

# SUMO GROUP PLC

ANNUAL REPORT & ACCOUNTS 2017



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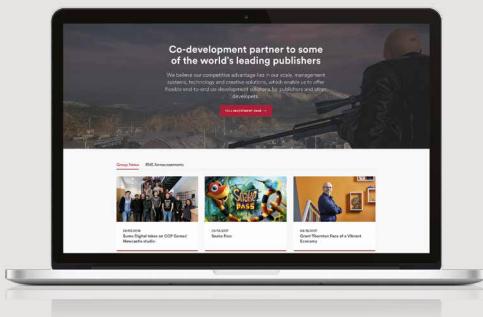
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[www.sumogroupplc.com](http://www.sumogroupplc.com)

## OUR BUSINESS



I am delighted to introduce Sumo Group's first Annual Report. We made great progress during 2017 and Sumo Group is well-positioned to repeat this as we move forward.

**Ken Beaty**

Chairman

### FINANCIAL HIGHLIGHTS

#### 2017 Revenue

**£30.6m**

Audited statutory 2016: £8.6m

Unaudited pro forma 2016: £24.1m<sup>1</sup>

#### 2017 Gross profit

**£13.3m**

Audited statutory 2016: £3.6m

Unaudited pro forma 2016: £9.0m<sup>1</sup>

#### 2017 Gross margin

**43.3%**

Audited statutory 2016: 41.9%

Unaudited pro forma 2016: 37.4%<sup>1</sup>

#### 2017 Adjusted EBITDA<sup>2</sup>

**£8.4m**

Audited statutory 2016: £2.2m

Unaudited pro forma 2016: £6.0m<sup>1</sup>

#### 2017 Cash flow from operations

**£3.3m**

Audited statutory 2016: £2.7m

Unaudited pro forma 2016: £3.3m<sup>1</sup>

#### 2017 Exceptional items and amortisation

**£30.3m**

Audited statutory 2016: £2.3m

Unaudited pro forma 2016: £4.6m<sup>1</sup>

<sup>1</sup> Figures are calculated from the unaudited pro forma information set out in note 30.

<sup>2</sup> Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure.

# REALISING OUR VISION



Our aim is to become a global leader in premium development and creative services to the video game and wider entertainment industries.

Carl Cavers

CEO



Read more on  
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## BREAKING NEW GROUND DRIVING MARKET GROWTH

Read more on  
Page 06



## CREATING GAMING EXPERIENCES STAYING AHEAD

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Page 07

# GOING FROM STRENGTH TO STRENGTH

We are one of Europe's largest providers of creative and development services to the video games and entertainment industries, delivering full-service visual and development solutions from initial concepts to development and post-release support.

Sumo Group plc, which floated on AIM in December 2017, was established in 2003 and now has two operating businesses, Sumo Digital and Atomhawk, which together employ 534 people across studios and offices in Sheffield, Nottingham, Newcastle, Pune (India) and Vancouver (Canada).

Sumo Digital, established in 2003, is one of Europe's largest independent developers of AAA-rated video games, providing both turnkey and co-development solutions to an international blue-chip client base.

Atomhawk, which was acquired by Sumo Digital in June 2017, is a visual design company providing creative services to the full spectrum of the entertainment industry, including games, TV and film.

Both companies have developed deep relationships with some of the world's largest computer games publishers, developers, platform manufacturers and entertainment brands, including Microsoft, Sony, Sega, Warner Brothers and Marvel. Together they have worked on some of the biggest franchises in the entertainment industry, such as Avengers, Mortal Kombat, Hitman, Sonic All-Stars and Harry Potter.

The Group offers end-to-end services to the video games industry and beyond from visual concept design and pre-production through to development, user-interface design, marketing and post-release support.

LOCATED IN FIVE CITIES IN THREE COUNTRIES

534\*



talented people in Sheffield, Nottingham, Newcastle, Pune (India) and Vancouver (Canada)

\* As at 31 March 2018.

## OUR JOURNEY SO FAR

2003

Sumo Digital founded in Sheffield 2003

2007

Studio in Pune, India opened in 2007

2008

Acquired by Foundation 9

2014

MBO backed by NorthEdge

From 'work to hire' game developer to a strategic partner with some of videogaming's biggest players

Key relationships



RACE DRIVER 2006





## SERVICING CLIENTS GLOBALLY



## PUSHING THE BOUNDARIES TO CREATE GROUNDBREAKING GAMES

Awards **13** Nominations **10**

Multiple-time award winners/nominees at BAFTA, DICE, TIGA, and Gamescom

## SERVICING MORE SECTORS BY EXPANDING OUR SERVICES

# Atomhawk

Atomhawk and Sumo Digital join forces to create a powerhouse for high quality creative and development services that will benefit current and future clients across all sectors

[Read more on Page 09](#)

**2016**

SBO backed by Perwyn  
Nottingham studio established

**2017**

January  
Pune studio 10th anniversary

March  
Snake Pass launched

June  
Acquisition of Atomhawk

August  
Atomhawk Vancouver opened

September  
Management team strengthened

Took on Newcastle Studio of CCP Games

**2018**

December  
IPO and Board strengthened  
Listed on LSE's AIM market

Xbox Fitness



FORZA HORIZON 2  
PRESENTS  
FAST & FURIOUS



LittleBigPlanet 3



HIT MAN

KATSUMA UNLEASHED

Disney  
INFINITY  
3.0 EDITION



Snake  
PASS



# WE ARE PEOPLE

## GAMING IS WHAT WE DO

At the heart of the Sumo Group, you will find its people.

At the core of everything that Sumo Group works on, every title, every design, you will find a host of talented and creative individuals rallying to ensure its continued success. As we continue to grow the Sumo Group, it becomes more important than ever to nurture our culture and develop talent. We are committed to equal opportunities and developing our people, helping them flourish and remain challenged throughout their entire Sumo career.

**28%**

net growth in employees  
Sumo Group FY 2017.



Our aim is excellence,  
our people are  
our inspiration.



Group clients in 2017.

## BROADENING AND STRENGTHENING OUR CLIENT RELATIONSHIPS

In 2017, Sumo Digital continued to work with Microsoft Game Studios on the eagerly anticipated Crackdown 3, which had a strong presence at the annual industry showcase, E3.

We also built on our co-development relationships with Turn10 and Deep Silver and, in October 2017, our newest partner, CCP Games, announced that Sumo Digital is co-developing Project Nova.

Atomhawk's strong relationship with Warner Brothers continued in 2017, working with two of the publisher's studios, NetherRealm and Turbine, on Injustice 2 and Game of Thrones: Conquest. Injustice 2 is the fourth major game Atomhawk and NetherRealm have worked on together. Other key projects in 2017 included Materfall for Sony and Housemarque and Elderscrolls for Bethesda.



Sumo is a fantastic partner for IO Interactive. We've fostered an ethos of working openly and collaboratively and that really shows through in the results.

Hakan Abrak, Production Director, IO Interactive.



## BREAKING NEW GROUND DRIVING MARKET GROWTH

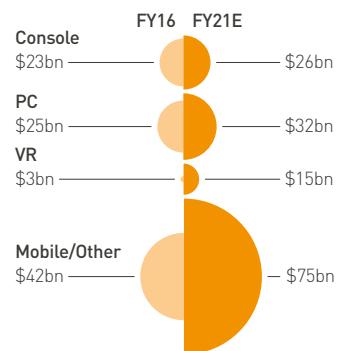
The biggest subset of the video games industry is the video games software market, which was valued at more than \$90bn in 2016 and is forecast to grow at a compound annual growth rate of 9.2% to more than \$140bn by 2021.

The buoyancy of consumer demand in the market was reinforced in 2017 by the launch of the Nintendo Switch™ and Microsoft's Xbox One X consoles. Sony's Playstation® VR also enjoyed its first full year of sales in 2017.

The strength and innovation in our market was also evident at the key industry events held during the year, most notably D.I.C.E in Las Vegas, GDC (Game Developers Conference) in San Francisco, Gamescom in Cologne and E3 in Los Angeles.

Sources: McKinsey Global Media Report 2017, PwC Entertainment and Media Outlook, Euromonitor.

Estimated growth in global video games software market by hardware platform



# \$113bn

The video games industry is the largest entertainment market in the world, valued in excess of \$113bn and growing at 8.4%





## CREATING GAMING EXPERIENCES STAYING AHEAD

Sumo Digital continued to build upon its core technology during 2017, maintaining its position at the cutting edge of video game development.

Working closely with Epic Games, Sumo Digital's own-IP game *Snake Pass* was successfully released on the Nintendo Switch platform within a month of this new console's release. Not only was the game launched very early in the new console's lifecycle, PC Steam, Xbox One and PlayStation 4 versions of *Snake Pass* were released on the same day.

Atomhawk made a significant contribution to the artistic vision and visual design of Warner Brothers' major 2017 release, *Injustice 2*. We worked with Warner Brothers' NetherRealm studio for over three years, helping to set the visual style, designing characters and environments and animating key scenes within the game.



From a visual standpoint, this vibrant platforming romp is basically what would happen if Pixar were given free aesthetic reign over a digital wildlife simulator.

Source: [Forbes.com](http://www.forbes.com), on *Snake Pass*, Sumo Digital's first own-IP game.



## BUILDING VALUE TOGETHER

### 2017 PROGRESS

Management team and Board strengthened.

Successful IPO: new structure to facilitate further growth.

Since IPO, the Board has begun a process to enable widespread employee participation in the Group's shares.



The source of our success is our people; we value them highly and are committed to providing a positive working environment.

**Ken Beaty**

Chairman

I am delighted to introduce Sumo Group's first Annual Report as a quoted company, which shows the material progress made by the business in 2017.

The year under review was a significant one. Having completed a secondary management buyout, backed by Perwyn LLP, in September 2016, the business entered 2017 energised and with a clear plan to deliver strong organic and acquisitive growth. Not only were both these objectives met but the year culminated with the successful admission of shares in Sumo Group plc to AIM on 21 December 2017.

The listing route was chosen to provide a new and ready source of capital with which to deleverage the balance sheet, raise the profile of the Company, enable the incentivisation of its people and allow the management to execute its growth strategy. You will see from the rest of this Annual Report how those objectives have been achieved or are being advanced. I thank my Board colleagues and pay tribute to the wider management team for their dedication and hard work, throughout the year, which has allowed us to complete the highly time-consuming admission process while at the same time delivering an excellent operating performance.

Sumo Group plc's flotation also enabled private equity investor, Perwyn, to realise some of its investment, while keeping a significant shareholding in the newly quoted business going forward. We are grateful for their ongoing support.

In preparation for IPO, we welcomed David Wilton as Chief Financial Officer and, upon admission, Michael Sherwin also joined the Board as Senior Independent Non-Executive Director. Their profiles, which appear on page 20 and are available on [www.sumogroupplc.com/about/board-of-directors/](http://www.sumogroupplc.com/about/board-of-directors/), demonstrate the breadth of relevant experience they bring to the PLC Board.

We completed the acquisition of Atomhawk Design Limited, a multi award winning visual design company, servicing the video games, film and visual effects industries, in June 2017, extending the range of premium services Sumo Group provides. Atomhawk had a very strong second half, out-performing our pre-acquisition expectations. Immediately after the year end, Sumo Group also took on the Newcastle studio of CCP Games, bringing a number of talented colleagues into the business and increasing our capacity to deliver high quality services to our clients.

As well as expanding and deepening client relationships throughout the year, Sumo Digital successfully launched its first own-IP game, *Snake Pass*, generating revenue of £1.7m in 2017. On the back of this success, the Group intends to continue the selective development of independent games based on original IP.

One of the important functions of any board is governance. You will see, in this, our first Annual Report, the structure and processes that have been put in place or extended by the Board, as part of the move to becoming a listed company. These will continue to develop over the coming year.

The source of our success is our people; we value them highly and are committed to providing a positive working environment. We have invested significantly in our premises in Sheffield and recently moved the Atomhawk Canada operations into a larger site in Vancouver. Since IPO, the Board has begun a process to enable widespread employee participation in the Group's shares.

In summary, we made great progress during 2017 and Sumo Group is well-positioned to repeat this in 2018 and beyond. Our success is due to the skill and dedication of colleagues across the Group and, on behalf of the Board, I would like to thank them all for their contribution.



**Ken Beaty**

Chairman



## ACQUISITION OF ATOMHAWK

In June 2017 Sumo Digital acquired Atomhawk, a multi-award winning visual design company servicing the entertainment industry.

Founded in 2009 by Cumron Ashtiani, Atomhawk now has studios in Newcastle and Vancouver (Canada), employing 36 people as at 31 March 2018. Key services include visual development (concept art), marketing art as well as motion graphics and user interface design.

The business helps its clients to define the visual style of a product, delivering art and design throughout the development cycle and beyond, also creating marketing imagery, video content and packaging design. Atomhawk primarily serves the creative industries, working with video games studios, as well as film and television production companies.

Atomhawk has been involved in the creation of many high profile projects, including movies *Guardians of the Galaxy*, *Thor II* and *Avengers II*, J.K. Rowling's online experience, *Pottermore*, and games such as *Mortal Kombat*, *Injustice*, *Game of Thrones: Conquest* and *Eve: Valkyrie*. Atomhawk is a regular creative vendor for global brands such as Lego, Microsoft, Sony, Amazon and Warner Bros, with a client list incorporating a number of high profile video game developers, movie studios and product designers, including Marvel, Zynga, CCP Games, Ninja Theory, BBC, Ubisoft and Costa Coffee.

