity For the Period Ended 31 December 2020

	Called up share capital	Share premium account	Capital contribution from parent company	Profit and loss account	Total equity
	£	£	£	£	£
At 1 July 2020	800	118,177	507,757	(696,776)	(70,042)
Comprehensive income for the period					
Profit for the period	-	-	-	519,891	519,891
Total comprehensive income for the period	-	-	-	519,891	519,891
Contributions by and distributions to owners					
Share based payment	-	-	100,581	-	100,581
Total transactions with owners	-	-	100,581	-	100,581
At 31 December 2020	800	118,177	608,338	(176,885)	550,430

Statement of Changes in Equity For the Year Ended 30 June 2020

	Called up share capital	Share premium account	Capital contribution from parent company	Profit and loss account	Total equity
	£	£	£	£	£
At 1 July 2019	800	118,177	-	(2,571,790)	(2,452,813)
Comprehensive income for the year					
Profit for the year	-	-	-	1,875,014	1,875,014
Total comprehensive income for the year	-	-	-	1,875,014	1,875,014
Contributions by and distributions to owners					
Share based payment	-	-	507,757	-	507,757
Total transactions with owners	-	-	507,757	-	507,757
At 30 June 2020	800	118,177	507,757	(696,776)	(70,042)

The notes on pages 11 to 26 form part of these financial statements.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

1. General information

Epic Games Animation UK Ltd (formerly Cubic Motion Ltd) is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the Company information page and the nature of the Company's operations and its principal activity is set out in the Directors' Report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with Section 1A of FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Going concern

Management have assessed the likely impact of the COVID-19 pandemic on the Company. On the whole the gaming industry has flourished during these uncertain times and the order book has not slowed since the pandemic started. The business is performing in line with forecasts. The ultimate parent company was acquired in March 2020 by Epic Games International S.à r.l.. There is a intercompany service agreement in place with Epic Games Animation UK Ltd and Epic Games, Inc. and Epic Games International S.à r.l. for research and development and sales and marketing costs. A profit margin is applied to these costs determined on an arm's length basis in accordance with the Organization for Economic Cooperation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2017, as amended, supplemented, updated, restated or replaced from time to time. Due to the positive cash position and trading status of the Company and the gaming industry as a whole, it has not had to take advantage of any of the Government support available through the use of the furlough scheme or deferral of the VAT/PAYE payments. We expect the Company to continue to trade in line with expectations and have positive cash flows. Management note that the Company is in a strong net current assets position of £2.43m when excluding the impact of the intercompany creditor balance with it's immediate parent company, Tron Bidco Limited.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

2. Accounting policies (continued)

2.3 Turnover

Turnover is accounted for as revenue when, and to the extent that, the Company obtains a right to consideration in exchange for its performance of its obligations under the sales contract with the customer. The amount reported as revenue is the fair value of the right to consideration - usually the price specified in the contractual arrangement net of discounts and net of VAT, and after any allowance for credit risk and other uncertainties.

Management recharge income

Management charges are with Group undertakings and exclude value added tax.

Rendering of services

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.4 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the statement of comprehensive income in the same period as the related expenditure.

2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Amortisation is recognised within administrative expenses in the statement of comprehensive income.

The estimated useful lives range as follows:

Computer software	-	3 years
-------------------	---	---------

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

2. Accounting policies (continued)

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. Depreciation is recognised within administrative expenses in the statement of comprehensive income.

Depreciation is provided on the following basis:

Fixtures and fittings	- 2-5 years straight line
Computer equipment	- 2 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

2.9 Financial instruments

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than its legal form.

The Company's cash at bank and in hand and trade and other debtors and its trade and other creditors are measured initially at the transaction price, including transaction costs, and subsequently at amortised cost using the effective interest method. Debt instruments that are payable and receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

2. Accounting policies (continued)

2.10 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.12 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.13 Share based payments

Tron Topco Limited operated a share-based compensation plan, under which certain employees of Epic Games Animation UK Limited were granted options over ordinary shares in Tron Topco Limited. Some of these options were under an Enterprise Management Incentive (EMI) Scheme. Transactions for this scheme ceased following the acquisition of the ultimate parent company by Epic Games International S.à r.l.

Following the acquisition of the Company by Epic Games International S.à r.l. in March 2020, eligible employees were entitled to participate in the Stock Incentive Plan (SIP) maintained by the Company's ultimate parent undertaking, Epic Games, Inc., which issues equity-settled share-based payments to eligible employees. Equity-settled share-based payments are measured at fair value at the date of grant using the valuation commissioned from an independent external consultant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest, with a corresponding entry to reserves.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

2. Accounting policies (continued)

2.14 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.15 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.16 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the statement of comprehensive income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

2.17 Research and development

In the research phase of an internal project, it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. All expenditure of this sort is currently recognised in the Statement of Comprehensive Income.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

2. Accounting policies (continued)

2.18 Current and deferred taxation

The tax expense/(credit) for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Tangible fixed assets (see note 9)

Tangible fixed assets are depreciated over their useful lives taking into account residual values where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Fair value of share options

Equity-settled share-based payments transactions have been measured at the fair value of the underlying equity instruments granted, as the value of the services received in exchange cannot be reliably estimated. This valuation is performed as at the grant date of the share-based payment arrangement. In performing this valuation, the financial performance and position of the parent Company has been considered, as well as the value of recent transactions of the underlying equity instruments.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

4. Other operating income

	6 month period ended 31 December 2020 £	Year ended 30 June 2020 £
Sale of intellectual property	-	3,108,486
Government grants receivable	126,074	169,919
R&D tax credit	368,736	302,067
	<u>494,810</u>	<u>3,580,472</u>

Government grants receivable relates to the EU Horizon 2020 grant.