The acquisition was funded through a mixture of cash and equity. Cumron continues to lead Atomhawk and has a shareholding in the Company.



## STRONG START GOING FORWARD

Joining AIM is a significant step forward in Sumo Group's journey to becoming a global leader in premium development and creative services to the video game and wider entertainment industries. We had an overwhelmingly positive response to the Placing and, on behalf of the Board, I would like to thank all our investors for their support and our advisers for helping us make this happen.



Sumo Digital remains focused on investing in its key relationships to develop and deliver high quality video games, while maintaining a high level of staff utilisation. This proven model gives Sumo Digital high quality and visible earnings.

**Carl Cavers**

Chief Executive Officer

### Introduction

This is my first statement as CEO of Sumo Group plc and it gives me great pleasure to update our shareholders on what has been a momentous year for the Group.

In June 2018 we will celebrate the 15th anniversary of the foundation of Sumo Digital. The business has grown consistently throughout its history and it is now one of Europe's largest independent video games developers.

In June 2017 we acquired Atomhawk Design Limited, a multi award-winning visual design company, servicing the games, film and visual effects industries. This acquisition expanded our integrated video game service offering and strengthens the Group's position in offering premium services to our clients.

Just prior to the close of the financial year, the Group achieved one of its key strategic ambitions and, following a successful IPO, was admitted to the London Stock Exchange's Alternative Investment Market (AIM) on 21 December 2017. Having been through three changes of ownership in the last three years, we are looking forward to the stability that this platform brings and the opportunity to focus wholly on the development of the business. Sumo Group is a people business offering premium video game development services to its clients. Following the IPO, we have a strong balance sheet and a structure with which we can incentivise our people, as we continue to drive growth in the business.

We entered 2017 with 382 people operating from three locations in two countries. The year concluded with Sumo Group plc employing 489 people operating at five locations in three countries. Post year end, the Group extended its operations further when it took over the Newcastle studio of CCP Games, bringing a further 34 people to the business and an additional studio location.



## Results

In the year ended 31 December 2017, revenue rose by 27% to £30.6m (unaudited pro forma 2016: £24.1m). This was driven by continuing strong organic growth at Sumo Digital, the release of its first own IP title, *Snake Pass*, and the acquisition of Atomhawk, which contributed revenue of £1.3m in the six months following its acquisition on 29 June 2017. Development fees for the year were £28.4m (unaudited pro forma 2016: £23.8m), an increase of 19.5% on the prior year and an increase of 33.5% on a like for like basis excluding pass-through revenue. The Group generated own intellectual property title revenue for the first time in 2017 of £1.7m (2016: nil) and royalty income was £0.5m (unaudited pro forma 2016: £0.3m).

Gross profit for the year was £13.3m (unaudited pro forma 2016: £9.0m), an increase of 47.2% on the prior year, and we achieved a gross margin of 43.3% (unaudited pro forma 2016: 37.4%).

The Group achieved Adjusted EBITDA<sup>1</sup> of £8.4m in 2017, a substantial increase on the unaudited pro forma £6.0m reported in 2016.

Cash flow was strong during the year with cash generated from operations of £3.3m (unaudited pro forma 2016: £3.3m). Cash balances at the year end were £12.4m, following the repayment of bank and shareholder debt with the proceeds of the IPO.

Further details of the Group's financial results including the non-cash cost arising on the amortisation of intangible assets are set out in the Chief Financial Officer's Review, which follows.

## Operational review

### Sumo Digital

Sumo Digital, the Group's largest business representing 96% of revenue, is a developer of AAA-rated video games, providing both turnkey and co-development solutions to an international blue-chip client base. Its full-service development solution includes initial concept and pre-production, production and development and post release support.

Following the post year end takeover of CCP's Newcastle studio on 1 January 2018, the business now operates from studios in Sheffield, Nottingham, Newcastle and Pune in India.

<sup>1</sup> Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation and exceptional items, is a non GAAP metric used by management and is not an IFRS disclosure.

We acquired an additional 11,000 sq ft of office space in Sheffield during the year and began a significant refurbishment programme in September 2017 to provide a larger and better working environment for our people. This work is ongoing and completion is expected shortly. We also acquired a further 2,700 sq ft of space in Nottingham in May 2017, which gives us the capacity to deliver headcount growth, although we are constantly reviewing opportunities to accelerate growth by opening studios in other key locations.

In January 2017, Sumo Digital celebrated ten years of operating in India. Our India studio was founded to provide additional skilled resources. Pune offered an appealing cost base to help underpin EBITDA performance. This part of the business has grown consistently since its foundation, relocating to larger premises in December 2016, which allows for growth in line with our other territories. This studio continues to perform strongly.

It is always pleasing when a business' strengths are recognised externally. In January 2017, Sumo Digital was awarded a 1 star rating in the Best Companies™ Survey. This accreditation demonstrates "very good levels of workplace engagement". We shall continue to strive for excellence and the associated 3 star rating. In November, Sumo Digital's first revenue generating own-IP game, *Snake Pass*, won the industry accolade of Best Arcade Game at the much coveted TIGA Awards. TIGA is The Independent Game Developers' Association, a network for games developers and digital publishers and a trade association representing the video games industry.

Throughout the year under review, Sumo Digital continued to work with some of the largest publishers in the world. Over the past few years, we have worked with Sony, Microsoft, Sega, Deep Silver, IO Interactive and CCP Games, who announced their co-development relationship with Sumo Digital in October 2017.

Sumo Digital remains focused on investing in its key relationships to develop and deliver high quality video games, while maintaining a high level of staff utilisation: in excess of 95% in the UK over recent years. This proven model gives Sumo Digital high quality and visible earnings. During the year, the shift towards more royalty arrangements as part of our contracts continued. We are always keen to align our interests with those of our clients and see the opportunity for financial out-performance on new iterations of proven games.



## SNAKE PASS TAKES HOME THE AWARD FOR BEST ARCADE GAME AT THE TIGA AWARDS

A unique, physics-based puzzle platform game, *Snake Pass* challenges players to 'think like a snake' as they tackle precarious puzzles as only a snake can. Slither through long grass, coil around bamboo and climb out of trouble in the latest game from award winning independent studio Sumo Digital.

The winner of Sumo Digital's inaugural Game Jam, *Snake Pass* was created by Seb Liese as a love-letter to both the favourite games of his youth and his childhood pet snake.

After winning, a full demo was produced and taken around various public shows where it was met with great enthusiasm by gamers of all ages.

Buoyed by its success, full production began when the team returned home to Sumo HQ.

### Atomhawk Design

Atomhawk Design Limited was acquired on 29 June 2017, at which time it was operating from a single studio in Newcastle. We announced the opening of Atomhawk's new Vancouver studio in September and, in February 2018 the team moved to larger premises in the city.

This business provides visual development (concept art) and marketing art, as well as motion graphics and user interface design. Its expertise is in helping customers define a visual look for their products, from inception through development and, at the final point of sale, through marketing imagery, videos and box packaging design. Atomhawk primarily serves the creative industries, working with video games studios, as well as in film and television.

### OUR BUSINESS MODEL AND STRATEGY

Sumo Digital's core strategy is to continue to grow organically as one of the leading co-developers of AA/AAA-rated gaming titles in the world, primarily using its contracted development fee model to minimise risk, and taking advantage of the forecast growth in the global gaming market.

#### Lower risk co-development operating model

Sumo Digital operates a lower risk contracting model than the majority of other developers and publishers who are more exposed to the commercial success or failure of the game. The Directors believe these long-term contracts de-risk the Group's model by securing that payment is made in accordance with the achievement of a number of key milestones, during and following release of the game which are agreed prior to the start of the project, rather than on completion and/or sales performance.

Atomhawk has been involved in the creation of many high profile projects, including the movies *Guardians of the Galaxy*, *Thor II* and *Avengers II*, as well as the games *Mortal Kombat*, *Injustice*, *RYSE* and *Killzone*. Atomhawk also provides creative design and content for J.K. Rowling's *Pottermore* and is a regular creative vendor for global brands such as *Lego*, *Microsoft*, *Sony*, *Amazon*, *Marvel* and *Warner Bros*.

Atomhawk's customers include a number of high profile video game developers, movie studios and product designers, including *NetherRealm Studios*, *CCP*, *Rebellion*, *Deep Silver*, *Rock Steady Studios*, *Square Enix*, *Ninja Theory*, *BBC*, *Rare* and *Ubisoft*.

Atomhawk delivered a strong performance in the six months to 31 December 2017, well ahead of the Board's original expectations at the time of acquisition.

#### Strategy

There are four parts to Sumo Group's strategy: to deliver and expand, to win new clients, to add complementary revenue streams and to develop our own IP.

- We plan to deliver and expand by developing subsequent franchise titles, by developing downloadable content, managing online communities (collectively referred to as 'games as a service') and generating royalties, where our interests are clearly aligned with our clients;



#### Deliver and expand

- Well placed to deliver significant growth through developing new franchise titles as the demand for creative content continues to grow;
- Develop downloadable content for existing titles that can be used to extend further the revenue generating capability of games for publishers; and
- Continue to recruit, retain, incentivise and develop the Group's talent pool in order to increase the Group's core development capacity and capability.



#### New strategic partners

- Continue to win new clients and extend the Group's publisher portfolio;
- Collaboration with other co-developers and extending existing co-development relationships; and
- Potential to open or acquire new studios to enable recruitment from further pools of talent and gain exposure to new publishers and game genres.



#### Acquisition of complementary revenue streams

- Consider earnings enhancing acquisitions of premium video game service providers and complementary video game developers.



#### Own intellectual property

- Following the successful launch of *Snake Pass*, which has generated a return on investment in excess of 83% since launch, the Directors intend to continue to operate Group-wide Game Jams and selectively develop 'Indie Games'.

The Board is particularly keen to acquire owner-managed businesses, where the vendors remain with the business post acquisition and where we can use our quoted share structure to provide suitable ongoing incentive arrangements.

#### The IPO

We were delighted to achieve a successful IPO and join AIM in December 2017. This was a longstanding objective and an important milestone in the development of Sumo Group. The management team holds a significant shareholding in the business and I am grateful to our people and our advisers, who worked so hard to make the IPO happen, and also to Perwyn and our new investors for their support.

#### People

Sumo Group is a people business and we are investing in our people and will continue to do so. This investment includes recruiting new joiners and incentivising our staff. During the year, our headcount increased by 107, appointing new people in each of our operating locations. The management team was strengthened to address our market opportunities and to prepare for the IPO. New roles were created, including Portfolio Director, Senior Development Director and General Counsel & Company Secretary.

#### Acquisitions

We are very pleased with Atomhawk, which performed strongly in the six months following its acquisition. This was the first acquisition completed by Sumo Digital and has provided a useful template for future acquisitions which complement Sumo Digital's proven organic growth model.

## MARKET DRIVERS

### Shift to digital

The proliferation of online distribution platforms has resulted in significant growth in the sale of digitally distributed games. Historically, games have been sold through physical retail channels. An increase in digital downloads has resulted in a reduced cost of distribution, greater ease of self-publishing and promotion, the potential for dynamic pricing and the potential for games to move from a product to a service. A 'games-as-a-service' role allows us to extend the lifespan and revenue generation of a game title.

### Embedded user base

Historically, there has been a clearly defined console hardware cycle, which in turn defined the software cycle. Third party publishers would wait for the market to be in a favourable position before investing in software. Gamers would also be less inclined to purchase new games at the end of one console's life cycle. The current installed console base has seen an increase in the ability to play games from previous generation consoles on new generation consoles.

This increased backward compatibility has substantial benefits for developers and provides the opportunity for constant mass market penetration.

### Geographic expansion

The video games market is benefiting from global emerging markets. In China, the sale of games consoles was banned in 2000 but the ban was lifted in January 2014. There is also huge potential demand from South America (+15% CAGR for retail sales, FY16-21), the fastest of all geographies.<sup>1</sup>

### Broadening demographics

The age demographics of video gamers continues to broaden. Consumers remain engaged past adolescence due to continued innovation. Video games attract a wide mix of consumers, who are typically 'sticky' over time. The current average video game player is 35 years old. The video games market has also become non-gender specific with over 40% being female gamers.<sup>2</sup>

1 Source: Newzoo.

2 Source: Entertainment Software Association Survey.



We expect to continue our organic growth and are also keen to acquire suitable, complementary businesses. My Board colleagues and I are confident about the outlook for the Group in the year ahead.

Since IPO, we have taken steps to incentivise our staff, which include providing opportunities to participate in our newly listed equity, and we are investing in our premises to provide a quality working environment.

It was pleasing for Darren Mills, a co-founder of Sumo Digital, and me to feature in Games Industry.biz's Top 100 Most Influential in 2017 and I was particularly gratified to receive an honorary doctorate from Sheffield Hallam University. Sheffield is a burgeoning tech hub in the UK and we take our local heritage very seriously.

I would like to extend my personal thanks and appreciation to all our people for their hard work in 2017. In August, we had our regular Sumo Big Day Out, which is a celebration event for all the families involved with making Sumo great! I am already looking forward to our next Big Day Out this coming summer.

### The market

2017 lived up to expectations, proving to be a productive year for video game developers and publishers. The launch of the Nintendo Switch™ and Microsoft's Xbox One X demonstrated the buoyancy of the premium console market and demand for premium content on these devices reached an all-time high. Xbox One X, the third release of new

hardware under the Xbox One name, confirms Microsoft's commitment to iterative hardware. Nintendo Switch™ has proved to be a prime target for 'indie developers'. 25 of the Top 30<sup>1</sup> most downloaded titles were developed by 'Indies'. Sumo Digital directly benefited from this platform, being rewarded with a No.1 for Snake Pass on Nintendo Europe's eShop.

2017 was also the first full year of sales for Sony's Playstation® VR, for which Sumo Newcastle, under its previous owners CCP Games, saw the release of their critically acclaimed title "Eve Valkyrie". Sumo Digital is well positioned to pursue opportunities in this space as the installed base grows to what will eventually become a mass-market proposition. Another exciting platform for Sumo Digital is Esports, where we were part of the team that developed Forza Motorsport in 2017.

With the global video games market worth over \$113bn in 2017 (up c.8% on 2016) with a forecast CAGR of c. 8% to 2021<sup>2</sup>, this is an exciting time to be providing video game development services.

### Outlook

The new financial year ending 31 December 2018 has started strongly. Whilst it is still early in the year, the Board already expects to deliver results slightly ahead of market expectations. We are continuing to see strong demand for the Group's services and we are well placed to take advantage of the considerable opportunities. Those of us who were at GDC (Game Developers Conference) in March 2018 saw at first hand the strength of growth in our chosen markets, with the associated opportunities this brings, and the Group's business development pipeline reflects this.

We expect to continue our organic growth and are also keen to accelerate this by acquiring suitable, complementary businesses. My Board colleagues and I are confident about the outlook for the Group in the year ahead.



**Carl Cavers**

Chief Executive Officer

1 UKIE.

2 PwC Global Media and Entertainment Outlook.

# GROUP FINANCIAL REVIEW

These financial statements are the first to be prepared since Sumo Group's IPO in December 2017. They cover the period in which the Group transitioned from the previous ownership structure, when it was majority owned by funds under the management of Perwyn LLP for more than 11 months, to the new status as a listed company 10 days before the financial year end. Accordingly, the financial information reflects the leveraged structure in place for most of the year and also the reorganisation of the Group in preparation for the IPO, together with the significant costs incurred in this process and also the non-cash and non-recurring amortisation charge from a change of accounting estimate regarding the useful economic life of intangible assets arising on the transaction with Perwyn in September 2016.

## Basis of preparation of the financial statements

Sumo Group plc was incorporated as a private limited company with the name Aghoco 1611 Limited on 20 November 2017; was re-registered as a public limited company with the name Sumo Group plc on 14 December 2017 and was inserted as a new holding company by way of a share for share exchange which constituted a Group reorganisation.

The transaction is accounted for as a capital reorganisation and merger accounting applied. Accordingly, the financial statements present 12 months' results for the year ended 31 December 2017 with a comparative period for the four months from 26 August 2016, the date shortly before the transaction with Perwyn, to 31 December 2016. For the purpose of providing full year information for 2016 and to help users of this information to assess the underlying financial performance of the Group, we have set out in note 30 unaudited pro forma information derived from Part Three: Historical Financial Information of the Admission Document dated 15 December 2017.

## Results overview

The underlying trading of the Group was strong in the year under review. Revenue for the year was £30.6m (unaudited pro forma 2016: £24.1m), which includes £2.0m (unaudited pro forma 2016: £3.6m) of pass-through revenue on which Sumo Digital does not charge a margin.

These figures reflect continuing strong organic growth at Sumo Digital and the acquisition of Atomhawk on 29 June 2017. Atomhawk contributed £1.3m and £0.4m of revenue and EBITDA respectively in the period since acquisition. The like for like increase in revenue, excluding pass-through revenue, was £6.9m, an increase on the prior year of 33.5%.

Adjusted EBITDA was £8.4m on revenue of £30.6m. This was in line with the Board's expectation at the time of the IPO and was significantly ahead of the unaudited pro forma Adjusted EBITDA in 2016 of £6.0m.

	Audited 2017 £'000	Unaudited pro forma 2016 £'000	Audited 2016 £'000	Increase/ (decrease) £'000 <sup>2</sup>
Revenue	<b>30,612</b>	24,106	8,629	6,506
Gross profit	<b>13,252</b>	9,005	3,618	4,247
Gross margin	<b>43.29%</b>	37.36%	41.93%	-
Adjusted EBITDA <sup>1</sup>	<b>8,356</b>	6,045	2,199	2,311
Loss before tax	<b>(27,973)</b>	(2,112)	(1,818)	(25,861)
Exceptional items and amortisation charges	<b>(30,282)</b>	(4,604)	(2,320)	(25,678)
Cash flow from operations	<b>3,252</b>	3,327	2,733	(75)

1 Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure.

2 Figures are calculated from the unaudited pro forma information set out in note 30.

The underlying adjusted profit before tax, exceptional items and amortisation of customer contracts and relationships for the year was £7.5m (2016: £5.3m) and reported loss before tax was £28.0m (2016: loss of £2.1m), as set out in the table opposite.

Cash flow was strong with cash generated from operations of £3.3m (unaudited pro forma 2016: £3.3m). Cash balances at the year end were £12.4m, following the repayment of bank and shareholder debt from the proceeds of the IPO.

## Trading

Development fees for the year were £28.4m, an increase of 19.5% on the unaudited pro forma figure of £23.8m in 2016. In 2017 Sumo Digital successfully released its first own intellectual property title, Snake Pass, which generated £1.7m of revenue in the year. Sumo Group also received £0.5m (unaudited pro forma 2016: £0.3m) of royalty income.

Gross profit for the year was £13.3m, an increase of 47.2% on the unaudited pro forma gross profit of £9.0m in the prior year. We include Video Game Tax Relief ('VGTR') within our cost of sales and accordingly, for both years, our gross profit and gross margin reflect these amounts. We believe this is the

appropriate treatment of these credits, as gross margin is best considered after taking account of the effect of VGTR.

Gross margin was 43.3% (unaudited pro forma 2016: 37.4%). If we exclude pass-through revenue the gross margin was 46.4% (unaudited pro forma 2016: 44.0%).

Operating expenses for the year were £35.8m (unaudited pro forma 2016: £8.1m). Included within operating expenses were amortisation and depreciation of £27.6m and £0.7m respectively (unaudited pro forma 2016: £3.7m and £0.6m respectively). The non-cash amortisation charge is explained below. The overall increase in operating expenses other than amortisation and depreciation was primarily due to investment in people and systems ahead and in anticipation of the IPO, the inclusion of Atomhawk for the second six months of the year and increased premises costs on the newly acquired leasehold units in Sheffield. The Group spent £0.9m on research and development, all of which has been expensed.

## KEY PERFORMANCE INDICATORS

The Group's strategy is aligned to its overall financial goal to deliver increasing returns to shareholders over the long term. We present the key KPIs the Board reviews during the year:

### Gross margin

# 43.3%

Audited 2016: 41.9%

Unaudited pro forma 2016: 37.4%

### Adjusted EBITDA

# £8.4m

Audited 2016: £2.2m

Unaudited pro forma 2016: £6.0m

### Operating cash flow

# £3.3m

Audited 2016: £2.7m

Unaudited pro forma 2016: £3.3m

The net finance charge for the year was £5.4m (unaudited pro forma 2016: £3.0m), arising on the debt structure in place until the receipt of the proceeds of the IPO. The Corporation Tax credit for the year was £4.5m (unaudited pro forma 2016: £0.9m credit).

### Treatment of IPO and acquisition costs

Transaction costs were incurred in a number of areas in relation to the IPO and raising of new financing. The accounting treatment is governed by IFRS 3. Accordingly, £1.9m and £2.5m of transaction costs were charged to equity and through the income statement respectively.

The consideration of £2.9m paid for the acquisition of Atomhawk has been capitalised and goodwill and other intangibles of £2.2m are carried on the balance sheet as at 31 December 2017. £0.2m of transaction costs were charged through the income statement.

### Cash flow

The cash performance in the year was strong. Cash generated from operations was £3.3m (unaudited pro forma 2016: £3.3m). Capital expenditure in the year was £1.6m (unaudited pro forma 2016: £0.9m) most of which related either to the refitting of the premises in Sheffield, which was ongoing over the year end, or to the purchase of IT equipment and systems. The cash cost of the acquisition of Atomhawk was £2.9m and it had cash balances of £0.6m at the date of acquisition.

### Balance sheet

Sumo Group is a people business and as such has a relatively simple balance sheet. The balance sheet has been dominated by the intangible assets arising from the acquisition by Perwyn in September 2016, more than 15 months before the accounting reference date. These intangible assets consisted of client contracts, client relationships and goodwill. In the past the intangible assets held in respect of the former two categories were amortised over five years and ten years respectively while goodwill was tested annually for impairment. The assets arose in respect of contracts and relationships as at September 2016 and do not reflect contracts signed or relationships developed since that date.

	<b>Audited 2017</b> £'000	<b>Adjustments</b> £'000	<b>Unaudited underlying 2017</b> £'000	<b>Unaudited pro forma 2016</b> £'000	<b>Adjustments</b> £'000	<b>Unaudited underlying 2016</b> £'000
Revenue	<b>30,612</b>	(2,021)	<b>28,591</b>	24,106	[3,644]	20,462
Gross profit	<b>13,252</b>		<b>13,252</b>	9,005		9,005
Operating expenses excluding exceptional items, depreciation and amortisation	<b>(4,896)</b>		<b>(4,896)</b>	(2,960)		(2,960)
Adjusted EBITDA	<b>8,356</b>		<b>8,356</b>	6,045		6,045
Depreciation	<b>(669)</b>		<b>(669)</b>	(571)		(571)
Net finance costs	<b>(5,378)</b>	5,378	<b>0</b>	(2,982)	2,982	0
Amortisation of software	<b>(162)</b>		<b>(162)</b>	(159)		(159)
Adjusted profit before tax, exceptional items and amortisation of customer contracts and relationships	<b>2,147</b>	5,378	<b>7,525</b>	2,333	2,982	5,315
Operating expenses – exceptional	<b>(2,656)</b>			(912)		
Amortisation of customer contracts and relationships	<b>(27,464)</b>			(3,533)		
Loss before taxation	<b>(27,973)</b>			(2,112)		

The unaudited pro forma 2016 figures are extracted from note 30.

The adjustment to revenue is in respect of pass-through revenue on which Sumo Digital does not charge a margin.

The adjustment in respect of interest cost is to reflect the ungeared structure of the Group as it is following the IPO in December 2017.

The amortisation charge in respect of software in 2016 is extracted from Historical Financial Information in the Admission Document dated 15 December 2017.

This table is presented to help users of this information to assess the underlying financial performance of the Group in a period of significant change, mainly arising from the IPO and where the comparative period is unusual. At the time of the IPO, the pass-through revenue was separately identified in the Admission Document and hence consistent disclosure is considered appropriate. The adjustment in respect of net finance costs is to illustrate how the results may have been impacted if the Group had operated with no net debt as was the position at 31 December 2017 following the IPO.

As a public listed company, we have reviewed the policy for these historical intangible assets in respect of client contracts and client relationships. Following the review, we now value these intangible assets by reference to the specific time period for each of the client contracts in place at September 2016 and an assessment of the appropriate time period for the client relationship from that date which we now consider to be two years. We have also taken account of changes in the scope of the client contracts and client relationships.

These amendments constitute a change in accounting estimate, not a change in policy, and the effect is to amortise the historical intangible assets arising on the September 2016 change of ownership over a shorter period.

Goodwill and other intangibles reduced by £25.3m, reflecting the non-cash goodwill and amortisation charge of £27.6m less the increase in other intangibles arising from the acquisition of Atomhawk in the period.

Current assets increased to £22.6m (2016: £14.6m). Cash increased from £4.5m at 31 December 2016 to £12.4m at 31 December 2017. Trade and other receivables were £10.2m (2016: £10.1m).

The Group used some of the proceeds of the IPO to repay its bank borrowings and finished the year with net cash of £12.4m. At the prior year end, it had borrowings of £56.7m. On 15 December 2017, the Group entered into a £13m revolving credit facilities agreement with Clydesdale Bank plc.

Interest is payable on amounts drawn down at the rate of one and a half to two percent above LIBOR and the term of the agreement is five years. As at the date of these financial statements, this facility remains undrawn.

Trade and other payables increased by £3.4m from £7.4m at 31 December 2016.

### Dividend

In line with the strategy set out at the time of the flotation, the Directors intend to reinvest a significant portion of the Group's earnings to facilitate plans for future growth. Accordingly, the Directors do not propose a dividend at the present time but it remains the Board's intention, should the Group generate a sustained level of distributable profits, to consider a dividend policy in future years.



### Share issues

Following the IPO, options were granted under the LTIP on 21 December 2017 to myself, David Wilton, over 500,000 shares and to two other employees over an aggregate of 450,000. These options are exercisable in respect of 875,000 and 75,000 shares on 21 June 2019 and 21 December 2020 respectively.

Subsequent to the year end, further options over 7,891,246 shares in aggregate have been granted to employees including Carl Cavers and myself, David Wilton.

The Group is in the process of implementing a Group-wide Share Incentive Plan.

### Post balance sheet date events

On 1 January 2018, Sumo Digital Limited took on the Newcastle studio of CCP Games under an asset purchase agreement for nominal consideration. All 34 staff working at the studio became employees of the Group on that date and the lease for the property in which the studio was located was assigned to Sumo Digital Limited, although the vendor will continue to pay the rent until 23 July 2018.



**David Wilton**

Chief Financial Officer



# EFFECTIVELY MANAGING OUR RISKS

As part of the process for admission to AIM, the Group reviewed and updated its principal risks and uncertainties and associated mitigation activity. These risks were considered again by the Board in preparing this Annual Report and those considered most important are set out below. As part of the Group's structured risk management process, the Board will regularly consider those risks that might impact performance of the Group and will monitor mitigating actions being taken.