5. Operating profit

The operating profit is stated after charging/(crediting):

	6 month period ended 31 December 2020 £	Year ended 30 June 2020 £
Depreciation of tangible assets	207,888	301,601
Amortisation of intangible assets	9,414	24,316
Amounts payable to the Company's auditor in respect of audit services provided	13,500	13,500
Amounts payable to the Company's auditor in respect of non-audit services	1,450	8,500
Share option expense	100,581	507,757
Other operating lease rentals	146,983	248,813
R&D tax credit	<u>(368,736)</u>	<u>(302,067)</u>

6. Employees

The average monthly number of employees, including the directors, during the period was 104 (year ended 30 June 2020 - 109).

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

7. Taxation

	6 month period ended 31 December 2020 £	Year ended 30 June 2020 £
Corporation tax		
Current tax on profits for the year	(49,467)	-
Adjustments in respect of previous periods	3,088	(1,364)
Total current tax	(46,379)	(1,364)
Deferred tax		
Origination and reversal of timing differences	46,379	48,076
Total deferred tax	46,379	48,076
Taxation on profit	-	46,712

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

7. Taxation (continued)

Factors affecting tax charge for the period/year

The tax assessed for the period/year is lower than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	6 month period ended 31 December 2020 £	Year ended 30 June 2020 £
Profit before tax	519,891	1,921,726
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	98,779	365,128
Effects of:		
Fixed asset differences	(65,932)	14,130
Expenses not deductible for tax purposes	19,990	100,605
Other permanent differences	(3,088)	(150,009)
R&D expenditure credits	-	13,462
Other timing differences	16,620	-
Group relief claimed	(69,457)	(188,698)
Deferred tax not recognised	-	(95,327)
Adjustments to tax charge in respect of prior periods	3,088	(1,364)
Remeasurement of deferred tax for changes in tax rates	-	(11,215)
Total tax charge for the period/year	-	46,712

Factors that may affect future tax charges

Increases in the UK Corporation tax rate from 19% to 25% (19% effective from 1 April 2017, and 25% effective from 1 April 2023) have been substantively enacted. This will impact the company's future tax charge accordingly. The value of the deferred tax liability at the statement of financial position date has been calculated using the applicable rate when the liability is expected to be realised.

Epic Games Animation UK Ltd

Notes to the Financial Statements
For the Period Ended 31 December 2020

8. Intangible assets

	Computer software £
Cost	
At 1 July 2020	56,479
At 31 December 2020	56,479
Amortisation	
At 1 July 2020	21,947
Charge for the period	9,414
At 31 December 2020	31,361
Net book value	
At 31 December 2020	25,118
At 30 June 2020	34,532

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

9. Tangible fixed assets

	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation			
At 1 July 2020	383,513	852,370	1,235,883
Additions	2,619	974,018	976,637
Disposals	(14,195)	-	(14,195)
At 31 December 2020	<u>371,937</u>	<u>1,826,388</u>	<u>2,198,325</u>
Depreciation			
At 1 July 2020	137,966	442,272	580,238
Charge for the period	39,159	168,729	207,888
Disposals	(6,204)	-	(6,204)
At 31 December 2020	<u>170,921</u>	<u>611,001</u>	<u>781,922</u>
Net book value			
At 31 December 2020	<u>201,016</u>	<u>1,215,387</u>	<u>1,416,403</u>
At 30 June 2020	<u>245,547</u>	<u>410,098</u>	<u>655,645</u>

10. Stocks

	31 December 2020 £	30 June 2020 £
Finished goods and goods for resale	<u>16,821</u>	<u>30,218</u>

Stock recognised in cost of sales as an expense during the period was £Nil (30 June 2020 - £Nil).

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

11. Debtors: amounts falling due within one year

	31 December 2020 £	30 June 2020 £
Trade debtors	116,068	491,190
Amounts owed by group undertakings	3,229,631	2,332,218
Other debtors	158,147	41,219
Prepayments and accrued income	233,992	215,660
Tax recoverable	718,423	302,067
	<u>4,456,261</u>	<u>3,382,354</u>

Amounts owed by group undertakings are interest free and repayable on demand (30 June 2020: same).