The key business and financial risks for the Group are set out below:

Risk	Description and mitigation
STRATEGIC	<b>Dependence on the video games development market</b>
	<p>The Group derives a significant proportion of its revenues from the co-development work it carries out for video games developers and publishers. The success of the Group will continue to depend on its ability to be engaged to develop video games for such third parties. There can be no assurance that these client relationships will continue, or that the revenue that the Directors expect to generate from these relationships will materialise.</p>
	<p>To mitigate this risk, the Group places considerable emphasis on maintaining positive working relationships with its existing clients and on its strategic intent of extending the number of key client relationships.</p>
<b>Dependence on a concentrated client base</b>	<p>In the year ended 31 December 2017, the Group generated the majority of its revenue from three clients who each accounted for at least 10% of total revenues. This included revenue from multiple projects with different entities within each client's group. The loss of any of the key clients could have a material impact on the Group's financial results. The Group is reliant on the long-term commercial success of its clients. The performance of such clients will have a significant bearing on the success of the Group in terms of the requirement for future video games to be developed and released, however their performance cannot be guaranteed. Underperformance of the Group's clients could have a material adverse effect on the Group's business, operations, revenues or prospects. The Group looks to mitigate such risks through having strong relationships with some of the world's largest publishers who have a strong track record of launching successful games and by attracting new clients.</p>
	<b>Market growth, new developments and technological trends</b>
<p>The global video games market has seen consistent growth for many years. There is, however, a risk to the Group that trends may reverse or continue at slower rates than expected. The video games market is competitive and selective and is subject to concentration and economic fluctuations, with rapid technological changes requiring significant research and development investment.</p> <p>The industry also faces challenges such as the shift towards digital online distribution, a second-hand market, piracy and emerging competitors. In order to remain competitive, the Group will need to continue to select the projects it works on and their target format(s) carefully and adapt how it derives revenues from its games and technology. If the Group is not successful in doing so, this could have a material adverse effect on the financial and trading position of the Group.</p>	<b>Video Game Tax Relief ('VGTR')</b>
	<p>The Group benefits from the VGTR regime that came into force in 2014 and to date the majority of games the Group works on qualify for VGTR. There can be no guarantee that future games will qualify for VGTR or that all current claims will be successful. If changes to VGTR policy were made in the future, it could potentially restrict how the Group could work with its clients and remain eligible for VGTR. If current or future games were not able to benefit from VGTR, this could materially impact the Group's financial performance.</p>
<b>Foreign exchange risk</b>	<p>The Group has certain contracts priced in foreign currencies and also has employees based overseas paid in foreign currencies. It is therefore exposed to the risk that adverse exchange rate movements could cause its costs to increase relative to its reporting currency resulting in reduced profitability. The Group, where deemed relevant, takes steps to mitigate this risk by putting in place hedging arrangements to reduce exposure to currency risk, however these may not always be entirely effective and residual currency risk may exist.</p>

Risk	Description and mitigation
<b>OPERATIONAL</b>	<b>Ability to recruit and retain skilled personnel</b>
	<p>The Company's operational and financial performance is dependent upon its ability to attract and retain effective personnel. The Directors believe that the Group is putting in place the appropriate remuneration and other incentivisation structures and processes to attract and retain the calibre of employees necessary to ensure the efficient management and development of the Group. However, any difficulties encountered in hiring and retaining appropriate employees and the failure to do so may have a detrimental effect upon the trading performance of the Group. The ability to attract and retain employees with the appropriate expertise and skills cannot be guaranteed. This risk may be exacerbated by the uncertainty surrounding Brexit.</p>
	<b>Overseas operations</b>
	<p>The Group currently has two overseas operations, one in Pune (India) and the other in Vancouver (Canada). These jurisdictions have different regulatory, financial and legal environments that could change in the future and could affect how the Group conducts its business in these countries. If the Group fails to comply with the laws and regulations applicable to its overseas operations, it could be subject to reputational and legal risks, including government enforcement action and/or fines.</p>
<b>COMPLIANCE</b>	<b>IT security risks</b>
	<p>The video game industry is subject to the threat of IT security breaches, unauthorised copying and software piracy. The Group's hardware and software are typically subject to copy protection technology or other technological protection measures intended to prevent software piracy but these measures may not be adequate to do so. Unauthorised copying of the Group's own intellectual property games, or games produced by the Group for which the Group may be entitled to revenue-based royalties, could have an adverse effect on the Group's ability to generate revenues and profits. Complete protection cannot be guaranteed and an IT security breach could cause significant disruption to the Group's operations.</p>
	<b>Intellectual property</b>
	<p>The Group relies on a combination of trade secret, copyright, non-disclosure laws and other contractual agreements and technical measures to protect its own and its clients' intellectual property. The Group has entered into confidentiality provisions as part of its arrangements with its employees and consultants. Despite the Group's efforts to protect its and its clients' proprietary rights, unauthorised third parties may attempt to copy or use information from the video games the Group is working on. If the Group cannot successfully enforce its intellectual property rights or if a client's intellectual property is damaged, this could have a material adverse effect on the Group's business, financial condition and prospects.</p>
<b>BREXIT</b>	<p>There are significant uncertainties in relation to the terms and timeframe within which the United Kingdom's exit from the European Union will be effected, and there are significant uncertainties as to what the impact will be on the fiscal, monetary and regulatory landscape in the UK, including <i>inter alia</i>, the UK's tax system, the conduct of cross-border business and export and import tariffs. There is also uncertainty in relation to how, when and to what extent these developments will impact on the economy in the UK and the future growth of its various industries and on levels of investor activity and confidence, on market performance and on exchange rates. There is also a risk that the vote by the UK to leave could result in other member states re-considering their respective membership of the European Union. Although it is not possible to predict fully the effects of the UK's exit from the European Union, any of these risks could have a material adverse impact on the financial condition, profitability and share price of the Group.</p>

The Strategic Report, which includes the Chairman's statement, the Chief Executive's review, Our business model and strategy, the Group financial review and the Principal risks and uncertainties, was approved by the Board and signed on its behalf by:



Carl Cavers

23 April 2018

## BOARD OF DIRECTORS



**Ken Beaty (49)**  
Non-Executive  
Chairman of the Board  
**Committee membership**  
Audit Committee  
Nomination Committee

Ken works as a Chairman and Non-Executive Director following a 20-year private equity career. He has extensive experience working with high growth private equity backed and entrepreneurial businesses. Ken has been a Non-Executive Director of the Group since December 2014. Ken is the director nominated to the Board by Perwyn Bidco (UK) Limited under the terms of the Relationship Agreement put in place at the time of Admission.



**Carl Cavers (50)**  
Chief Executive Officer

Carl co-founded Sumo Digital in 2003, which quickly became a multi-project, multi-genre solution provider, developing award winning titles for every gaming platform. Having steered the business through a trade sale to Foundation 9, Carl led an MBO with NorthEdge Capital in 2014, followed by a SBO backed by Perwyn in 2016 and the acquisition of Atomhawk, a visual design company, in 2017. Sumo Group plc floated on AIM in December 2017. Carl received TIGA's coveted Most Outstanding Individual Award in 2015 and he holds an honorary doctorate from Sheffield Hallam University.



**David Wilton (55)**  
Chief Financial Officer

David was appointed Chief Financial Officer in September 2017. He is a 'Big Four' qualified chartered accountant with approximately 30 years' post-qualification experience as Finance Director, Non-Executive Director and consultant, having previously worked in mergers and acquisitions with Rothschild. David has experience of plc and private equity roles, including as Group Finance Director of WYG plc, and as Non-Executive Director and Chair of the Audit Committee of Sweett Group plc.



**Ian Livingstone CBE (67)**  
Independent  
Non-Executive Director  
**Committee membership**  
Remuneration Committee  
(Chair)  
Audit Committee  
Nomination Committee

Ian is one of the founding fathers of the UK gaming industry, with over 40 years' of games industry experience. He is former Executive Chairman of Eidos plc, where he was behind major franchises such as Tomb Raider. Ian also co-founded the games company Games Workshop in 1975, responsible for the successful Warhammer franchise, and co-created the Fighting Fantasy gamebook series in 1982. In 2002, Ian won the BAFTA Interactive Special Award for outstanding contribution to the video games industry, and was appointed CBE in 2013. Ian has been a Non-Executive Director of the Group since December 2015.



**Michael Sherwin (59)**  
Independent  
Non-Executive Director  
**Committee membership**  
Audit Committee (Chair)  
Remuneration Committee  
Nomination Committee

Michael is currently Chief Financial Officer of Vertu Motors plc and has extensive retail, transactional and public market experience. From 1999 to 2008, Michael was Group Finance Director of Games Workshop PLC, a FTSE listed consumer goods company. Michael is a qualified chartered accountant having trained with Price Waterhouse, where he held positions in the UK, Paris and Sydney. He was also Non-Executive Director of Plusnet plc, an AIM listed internet business, from 2004 to 2007. Michael was appointed to the Board in December 2017.

## OPERATING BOARD



**Carl Cavers (50)**  
Chief Executive Officer



**David Wilton (55)**  
Chief Financial Officer



**Cumron Ashtiani (40)**  
Founder and Managing  
Director  
Atomhawk

Ron founded Atomhawk in 2009, having previously worked as a creative leader and director for major games and entertainment companies. He has played a key role in the running of several studios, as well as having been involved in the development and creative direction of a vast range of high profile projects spanning games, digital media and film. At Atomhawk, Ron is responsible for top line creative leadership, strategy and new business development.



**Paul Porter (46)**  
Co-founder  
and Managing Director  
Sumo Digital

Paul has over 25 years' experience in developing video games. Starting out as a self-taught programmer, his first game was released in 1991. He joined Gremlin Interactive as Head of Core Technology in 1997, before co-founding Sumo Digital in 2003. As Managing Director, Paul has overall responsibility for development across Sumo Digital.



**Karen McLoughlin (46)**  
Group Director of HR

Karen began her career in the video games industry in 1996 at Gremlin Interactive, where she gained extensive experience in a gaming and software development environment. In 2005, as Sumo Digital was expanding, Karen joined as Office Manager in Sheffield. In 2011, she was promoted to HR Manager for Sumo Digital, reporting to the VP of HR for Foundation 9. Karen is a CIPD qualified HR professional and has been instrumental in the growth of the Sumo Group. Having worked alongside some of the staff and management spanning a period of almost 20 years, she is a highly respected and trusted member of the leadership team.



**Steven Webb (55)**  
General Counsel  
and Company Secretary

Steven was appointed as General Counsel and Company Secretary in 2017. After qualifying as a solicitor with Norton Rose, he spent a number of years in private practice specialising in corporate and commercial matters, before moving to his first company secretary role with Kalon Group plc in 1994. He became Company Secretary and General Counsel of Yorkshire Water plc (later Kelda Group plc) in 1997 and most recently spent 16 years in the same role at Premier Farnell plc, during which time he was involved in multiple acquisitions and disposals, including in the UK, US, Germany, China and Eastern Europe. Steven is also a member (and Deputy Chairman) of the Board of Governors of Leeds Beckett University.

## AUDIT COMMITTEE REPORT

### Dear shareholder,

I am pleased to present the Audit Committee Report for the year ended 31 December 2017. As the Committee was only established shortly before the year end, and only held its first meeting during early 2018, this report necessarily includes some actions taken since the year end or planned to occur during 2018.

The Audit Committee is chaired by myself as an independent Non-Executive Director and consists of all three Non-Executive Directors.

### Responsibilities

The Audit Committee has primary responsibility for reviewing the effectiveness of the Group's internal controls, monitoring the integrity of the Group's financial statements and external announcements of the Group's results and approving the appointment and remuneration of the Group's external auditor, reviewing their reports and ensuring their independence is maintained, in all cases having due regard to the interests of shareholders. The Audit Committee reports to the Board on all these matters and meets at least three times a year.

### Experience

I am a qualified chartered accountant and the Chief Financial Officer of another listed company and my Committee colleagues have considerable experience in senior financial or operational roles.

### External audit

The Audit Committee approves the appointment and remuneration of the Group's external auditor and satisfies itself that they maintain their independence regardless of any non-audit work performed by them. The Group has adopted a formal policy governing the performance of non-audit work by the auditor. The auditor is permitted to provide non-audit services which are not, and are not perceived to be, in conflict with auditor independence, providing it has the skill, competence and integrity to carry out the work and is considered to be the most appropriate to undertake such work in the best interests of the Group. All assignments are monitored by the Committee.

The respective responsibilities of the Directors and external auditor in connection with the Group financial statements are explained in the Statement of Directors' Responsibilities on page 32 and the Auditor's Report on pages 33 to 36. Details of services provided by and fees payable to the auditor are shown in note 10 of the Group financial statements.

Whilst the Audit Committee has not adopted a formal policy in respect of the rotation of the external auditor, one of its principal duties is to make recommendations to the Board in relation to the appointment of the external auditor. Various factors would be taken into account by the Committee in this respect, including the quality of the reports provided to the Committee and the level of understanding of the Group's business.

### Internal control and risk management

The Audit Committee supports the Board in reviewing the risk management methodology and the effectiveness of internal control. Regular internal control updates will be provided to the Audit Committee. These will include reviewing and updating the risk register and assessing the mitigating actions in place and updates to action plans agreed in previous meetings.

### Internal audit

The Group does not currently have an internal audit function but acknowledges the importance that internal audit can play in establishing an effective control environment. A formal Internal Audit function, including either internal or outsourced external support, is being considered and will be put in place during the 2018 financial year.

### Significant issues considered in relation to the financial statements

At the request of the Board, the Audit Committee considered whether the 2017 Annual Report was fair, balanced and understandable and whether it provided the necessary information for Shareholders to assess the Group's performance, business model and strategy. The Committee was satisfied that, taken as a whole, the 2017 Annual Report is fair, balanced and understandable.

The Audit Committee assesses whether suitable accounting policies have been adopted and whether appropriate estimates and judgements have been made by management. The Committee also reviews accounting papers prepared by management, and reviews reports by the external auditor. The specific areas reviewed by the Committee in respect of the year were:

- appropriateness of the merger accounting principles in the preparation of the Group financial statements,
- appropriateness of the treatment of costs in relation to the IPO and the presentation in the Group financial statements,
- appropriateness of the disclosure in the financial statements, given the first period as a listed Group,
- the recognition of contract revenue,
- the useful economic lives of intangible assets,
- the accounting treatment of Video Games Tax Relief Credits.



**Michael Sherwin**

Chair of the Audit Committee

23 April 2018

The Board is committed to effective corporate governance as the basis for delivering long-term value growth and for meeting shareholder expectations for proper leadership and oversight of the business.

Under the rules of AIM, the Group is not required to comply with the UK Corporate Governance Code 2016, but the Board has chosen to apply the Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 published by the Quoted Companies Alliance (the 'QCA Code'), as far as it considers appropriate for a company of the Company's size and nature.

The Company and its current Board and Board Committees were constituted in December 2017 as part of the preparation for admission to AIM and therefore this report relates to the few days to the end of 2017 and makes reference to actions planned for the current year and therefore does not specifically disclose non-compliance with the adopted code.

### Board composition and operation

The Board comprises three Non-Executive and two Executive Directors. The Board has an annual schedule of meetings and, to enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. In addition, the Company's Articles of Association allow Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Board will conduct an appraisal of its own performance and that of each Director during the 2018 financial year. This is expected to include the use of prescribed questionnaires that are completed by all Directors. The results will be reviewed, and individual feedback will be given by an independent Non-Executive Director in respect of assessments of the Chairman, and by the Chairman in respect of assessments of each of the other Directors and the Board as a whole.

### Board Committees

#### Audit Committee

The Audit Committee is chaired by Michael Sherwin and has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Group is properly measured and reported on and reviewing reports from the Group's auditor, in all cases having due regard to the interests of Shareholders. The Audit Committee reports to the Board on all these matters and will meet at least three times a year. The Audit Committee has terms of reference in place which have been formally approved by the Board. Ken Beaty and Ian Livingstone are the other members of the Audit Committee. Further information is set out in the Audit Committee Report on page 22.

#### Remuneration Committee

The Remuneration Committee is chaired by Ian Livingstone and determines the terms and conditions of service of the Executive Directors and other senior management, including their remuneration and annual and long-term incentive arrangements. The Remuneration Committee meets at least twice a year and has terms of reference in place that have been approved by the Board. Michael Sherwin is the other member of the Remuneration Committee. Further information is set out in the Directors' Remuneration Report on pages 25 to 29.

#### Nomination Committee

The Nomination Committee is chaired by Ken Beaty, and its primary purpose is to identify and nominate, for the approval of the Board, candidates to fill board vacancies as and when they arise. The Nomination Committee will meet as required, and at least once a year. Michael Sherwin and Ian Livingstone are the other members of the Nomination Committee. The Committee has terms of reference in place which have been formally approved by the Board.

The Committee also reviews the structure, size, diversity and composition of the Board and makes recommendations concerning the annual re-appointment of any Non-Executive Director and the identification and nomination of new Directors. The Committee will retain external search and selection consultants as appropriate.

In respect of new appointments, following an evaluation, it will prepare, in conjunction with the Board, a detailed job description of the role with a candidate profile and the capabilities required for a particular appointment. In drafting this, consideration will be given to the existing experience, knowledge and background of board members as well as the strategic and business objectives of the Group. It determines the scope of the role of a new Director, the skills and time commitment required and is actively involved in the recruitment process.

On appointment, new Directors will receive a full, formal and tailored induction. Training sessions are organised during the year for the Board on matters considered relevant to the discharge of the Directors' duties and Directors may take additional training where necessary as part of their continuing development at the expense of the Company.

## CORPORATE GOVERNANCE CONTINUED

### Attendance at meetings

In future years, the Company intends to report the number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and of each of the Board Committees, together with a record of the attendance of the current Directors who are their respective members. During 2017 all meetings of the Board that took place were specifically in respect of preparations for the admission of the Company to AIM and there were no meetings of any of the Board Committees.

### Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control, to provide it with reasonable assurance regarding the reliability of financial information that is used within the business and for publication and the safeguarding of assets. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss. Some examples of internal controls operated by the Group are given below.

During the year the Group's financial information, system of controls, risks and risk management were subject to significant scrutiny by a number of professional advisers as part of the process for admission to AIM. This included:

- The preparation of a Financial Prospects and Procedures Memorandum which included a full assessment of internal controls;
- A report on the Group's financial history and on its unaudited interim financial information by reporting accountants;
- Legal, commercial and IT due diligence reports;
- The preparation and issue of the Admission Document following a rigorous verification process.

The Financial Prospects and Procedures Memorandum included a number of recommendations, most of which were implemented prior to Admission. The few remaining recommendations have now been, or are very nearly completed.

The Board has an ongoing process for identifying, evaluating and managing the Group's significant risks. The process includes:

- Preparation and approval of budgets and regular monitoring of actual performance against budget;
- Preparation of monthly consolidated management accounts;
- Preparation of updated profitability and cash flow forecasts to reflect actual performance and revised outlook as the year progresses, including an assessment of the adequacy of funds for the foreseeable future;
- Monitoring the status of projects in development and future development opportunities.

During the year the Board adopted a risk management framework and a risk register and both will be kept under regular review by the Audit Committee.

The Group will continue to take steps to embed internal control and risk management further into the operations of the business and to deal with areas for improvement which come to the attention of management and the Board.

### Shareholders

The Chairman and the other Non-Executive Directors will always make themselves available to meet with shareholders. Each AGM is a particular opportunity for this. In addition, the Executive Directors are in frequent contact with the Company's shareholders and brief the Board on shareholder issues. The Board believes that the disclosures set out on pages 02 to 19 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Share capital structure

Details of the Company's share capital can be found in the Directors' Report and in note 24 of the Group financial statements.

### Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Group financial review, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities. Financial projections have been prepared to December 2019 which show positive earnings and cash flow generation and project compliance with banking covenants at each testing date. Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis of accounting in preparing the annual Group financial statements.

### Forward-looking statements

This Annual Report contains forward-looking statements that involve risk and uncertainties. The Group's actual results could differ materially from those estimated or anticipated in the forward-looking statements as a result of many factors. Information contained in this Annual Report and Accounts relating to the Company should not be relied upon as a guide to future performance.

### Annual General Meeting

The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies this Annual Report.

**Dear shareholder,**

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017.

I chair the Remuneration Committee as an Independent Non-Executive Director and Michael Sherwin, who is also an independent Non-Executive Director is the other member of the Committee. We are supported by Steven Webb as Company Secretary and, since the end of the year, the Committee has appointed PwC to provide it with external remuneration advice. During the financial year, PwC advised the Company on all aspects of remuneration policy for Executive Directors and the associated drafting for the Admission Document. PwC also provided advice to the Company in relation to the drafting and implementation of Executive and all-employee incentives. The Remuneration Committee is satisfied that the advice received was objective and independent. PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees. PwC received a fee of £59,750 for their advice during the year to 31 December 2017.

The aim of this report is to provide shareholders with information to understand our remuneration strategy and its linkage to the Group's financial performance. As this is our first Annual Report, there are some elements of remuneration reporting, such as multi-year share price performance against a comparator group, that are not possible to include. Our intention is to add these in future years once they become meaningful for shareholders.

In preparing the report, we have taken account of the guidance issued by the Quoted Companies Alliance, as the Company has chosen to apply the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the QCA, so far as the Directors consider appropriate for a company of the Company's size and nature.

**Responsibilities**

The Committee's terms of reference are to review the performance of the Executive Directors and of the members of the Operating Board and determine their terms and conditions of service, including their short and long-term rewards, having due regard to the interests of shareholders and to any risks that might arise to the Company. In doing so, the Committee will have regard to the position of employees across the Group. The Remuneration Committee will meet at least twice a year.

**Our performance in 2017**

The successful IPO was a major achievement during the year and this signalled the achievement of several performance objectives which had been set under the Group's previous ownership structure for the purposes of annual bonuses. The design and detail of the post-IPO remuneration packages for the Executive Directors and Operating Board members reflect the needs of the Company as a member of AIM and the growth strategy described in the Admission Document.

**Key pay out-turns for 2017**

Each of the Executive Directors was entitled to receive an accrued bonus on their pre-IPO terms equating to 50% of annual salary. In the case of David Wilton, this was based on a pro-rated amount to reflect that he was not with the Group for the full year.

**Looking forward to 2018**

The key terms of the remuneration policy are set out on pages 26 to 28 and the key components of Executive packages are summarised as follows:

- Base salary, pension and benefits positioned competitively to the market in which the Company operates.
- Annual bonus – an annual bonus with performance criteria based on a mixture of profit-based and personal objectives as set by the Remuneration Committee.
- Long-term incentive plan ('LTIP') – share-based awards with three-year performance criteria based on EPS growth and total shareholder return over the performance period, with a further one year holding period for 50% of the grant.

I do hope that this Report clearly explains our approach to remuneration and enables you to appreciate how it underpins our business growth strategy.



**Ian Livingstone**

Chair of the Remuneration Committee

23 April 2018

## REMUNERATION POLICY

As a company listed on AIM, the Company is not required to provide all of the information included in this Report. However, in the interests of transparency this has been included as a voluntary disclosure. The Report is unaudited, unless otherwise stated.

Our overall remuneration policy is to:

Be consistent and principled	<ul style="list-style-type: none"><li>• maintain a consistent Executive compensation strategy, based on clear principles and objectives</li></ul>
Link pay to strategy	<ul style="list-style-type: none"><li>• support the Company's strategy and its execution</li></ul>
Align with shareholders' interests	<ul style="list-style-type: none"><li>• closely align executive reward with shareholder returns</li></ul>
Be competitive	<ul style="list-style-type: none"><li>• ensure that the organisation can attract, motivate and retain high-calibre talent, to enable it to compete successfully in an international market</li></ul>
Link pay to performance	<ul style="list-style-type: none"><li>• provide the opportunity for executives and other colleagues to receive competitive rewards for performance, aligned to the sustained success of the overall Group, paying what is commensurate with achieving these aims</li></ul>
Reflect the internal landscape	<ul style="list-style-type: none"><li>• operate broadly-based incentives to recognise talented performers throughout the Group and take account of pay and conditions for all employees in the Group when setting Executive remuneration</li><li>• the Committee has regard to pay structures across the wider Group when setting the remuneration policy for Executive Directors. In particular the general basic salary increase for the broader workforce is considered when determining the annual salary review for the Executive Directors. While participation in the Group's long-term incentive plans is limited to those employees considered to have the greatest potential to influence overall levels of performance, the Group will encourage equity ownership at all levels through our use of a tax-advantaged All Employee Share Incentive Plan</li></ul>
And be clear	<ul style="list-style-type: none"><li>• be easy to understand and supported by clear communication</li></ul>

It has these elements:

Fixed	Salary
	Benefits
	Pension or pension allowance
Variable based on performance	Annual bonus
	Long-term incentive plan

The table below provides more detail on the key features of our remuneration policy:

Element	Policy	Purpose and link to strategy
<b>Base salary</b>	<p>Positioned competitively in line with the market.</p> <p>For 2018, Executive Directors' salaries will be as follows:</p> <ul style="list-style-type: none"> <li>• CEO £240,000</li> <li>• CFO £177,000</li> </ul>	To provide an appropriate level of fixed cash income to recruit and retain talent through the provision of competitively positioned base salaries. It is critical to the success of the business that it can recruit talented individuals at all levels.
<b>Discretionary annual bonus</b>	<p>Maximum opportunity for Executive Directors is 100% of base salary.</p> <ul style="list-style-type: none"> <li>• Performance is measured over one financial year.</li> <li>• Weightings and targets are reviewed and set at the start of each financial year.</li> <li>• For 2018, 75% of the bonus will be based on Adjusted EBITDA performance with the remaining 25% based on the achievement of strategic objectives.</li> <li>• Malus and clawback provisions apply in the case of: <ul style="list-style-type: none"> <li>- a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company; or</li> <li>- action or conduct, which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct.</li> </ul> </li> </ul>	<p>Designed to motivate Executive Directors to focus on annual goals and milestones which are consistent with the Group's longer-term strategic aims. Forms part of the significant weighting of overall remuneration to variable elements with stretching performance measures.</p> <p>Payment is dependent on achieving profitable growth and strategic objectives that are essential to deliver the strategy.</p>
<b>Long-term Incentive Plan ('LTIP')</b>	<ul style="list-style-type: none"> <li>• As disclosed in the Admission Document, a nil-cost option was granted to the CFO on Admission over 500,000 shares and becomes exercisable in June 2019, subject to remaining in employment</li> <li>• In accordance with the intention referred to in the Admission Document, awards under the LTIP were also granted to the CEO and CFO in March 2018 under which: <ul style="list-style-type: none"> <li>- Performance against earnings per share and total shareholder return targets is measured over three years.</li> <li>- 50% of any part of the awards that vest is exercisable once the performance has been confirmed, with the balance not exercisable for a further year.</li> </ul> </li> <li>• Malus and clawback provisions apply in the case of: <ul style="list-style-type: none"> <li>- a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company; or</li> <li>- action or conduct, which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct.</li> </ul> </li> <li>• The Remuneration Committee will consider annually whether further awards will be made to Executive Directors.</li> </ul>	<p>To ensure that the CFO, who had joined the Company shortly before Admission, has a significant interest in the Company's performance aligned with shareholders.</p> <p>Aligns the interests of the Executive Directors with shareholders over the long-term.</p> <p>Incentivises delivery of stretching financial targets that will provide value to shareholders.</p> <p>Acts as a retention mechanism for key talent.</p> <p>Further element of variable pay with stretching performance measures.</p> <p>Additional period post-vesting acts as a retention mechanism.</p>

## REMUNERATION POLICY CONTINUED

The table below provides more detail on the key features of our remuneration policy:

Element	Policy	Purpose and link to strategy
<b>Pension</b>	<ul style="list-style-type: none"> <li>Both Executive Directors are entitled to receive pension contributions from the Company which are equal to 5% of the base salary delivered as: <ul style="list-style-type: none"> <li>Money purchase benefits; or</li> <li>A cash equivalent</li> </ul> </li> </ul> <p>Not included as salary for the purposes of annual bonus or LTIP awards.</p>	To recruit and retain the right people to deliver the strategy.
<b>Benefits</b>	The Executives are entitled to a standard Director benefits package including a car allowance, private medical expenses insurance and life assurance cover.	To recruit and retain the right people to deliver the strategy.
<b>Termination</b>	<p>Information on the service contracts for Executive Directors and letters of appointment for Non-Executive Directors is provided below.</p> <p>On a termination, the Company would be obliged to meet its contractual obligations, but would apply a robust approach to the relevant individual mitigating any losses.</p>	Honour contractual commitments while not paying more than is necessary.