12. Creditors: amounts falling due within one year

	31 December 2020 £	30 June 2020 £
Trade creditors	224,800	291,616
Amounts owed to group undertakings	3,127,157	3,048,559
Other taxation and social security	1,035,860	-
Other creditors	2,172	549,800
Accruals and deferred income	2,271,832	751,064
	<u>6,661,821</u>	<u>4,641,039</u>

Amounts due to group undertakings are interest free and repayable on demand (30 June 2020: same).

13. Deferred taxation

	6 month period ended 31 December 2020 £	Year ended 30 June 2020 £
At beginning of year	(48,076)	-
Credited/(Charged) to profit or loss	(46,379)	(48,076)
At end of year	<u>(94,455)</u>	<u>(48,076)</u>

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

13. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	6 month period ending 31 December 2020 £	Year ended 30 June 2020 £
Fixed asset timing differences	(129,424)	(64,974)
Short term timing differences	34,969	16,898
	<u>(94,455)</u>	<u>(48,076)</u>

14. Provisions

	Dilapidation provision £
At 1 July 2020	77,550
Charged to profit or loss	26,466
At 31 December 2020	<u>104,016</u>

15. Share capital

	31 December 2020 £	30 June 2020 £
Allotted, called up and fully paid		
800 ordinary shares of £1 each	<u>800</u>	<u>800</u>

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

16. Reserves

The Company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Capital contribution reserve

The capital contribution reserve represents amounts contributed by the ultimate parent company and Tron Topco Limited in respect of share based payment expenses from other group companies operating share based payment plans under FRS 102. £100,581 was recognised within this reserve for the period ended 31 December 2020.

Profit and loss account

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

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

17. Share based payments

Tron Topco Limited operated a share-based compensation plan, under which certain employees of Epic Games Animation UK Limited were granted options over ordinary shares in Tron Topco Limited. Some of these options were under an Enterprise Management Incentive (EMI) Scheme. Transactions for this scheme ceased following the acquisition of the ultimate parent company by Epic Games International S.à r.l.

The Company's ultimate parent, Epic Games, Inc., maintains a Stock Incentive Plan (the Plan), which authorises the granting of incentive stock options to eligible employees.

Under the plan, the exercise price of each incentive stock option equals the fair market value of each share in Epic Games, Inc. on the grant date. Options remain exercisable from the vesting date up until employment termination. Options are fully exercisable subject to conditions as established by the Plan.

The fair value of options granted on the date of grant is estimated using the Black-Scholes option pricing model with weighted average assumptions applied at the group Plan level. The fair value calculated is charged to the income statement on a straight-line basis over the vesting period. The Black-Scholes option pricing model was selected as the method appropriate to use when the range of possible future outcomes is difficult to predict as it is a widely recognised method in these circumstances.

The fair value adjustment of options granted under the group Stock Incentive Plan is determined to be £100,581 (June 2020: £nil) based on options granted to the company's employees. The total cost of these options is spread evenly over the vesting period from the date of grant.

Grant Date	Exercise price (£)	B/fwd (number)	Granted (number)	Lapsed (number)	Exercised (number)	C/fwd (number)
27/02/2019	0.01	23,209	-	(6,273)	(16,936)	-
10/03/2020	0.01	25,938	-	-	(25,938)	-
30/09/2020	411.95	-	14,471	-	-	14,471
		49,147	14,471	(6,273)	(42,874)	14,471

18. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £140,442 (30 June 2020 - £152,459). Contributions totalling £Nil (30 June 2020 - £37,736) were payable to the fund at the reporting date and are included in creditors.

Epic Games Animation UK Ltd

Notes to the Financial Statements For the Period Ended 31 December 2020

19. Commitments under operating leases

At 31 December 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	31 December 2020 £	30 June 2020 £
Due within 1 year	359,734	369,163
Due within 2-5 years	555,556	731,396
	<u>915,290</u>	<u>1,100,559</u>

20. Related party transactions

The Company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company to any wholly owned subsidiary undertaking of the group.

An amount of £Nil (30 June 2020 - £120,946) for consultancy services was due to TPVP Finance Limited, a Company that has a Director who is considered as a member of the key management personnel of the Company during the year. Of this amount, £Nil (30 June 2020 - £Nil) was payable at the year end.

An amount of £Nil (30 June 2020 - £27) was due to Real World Studios Ltd, a Company that has a Director who is considered as a member of the key management personnel of the Company during the year. Of this amount, £Nil (30 June 2020 - £Nil) was payable at the year end.

21. Controlling party

The immediate parent Company is Tron Bidco Limited, which owns 100% of the share capital of the Company.

The ultimate parent Company is Epic Games, Inc., a company registered in the United States of America.

The smallest group in which the results of the Company are consolidated is that headed by Tron Topco Limited, with registered address at 2-4 Packhorse Road, Gerrards Cross, Buckinghamshire, England, SL9 7QE.

The largest group in which the results of the Company are consolidated is that headed by Epic Games International S.à r.l., a Company registered in Luxembourg.

The ultimate controlling party is deemed to be the Directors of Epic Games, Inc., acting in concert.