### Recruitment remuneration arrangements

When hiring a new Executive Director, the Committee will set the director's ongoing remuneration in a manner consistent with the policy described above. To facilitate the hiring of candidates of the appropriate calibre required, the Committee may make an award to 'buy-out' variable remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including the form of award, any performance conditions and the time over which the award would have vested. Recruitment awards will normally be liable to forfeiture or 'clawback' on early departure.

Appropriate costs and support will be covered if the recruitment requires relocation of the individual.

### Communication with Shareholders

The Remuneration Committee is committed to an ongoing dialogue with shareholders and will seek the views of significant shareholders when formulating and implementing any changes to the remuneration policy, including when any major changes are being made to remuneration arrangements. The Remuneration Committee Chair will be available to answer questions from shareholders regarding remuneration at the Company's Annual General Meeting.

### Executive Director contracts and loss of office payments

Both Executive Directors entered into service agreements on 15 December 2017, which became effective upon Admission. The agreements require a notice period of one year from the Company and from the Executive. It is the Committee's intention that any future service contracts will be subject to similar notice periods.

Other than payment of salary and benefits in lieu of notice, the Directors' service agreements and letters of appointment do not provide for benefits on termination of employment.

Outstanding awards made under the LTIP would normally lapse on an Executive leaving employment. However, there are specific rules of the plan dealing with the treatment of awards on leaving. In summary, if an Executive were a 'good leaver', he or she may be entitled to retain his or her award, although, for unvested awards:

- the number of shares under an award may be reduced to reflect any unexpired performance period (referred to as pro rating); and
- the award would normally remain subject to any applicable performance condition.

A 'good leaver' is someone who leaves by reason of injury, disability, redundancy, on the sale or transfer out of the Group of his or her employing business, on retirement with the agreement of the Committee or in other special circumstances at the Committee's discretion. (Someone dying in service would also be a good leaver, with their personal representatives assuming their rights in respect of their awards).

### Terms and conditions for Non-Executive Directors

Non-Executive Directors do not have service contracts but appointment letters setting out their terms of appointment. Ken Beaty and Ian Livingstone were appointed on 15 December 2017 and Michael Sherwin on 21 December 2017. The appointments may be terminated on one month's notice by either party.

The Board considers that Michael Sherwin and Ian Livingstone are independent Non-Executive Directors.

The Non-Executive Directors do not receive any benefits in addition to their fees, nor are they eligible to participate in any pension, bonus or share-based incentive arrangements.

## Directors' emoluments – audited information

Name of Director	Fees/basic salary (2016) £'000	Benefits (2016) £'000	Bonus (2016) £'000	LTIP £'000	Pension (2016) £'000	2017 total £'000	2016 4 month total £'000
C Cavers	189 (50)	18 (6)	101 (8)	–	9 (3)	<b>317</b>	67
D Wilton <sup>1,2</sup>	54 (–)	4 (–)	44 (–)	–	1 (–)	<b>103</b>	–
<b>Non-Executive</b>							
K Beaty	98 (21)	–	–	–	–	<b>98</b>	21
I Livingstone	55 (17)	–	–	–	–	<b>55</b>	17
M Sherwin <sup>3</sup>	7 (–)	–	–	–	–	<b>7</b>	–
<b>Aggregate emoluments</b>	<b>403 (88)</b>	<b>22 (6)</b>	<b>145 (8)</b>	–	<b>10 (3)</b>	<b>580</b>	<b>105</b>

1 Part year only – appointed as a Director of Group companies in September 2017.

2 Details of a nil-cost option granted to David Wilton during the year appear below.

3 Part year only – appointed December 2017.

## Long-term incentive plan ('LTIP')

The table below summarises the awards made to Executive Directors under the plan:

## Nil-cost with no performance conditions outstanding as at 31 December 2017

	Award date <sup>1</sup>	Share price at date of grant	No of shares vesting at maximum	Face value of shares vesting at maximum	Vesting date
D Wilton	21 December 2017	100p	500,000	£500,000	21 June 2019

Nil-cost awards with performance conditions granted since 31 December 2017<sup>2</sup>

	Award date	Share price at date of grant	No of shares vesting at maximum	Face value of shares vesting at maximum £ <sup>3</sup>	EPS/annualised TSR for maximum vesting <sup>4</sup>	No of shares vesting at threshold (8.75 of maximum%)	EPS/annualised TSR for threshold vesting	Performance period ending
C Cavers	9 March 2018	106.5p	1,200,000	1,200,000	20.65p/30%	105,000	17.83p/20%	31 December 2020 <sup>2</sup>
D Wilton	9 March 2018	106.5p	885,000	885,000	20.65p/30%	77,437	17.83p/20%	31 December 2020 <sup>2</sup>

1 The IPO award referred to in the Admission Document.

2 The further awards referred to in the Admission Document.

3 Using the value of £1 per share used to determine the number of shares awarded.

4 EPS target based on cumulative adjusted EPS (as defined in the LTIP Rules, which excludes share-based payment costs and amortisation) for the years ending 31 December 2018, 2019 and 2020. TSR target based on increase in return between the average over 30 days prior to 1 January 2018 and the average for the calendar month of December 2020.

There is no charge in the accounts for any share-based payments, as all awards made in the year were so close to the year end.

## DIRECTORS' REPORT

for the year ended 31 December 2017

The Directors present their report together with the audited Group financial statements of the Parent Company ('the Company') and the Group for the year ended 31 December 2017.

### Business review and future developments

A review of the performance of the Group during the year, including principal risks and uncertainties, key performance indicators and comments on future developments, is given in the Strategic Report.

### Results and dividends

The Group recorded revenue in the year of £30.6m (Audited 2016: £8.6m and unaudited pro forma 2016 £24.1m) and loss after tax of £23.4m (Audited 2016: £1.4m and unaudited pro forma 2016 £1.2m).

No dividends have been paid or are proposed.

### Events after the balance sheet date

On 1 January 2018, Sumo Digital Limited took on the Newcastle studio of CCP Games under an asset purchase agreement for nominal consideration. All 34 staff working at the studio became employees of the Group and the lease for the property in which the studio was located was assigned to Sumo Digital Limited.

### Financial risk management

Information relating to the principal risks and uncertainties of the Group have been included within the Strategic Report. Further information relating to the financial risks of the Group have been included within note 23, Financial risk management.

### Directors and their interests

The Directors of the Company who were in office during the year and up to the date of signing the Group financial statements were:

- Ken Beaty appointed 20 November 2017
- Carl Cavers appointed 20 November 2017
- David Wilton appointed 20 November 2017
- Ian Livingstone appointed 20 November 2017
- Michael Sherwin appointed 21 December 2017

All the Directors are subject to election by shareholders at the forthcoming AGM following their appointment during the year.

The Directors who held office during the year and as at 31 December 2017 had the following interests in the Ordinary Shares of the Company:

Name of Director	31 December 2017 Number
Carl Cavers <sup>1</sup>	6,601,907
David Wilton <sup>2</sup>	50,000
Ken Beaty	1,463,639
Ian Livingstone	2,153,287
Michael Sherwin	20,000

1 The interests of Carl Cavers in Ordinary Shares set out above include his interests in 6,601,907 Ordinary Shares held by Aghoco 1337 Limited (as trustee of the Sumo Group plc Employee Benefit Trust).

2 The interests of David Wilton in Ordinary Shares set out above include his interests in 19,000 Ordinary Shares held in the name of his wife.

In addition to the interests in Ordinary Shares shown above, the Group operates a long-term incentive plan ('the LTIP') for senior executives, under which awards may be granted over shares in the Company. The maximum number of Ordinary Shares which could be issued to Directors in the future under such awards at 31 December 2017 is shown below:

Name of Director	Number
David Wilton	500,000

Between 31 December 2017 and the date of signing the Group financial statements the interests of Carl Cavers and David Wilton changed as a result of the LTIP share awards made on 9 March 2018 and detailed in the Directors' Remuneration Report.

The market price of the Company's shares at the end of the financial year was 115p (On IPO date 21 December 2017: 100.0p) and the range of market prices during the year was between 114p and 115p.

Further details on related party transactions with Directors are provided in note 25 of the Group financial statements.

### Directors' indemnities and insurance

The Company has made qualifying third party indemnity provisions for the benefit of the Directors, which were in force from their dates of appointment and up to the date of this report.

## DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2017

### Significant shareholdings

As at 23 April 2018, the Company has been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, or was made aware through the IPO process of the following notifiable interests in 3% or more of its voting rights:

Perwyn Bidco (UK) Limited	41,170,961	27.5 %
Aghoco 1337 Limited (as Trustee of the Sumo Group plc Employee Benefit Trust)	21,235,933	14.2%
BlackRock Investment Management (UK) Limited	16,124,718	10.8%
Liontrust Investment Partners LLP	8,000,000	5.4%
Schroder Investment Management	6,500,000	4.3%

### Employees

The Group regularly provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in its performance.

The Group recognises its responsibility to employ disabled persons in suitable employment and gives full and fair consideration to such persons, including any employee who becomes disabled, having regard to their particular aptitudes and abilities. Where practicable, disabled employees are treated equally with all other employees in respect of their eligibility for training, career development and promotion.

### Share capital and voting

The Company has one class of equity share, namely 0.01p Ordinary Shares. The shares have equal voting rights and there are no special rights or restrictions attaching to any of them or their transfer to other persons. The rights and obligations attaching to these shares are governed by the Companies Act 2006 and the Company's Articles.

### Appointment and replacement of Directors and changes to constitution

Rules governing the appointment and replacement of Directors, and those relating to the amendment of the Company's Articles of Association, are contained within those Articles of Association, a copy of which is located on the Company's website ([www.sumogroupplc.com](http://www.sumogroupplc.com)).

### Notice of Annual General Meeting

A Notice of AGM, with explanatory notes, accompanies this Annual Report.

### Corporate governance

The Group's statement on Corporate Governance can be found in the Corporate Governance section of this Annual Report which is incorporated by reference and forms part of this Directors' Report.

### Disclosure of information to auditor

The Directors of the Company at the date of the approval of this report confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

### Independent auditor

The auditor, Grant Thornton UK LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the AGM.

By order of the Board



### Steven Webb

Company Secretary

### Sumo Group plc

Unit 32 Jessops Riverside  
Brightside Lane  
Sheffield  
S9 2RX

Registered number: 11071913

23 April 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2017

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements are required to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.



**Steven Webb**

Company Secretary

**Sumo Group plc**

Unit 32 Jessops Riverside  
Brightside Lane  
Sheffield  
S9 2RX

Registered number: 11071913

23 April 2018

# INDEPENDENT AUDITOR'S REPORT

to the members of Sumo Group plc

## Opinion

### Our opinion on the financial statements is unmodified

We have audited the financial statements of Sumo Group plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the Company balance sheet, the Company 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 the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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. We are independent of the Group and 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 as applied to listed entities, 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.

## Who we are reporting to

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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

## Overview of our audit approach

- Overall materiality: £333,000, which represents approximately 4% of the Group's adjusted EBITDA;
- Key Audit Matters were identified as the recognition of contract revenue, the useful economic lives of intangible assets, and the accounting treatment of Video Games Tax Relief Credits; and
- A full scope audit was performed of the financial statements of the Company, and all components determined to be significant. Full scope procedures were performed for entities comprising 100% of total revenues. A targeted approach was adopted for components not considered to be significant.

## INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Sumo Group plc

### Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
<p><b>The recognition of contract revenue</b></p> <p>There is a risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Specifically in respect of the Group's contractual arrangements with clients there is a risk that revenue is misstated as each contract's outcome and stage of completion requires significant management judgement.</p> <p>We therefore identified the recognition of contract revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"><li>Assessing whether the Group's revenue recognition accounting policy is in accordance with International Accounting Standard (IAS) 11 'Construction Contracts';</li><li>Comparing a sample of contract revenue to the Group's accounting policy to verify it was in line with the policy, and challenging the percentage of completion assessment made by management;</li><li>Selecting a sample of contracts and agreeing to original signed documentation to confirm that a client agreement exists; and</li><li>Agreeing a sample of revenue transactions to invoice and client confirmations.</li></ul> <p>The Group's accounting policy on the recognition of contract revenue is shown in note 2 to the financial statements and related disclosures are included in note 4.</p>
<p><b>The useful economic lives of intangible assets</b></p> <p>In accordance with (IAS) 38 'Intangible Assets', management have performed a review of the amortisation periods of the Group's intangible assets. This review concluded that it would be appropriate to reduce the useful economic lives of customer contracts and customer relationships. This constitutes a change in accounting estimate, resulting in an increased amortisation charge for the year.</p> <p>The determination of intangible assets' useful economic lives is often a matter of significant judgement, as was the case in this situation.</p> <p>We therefore identified the useful economic lives of intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"><li>Assessing whether the Group's accounting policy for the amortisation of intangible assets is in line with International Accounting Standard (IAS) 38 'Intangible Assets';</li><li>Understanding the justification provided by management for the revised useful economic lives, the key assumptions underpinning the assessment, agreeing to supporting documentation where relevant, and challenging the useful lives management have arrived at, based on our understanding of the Group's business operations; and</li><li>Re-performing the calculation of the amortisation charge, and investigating any differences identified.</li></ul> <p>The Group's accounting policy on intangible assets is shown in note 2 to the financial statements and related disclosures are included in note 13.</p>

Key Audit Matter – Group	How the matter was addressed in the audit – Group	
<b>The accounting treatment of Video Games Tax Relief Credits</b> The directors are of the opinion that Video Games Tax Relief Credits (VGTCs) are most appropriately recognised as a deduction from direct cost, rather than an element of taxation within the consolidated income statement. VGTCs are material to the Group financial statements and key to the financial structuring of the Group's games development contracts.	Our audit work included, but was not restricted to: <ul style="list-style-type: none"><li>Understanding the technical arguments relating to the accounting treatment of VGTCs;</li><li>Assessing and challenging the appropriateness of management's inclusion of VGTCs as a deduction from direct costs in the light of the nature of the Group's business;</li><li>Assessing the appropriateness of the Group's accounting policy relating to VGTCs to ensure disclosures are in line with relevant accounting standards; and</li><li>Using tax specialists to perform an assessment of the treatment of qualifying costs within the VGTC computations.</li></ul>	
There is currently diversity in practice regarding the financial reporting of VGTCs. As this is a tax credit, it may be expected that the accounting treatment is set out in IAS 12 'Income Taxes'. However, a key judgement is whether VGTCs constitute investment tax credits, which are not defined within IFRS yet are specifically excluded from the scope of IAS 12 'Income Taxes' and IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.	The Group's accounting policy for VGTCs is shown in note 2 to the financial statements and related disclosures are included in note 3 and note 6.	
We therefore identified the accounting treatment of VGTCs as one of the matters of most significance in the audit of the Group financial statements.	<b>Key observations</b> Based on our audit work, we have found that the accounting treatment for VGTCs is in accordance with the Group's accounting policies and in line with the requirements of relevant accounting standards.	
No Key Audit Matters were identified that are unique to the Company.		
<b>Our application of materiality</b> We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.		
Materiality was determined as follows:		
Materiality measure	Group	Company
Financial statements as a whole	£333,000 which is approximately 4% of adjusted EBITDA. This benchmark is considered the most appropriate because, whilst the Group is focused on delivering a profit, it has incurred disproportionate interest and amortisation charges during the year having spent over 11 months of the year as a Private Equity backed operation.  The Group was formed in December 2017, and therefore a comparison to prior year materiality is not relevant.	£300,000 which is based on 1% of total assets, capped to 90% of Group materiality. This benchmark is considered the most appropriate because the Company acts as a holding company and does not trade.  The Company was incorporated in November 2017, and therefore a comparison to prior year materiality is not relevant.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	£5,000 has been used for directors' remuneration and related party transactions.	£5,000 has been used for directors' remuneration and related party transactions.
Communication of misstatements to the Audit Committee	£16,650 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£15,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

#### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. For example, significance as a percentage of the Group's total assets, revenues and profit before taxation or significance based on qualitative factors, such as specific use is or concerns over specific components;

## INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Sumo Group plc

- we performed a full scope audit of the financial statements of the Company, and all components determined to be significant based on their relative materiality to the Group and assessment of audit risk. Full scope procedures were performed for entities comprising 100% of total revenues;
- a targeted approach was adopted for components with no external revenue and not considered to be significant.

### 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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

### Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

### Matters on which we are required to report under the Companies Act 2006

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

### Matters on which we are required to report by exception

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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

### Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 32, 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 Group's and 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 Group or 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.

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



### Paul Houghton

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Sheffield

23 April 2018

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 Restated <sup>2</sup> £'000
<b>Revenue</b>	4	<b>30,612</b>	8,629
Direct costs (net)	6	(17,360)	(5,011)
<b>Gross profit</b>		<b>13,252</b>	3,618
Operating expenses		(33,191)	(3,350)
Operating expenses – exceptional	7	(2,656)	(599)
Operating expenses – total		(35,847)	(3,949)
<b>Group operating loss</b>		<b>(22,595)</b>	(331)
<b>Analysed as:</b>			
Adjusted EBITDA <sup>1</sup>		<b>8,356</b>	2,199
Amortisation	13	(27,626)	(1,721)
Depreciation	14	(669)	(210)
Exceptional items	7	(2,656)	(599)
<b>Group operating loss</b>		<b>(22,595)</b>	(331)
Net finance costs	8 & 9	(5,378)	(1,487)
<b>Loss before taxation</b>		<b>(27,973)</b>	(1,818)
Taxation	11	4,538	433
<b>Loss for the year attributable to equity shareholders</b>		<b>(23,435)</b>	(1,385)
<b>Loss per share (pence)</b>			
Basic	12	<b>(389.40)</b>	(13,205.57)
Diluted	12	<b>(389.40)</b>	(13,205.57)

1 Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure.

2 As explained in note 28, the presentation of Video Game Tax Credit has been restated and is now presented within Direct costs (net) rather than operating expenses.

The notes on pages 41 to 65 form part of these Group financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
Loss for the year attributable to equity shareholders	<b>(23,435)</b>	(1,385)
Other comprehensive income:		
Exchange differences on retranslation of foreign operations	(16)	43
Total other comprehensive (expense)/income	(16)	43
<b>Total comprehensive expense for the year</b>	<b>(23,451)</b>	(1,342)

Items in the statement above are disclosed net of tax. The notes on pages 41 to 65 form part of these Group financial statements.

# CONSOLIDATED BALANCE SHEET

as at 31 December 2017

	Note	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Goodwill and other intangible assets	13	<b>28,213</b>	53,470
Property, plant and equipment	14	<b>1,835</b>	901
Deferred tax asset	21	<b>474</b>	-
<b>Total non-current assets</b>		<b>30,522</b>	54,371
<b>Current assets</b>			
Trade and other receivables	16	<b>10,155</b>	10,101
Cash and cash equivalents	17	<b>12,424</b>	4,482
<b>Total current assets</b>		<b>22,579</b>	14,583
<b>Total assets</b>		<b>53,101</b>	68,954
<b>Current liabilities</b>			
Borrowings	19	-	4,088
Trade and other payables	18	<b>10,763</b>	7,388
Corporation tax payable		<b>1,316</b>	623
Derivative financial instruments	23	-	207
<b>Total current liabilities</b>		<b>12,079</b>	12,306
<b>Non-current liabilities</b>			
Borrowings	19	-	52,630
Deferred tax liabilities	21	-	4,963
<b>Total non-current liabilities</b>		-	57,593
<b>Total liabilities</b>		<b>12,079</b>	69,899
<b>Net assets/(liabilities)</b>		<b>41,022</b>	[945]
<b>Equity</b>			
Share capital	24	<b>1,450</b>	45
Share premium	24	<b>36,121</b>	352
Reverse acquisition reserve		<b>(60,623)</b>	-
Foreign currency translation reserve		<b>27</b>	43
Retained earnings		<b>64,047</b>	[1,385]
<b>Total equity</b>		<b>41,022</b>	[945]

The Group financial statements on pages 37 to 65 were approved by the Board of Directors on 23 April 2018 and were signed on its behalf by:



**Carl Cavers**

Director



**David Wilton**

Director

The notes on pages 41 to 65 form part of these Group financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity £'000
Loss for the period ended 31 December 2016	–	–	–	–	(1,385)	(1,385)
Exchange differences on retranslation of foreign operations	–	–	–	43	–	43
Total comprehensive income/(expense) for the period	–	–	–	43	(1,385)	(1,342)
Transactions with owners:						
Issue of share capital	45	352	–	–	–	397
	45	352	–	–	–	397
<b>Balance at 31 December 2016</b>	<b>45</b>	<b>352</b>	<b>–</b>	<b>43</b>	<b>(1,385)</b>	<b>(945)</b>
Loss for the year	–	–	–	–	(23,435)	(23,435)
Exchange differences on retranslation of foreign operations	–	–	–	(16)	–	(16)
Total comprehensive expense for the year	–	–	–	(16)	(23,435)	(23,451)
Transactions with owners:						
Issue of shares in year	1	7	–	–	–	8
Issue of shares on conversion of debt	18	28,879	–	–	–	28,897
Issue of shares pre IPO	1,065	88,867	–	–	–	89,932
Group reorganisation (note 24)	(64)	(29,238)	(60,623)	–	–	(89,925)
Capital reduction	–	(88,867)	–	–	88,867	–
Issue of shares on IPO	385	38,061	–	–	–	38,446
Expenses of the IPO	–	(1,940)	–	–	–	(1,940)
	1,405	35,769	(60,623)	–	88,867	65,418
<b>Balance at 31 December 2017</b>	<b>1,450</b>	<b>36,121</b>	<b>(60,623)</b>	<b>27</b>	<b>64,047</b>	<b>41,022</b>

The notes on pages 41 to 65 form part of these Group financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
<b>Cash flows from operating activities</b>			
Net finance costs		(5,378)	(423)
Tax paid		(475)	(120)
<b>Net cash generated from operating activities</b>		<b>3,252</b>	2,733
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	13	(120)	(54)
Purchase of property, plant and equipment	14	(1,586)	(283)
Proceeds on sale of property, plant and equipment		–	1,572
Acquisition of subsidiary – net of cash acquired	26	(2,287)	(41,535)
<b>Net cash used in investing activities</b>		<b>(3,993)</b>	(40,300)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		<b>67,358</b>	397
Transaction costs relating to the issue of shares		(1,940)	–
Proceeds of borrowings		–	60,126
Repayments of borrowings	27	(56,718)	(17,499)
Transaction costs related to borrowings		–	(975)
<b>Net cash generated from financing activities</b>		<b>8,700</b>	42,049
<b>Net increase in cash and cash equivalents</b>		<b>7,959</b>	4,482
Cash and cash equivalents at the beginning of the year		<b>4,482</b>	–
Foreign exchange		(17)	–
<b>Cash and cash equivalents at the end of the year</b>		<b>12,424</b>	4,482

The notes on pages 41 to 65 form part of these Group financial statements.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2017

## 1 General information

Sumo Group plc ('the Company') was incorporated and registered in England and Wales on 20 November 2017 as a private company limited by shares under the Companies Act 2006 with the name Aghoco 1611 Limited and with the registered number 11071913. The Company was re-registered as a public limited company with the name Sumo Group plc on 14 December 2017. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

The principal activity of the Company and its subsidiaries (together the 'Group') is that of video games development.

The Group financial statements present 12 months results for the year ended 31 December 2017, with a comparative period for the four months from 26 August 2016 to 31 December 2016, and were approved by the Directors on 23 April 2018.

26 August 2016 is the date shortly before ownership of the former Sumo Group, then headed by Sumo Digital Holdings Limited, passed to its new owners. At the date of the reorganisation the ownership of the new entity was the same as the previous group. Because of this, the accounts have been prepared as if the Group had existed in its current form from the date (26 August 2016) shortly before ownership last changed. Therefore, the Group is presented as if it had existed from 26 August 2016. To help users understand the performance of the operating business, proforma details for the operating activities are shown in note 30.

The Company financial statements are on pages 66 to 71.

### Initial public offering ('IPO')

The Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 December 2017. These Group financial statements are the Company's first subsequent to its admission to AIM and followed a Group reorganisation to facilitate the IPO.

The Group financial statements have been prepared under merger accounting principles because the transaction under which the Company became the holding company of Project Republica Topco Limited ('Topco'), the previous parent undertaking of the Sumo trading operations, was a group reorganisation with no change in the ultimate ownership of the Sumo trading operations. All the shareholdings in Project Republica Topco Limited were exchanged via a share-for-share transfer on 13 December 2017. The Company did not actively trade at that time.

The result of the application of the capital reorganisation is to present the financial statements as if the Company had always owned the Sumo trading operations. Topco was incorporated on 26 August 2016 and itself acquired the Sumo companies on 8 September 2016 and therefore the comparative information presented is for the four months trading post acquisition.

### Group reorganisation

The principal steps of the group reorganisation were as follows:

The Company was incorporated on 20 November 2017 as a private company limited by shares in England and Wales, with share capital of £390 divided into 39,000,000 Ordinary Shares of £0.00001 each.

The Company became the ultimate holding company of the Group with Topco becoming the Company's direct subsidiary on 13 December 2017 by the issue of 3,900 Ordinary Shares of £0.00001 each to the existing shareholders of Topco in return for the entire issued share capital of Topco. The shares were issued to each of the shareholders in proportion to the relative value of each of their shareholdings in Topco.

On 13 December 2017 the Company capitalised amounts of £1,065,216 standing on the share premium account and utilised the amount for distribution amongst the shareholders of the Company in proportion to the number of shares held by them respectively on the basis of 2,731 bonus shares for every 1 share held, such that an aggregate of 106,521,617,940 new Ordinary Shares of £0.00001 each were issued. Following this issue and allotment, all the issued Ordinary Shares of £0.00001 each were then consolidated into 106,554,131 Ordinary Shares of £0.010000609158926 each.

On 13 December 2017, the Company undertook a reduction of share capital in accordance with Section 643 of the Companies Act, in which the nominal value of the Ordinary Shares was reduced to £0.01 each, which had the effect of reducing the share premium to £nil, with the balance credited to retained earnings.

The insertion of the Company as a new holding company by way of a share-for-share exchange constitutes a group reorganisation and the transaction is accounted for as a capital reorganisation.

Under merger accounting principles, the assets and liabilities of the subsidiaries are consolidated at book value in the Group financial statements and the consolidated reserves of the Group are adjusted to reflect the statutory share capital, share premium and reverse acquisition reserve of the Company as if it had always existed.

On 21 December 2017 the Company issued 38,445,869 Ordinary Shares of £0.01 each, for consideration of £38,445,869 in an IPO, with the balance recorded as share premium. £1,940,000 of the IPO costs have been charged to the share premium account.

# NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

## 2 Basis of preparation and accounting policies

The Group's principal accounting policies, all of which have been applied consistently to all the periods presented, are set out below.

### Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ('IFRS'), International Financial Reporting Standards Interpretation Committee ('IFRS IC') interpretations and those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The Group financial statements have been prepared on the going concern basis and on the historical cost convention modified for the revaluation of certain financial instruments.

The preparation of Group financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which are outlined in the critical accounting estimates and judgements section of these accounting policies. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

### Going concern

These Group financial statements have been prepared on the going concern basis.

The Directors have reviewed the forecasts for the years ending 31 December 2018 and 31 December 2019 and consider the forecasts to be prudent and have assessed the impact of them on the Group's cash flow, facilities and headroom within its banking covenants. Furthermore, the Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. Based on this work, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### Standards, amendments and interpretations which are not effective or early adopted:

At the date of authorisation of the Group financial statements, the following new standards and interpretations which have not been applied in this financial information were in issue but not yet effective (and in some cases, had not yet been adopted by the EU):

- IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 9 – Financial instruments (effective 1 January 2018)
- IFRS 16 – Leases (effective 1 January 2019)

The adoption of IFRS 15 and IFRS 9 is not expected to have a material impact on the financial information of the Group in the period of initial application when the relevant standards come into effect. The Directors have reviewed the Group's activities using the five-step model set out in IFRS 15 and as a result consider that adoption of this standard is not expected to have a material impact.

The Directors are still assessing the impact of IFRS 16 which is expected to increase the carrying value of property, plant, and equipment, and lease liabilities by a range of £3.5m to £4.5m. There are other standards in issue which are not expected to have an impact on the Group and therefore have not been included in the list above.

### Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

### Revenue

Revenue is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Where a contract is executed or where reasonable certainty exists that a contract will be executed for the provision of professional services, then revenue is recognised by reference to the stage of completion, if this can be reliably estimated. Revenue for such contracts is stated as a proportion of the contract revenue appropriate to the stage of completion, less amounts recognised in previous years.

Where the outcome cannot be estimated reliably and work is at the Group's risk then costs will be expensed. Royalties are recognised in the period in which they are earned as designated in the contract.

### EBITDA and Adjusted EBITDA

Earnings before Interest, Taxation, Depreciation and Amortisation ('EBITDA') and Adjusted EBITDA are non-GAAP measures used by management to assess the operating performance of the Group. Exceptional items are excluded from EBITDA to calculate Adjusted EBITDA.

The Directors primarily use the Adjusted EBITDA measure when making decisions about the Group's activities. As these are non-GAAP measures, EBITDA and Adjusted EBITDA measures used by other entities may not be calculated in the same way and hence may not be directly comparable.

## 2 Basis of preparation and accounting policies continued

### Foreign currency

Transactions in foreign currencies are translated into the Group's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss.

On consolidation, the assets and liabilities of foreign operations which have a functional currency other than Sterling are translated into Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these subsidiary undertakings are translated at average rates applicable in the period. All resulting exchange differences are recognised in other comprehensive income and documented in a separate component of equity.

### Classification of instruments issued by the Group

Instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the items are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation is provided on the following basis:

Leasehold improvements	Over period of lease
Fixtures and fittings	25% straight line
Computer hardware	50% straight line

It has been assumed that all assets will be used until the end of their economic life. Freehold land is not depreciated.

### Intangible assets

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal or contractual rights regardless of whether those rights are separable, and are initially recognised at fair value.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Computer software purchased separately, that does not form an integral part of related hardware, is capitalised at cost. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite and is presented within operating expenses. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives, which were reviewed and amended in the year resulting in an accelerated amortisation charge, are as follows:

Customer relationships	2 years
Customer contracts	Over period of contract
Software	2 years

# NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

## 2 Basis of preparation and accounting policies continued

### **Impairment**

For goodwill that has an indefinite useful life, the recoverable amount is estimated annually. For other assets, the recoverable amount is only estimated when there is an indication that an impairment may have occurred. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### **Inventories**

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity on a first in first out basis. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

### **Post-employment benefits**

#### **Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

### **Provisions**

A provision is recognised in the balance sheet when the Group has a present 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **Operating lease payments**

Operating leases are leases in which substantially all the risks and rewards of ownership related to the asset are not transferred to the Group.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

### **Net financing costs**

Net financing costs comprise interest payable and interest receivable on funds invested. Interest income and interest payable are recognised in profit or loss as they accrue using the effective interest method. Foreign exchange differences on monetary assets and liabilities are also presented within financing.

### **Taxation**

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that it arises on:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset in respect of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### **Video Games Tax Relief Credits**

Video Games Tax Relief Credits have only been recognised where management believe that a tax credit will be recoverable based on their experience of obtaining the relevant certification and the success of similar historical claims. Such credits are recognised as part of direct costs in order to reflect the substance of these credits to the Group and cash flows are presented within operating activities. The debit is recorded on the balance sheet as 'VGTC recoverable' within current assets.

## 2 Basis of preparation and accounting policies continued

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank borrowings that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

### Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A provision for impairment is made where there is objective evidence (including clients with financial difficulties or in default on payments) that amounts will not be recovered in accordance with the original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in profit or loss.

### Financial derivatives

The Group uses derivative financial instruments to hedge its exposure to risks arising from operational activities, principally foreign exchange risk. In accordance with treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. The Group does not hedge account for these items. Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists. At certain times the Group has foreign currency forward contracts that fall into this category.

### Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

### Trade and other payables

Trade payables are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method.

### Segmental reporting

The Group reports its business activities in one area: video games development, which is reported in a manner consistent with the internal reporting to the Board of Directors, which has been identified as the chief operating decision maker. The Board of Directors consists of the Executive Directors and the Non-Executive Directors.

### Exceptional costs

The Group presents as exceptional costs on the face of the income statement, those significant items of expense, which, because of their size, nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period. This facilitates comparison with prior periods and trends in financial performance more readily. Such costs include professional fees and other costs, directly related to the change in ownership during the period, including those advisor fees paid as a result of the IPO which have not been included within Share Premium.

### Share capital

Share capital represents the nominal value of shares that have been issued.

### Share premium

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

### Reverse acquisition reserve

The reverse acquisition reserve was created as a result of the share for share exchange under which Sumo Group plc became the parent undertaking prior to the IPO. Under merger accounting principles, the assets and liabilities of the subsidiaries were consolidated at book value in the Group financial statements and the consolidated reserves of the Group were adjusted to reflect the statutory share capital, share premium and other reserves of the Company as if it had always existed, with the difference presented as the reverse acquisition reserve.

### Foreign currency translation reserve

Represents the exchange differences on retranslation of foreign operations.

### Retained earnings

Retained earnings includes all current period retained profits.

### Direct costs

Included within direct costs are all costs in connection with the development of games, including an allocation of studio management costs. Video Games Tax Relief Credits are presented within direct costs as they are directly related to the level of expenditure incurred.

# NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

## 2 Basis of preparation and accounting policies continued

### Share based payments

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values using the Black Scholes model.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings. Where vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

## 3 Critical accounting judgements and estimates

### Accounting estimates

#### Impairment of goodwill and other intangible assets

The carrying amount of goodwill is £20,791,000 (2016: £19,225,000) and the carrying amount of other intangible assets is £7,422,000 (2016: £34,245,000) as at 31 December 2017. The Directors are confident that the carrying amount of goodwill and other intangible assets is fairly stated, and have carried out an impairment review. The forecast cash generation for each Cash Generating Unit ('CGU') and the Weighted Average Cost of Capital ('WACC') represent significant assumptions and should the assumptions prove to be incorrect there would be a significant risk of a material adjustment within the next financial year.

The cash flows are based on a three-year forecast with growth between 9.7% and 36.1%. Subsequent years are based on a reduced growth rate of 2% into perpetuity.

The discount rate used was the Group's pre-tax WACC of 9.75%.

Given the significant headroom in the carrying value of goodwill compared to the calculation of the net present value of the future cash flows, and bearing in mind the market value of the Group, the Directors cannot foresee a reasonable downside scenario in which the goodwill would be impaired in the foreseeable future and hence detailed sensitivity disclosures have not been presented.

### Accounting judgements

#### Judgements in applying accounting policies and key sources of estimation uncertainty

In the preparation of the Group financial statements, the Directors, in applying the accounting policies of the Group, make some judgements and estimates that affect the reported amounts in the financial statements. The following are the areas requiring the use of judgement and estimates that may significantly impact the financial statements.

#### Goodwill and Intangible assets arising on acquisition

The process of estimating the value of customer contracts and customer relationships on acquisition includes an element of forecasting and judgement. The Directors review customer contracts and customer relationships on an annual basis which also involves an element of judgement as to the length of the contract and relationship. These judgements concerning the length of customer contracts and relationships will largely be resolved during 2018 as the balances naturally unwind through the amortisation charge, given the relatively short length of the customer contracts. Details of the period end impairment review of Goodwill have been disclosed in note 13 to the Financial statements.

#### Revenue recognition on development contracts

The recognition of revenue on development contracts requires judgement and estimates on the overall contract margin and percentage of completion of the contract at each period end. These judgements are based on contract value, historical experience and forecasts of future outcomes. These include specific judgement in respect of contracts for which variations may be in the process of being negotiated, and so the contracts are accounted for on the basis of the best estimate of the revenue expected to be received on the contract, which are all expected to be resolved relatively shortly after the financial year end.

#### Video Games Tax Relief Credits

The process of claiming Video Games Tax Relief Credits requires estimates to be accrued at the period end. Whilst the Company undertakes a detailed exercise involving external professional support in calculating the accrual, these claims are subject to review and approval by HMRC prior to payment. It is also in the Directors' judgement that presenting Video Games Tax Relief Credits as a deduction from direct costs best reflects the substance and nature of these Credits.

## 4 Segmental reporting

The trading operations of the Group are only in video games development, and are all continuing. This includes the activities of Sumo Digital Limited, Mistral Entertainment Limited, Sumo Video Games Private Limited, Cirrus Development Limited, Sumo Digital (Genus) Limited, Sumo Digital (Atlantis) Limited, Atomhawk Design Limited and Atomhawk Canada Limited. The central activities, comprising services and assets provided to Group companies, are considered incidental to the activities of the Group and have therefore not been shown as a separate operating segment but have been subsumed within video games development. All assets of the Group reside in the UK, with the exception of non-current assets with a net book value of £400,000 (2016: £242,000) which were located in India and Canada.

### Major clients

In 2017 there were three major clients that individually accounted for at least 10% of total revenues (2016: four clients). The revenues relating to these clients in 2017 were £9.7m, £4.7m and £3.2m (2016: £3.4m, £1.6m, £1.4m, and £1.0m).

### Analysis of revenue

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
UK & Ireland	<b>10,248</b>	5,816
Europe	<b>10,861</b>	2,116
Rest of the World	<b>9,503</b>	697
	<b>30,612</b>	8,629

### Revenue by category

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
<b>Development fees</b>		
Video Game Industry	<b>28,303</b>	8,375
Art & Leisure	<b>96</b>	–
Film & TV	<b>15</b>	–
Retail	<b>25</b>	–
<b>Total development fees</b>	<b>28,439</b>	8,375
Own IP	<b>1,695</b>	–
Royalties	<b>478</b>	254
<b>Total Revenue</b>	<b>30,612</b>	8,629

## 5 Employees and Directors

The average monthly number of persons (including Directors) employed in the Group during the period was:

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
Management (Directors)	<b>4</b>	4
Non-executives (Directors)	<b>4</b>	4
Development	<b>383</b>	279
Administration	<b>53</b>	44
	<b>444</b>	331

**NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED**  
for the year ended 31 December 2017

**5 Employees and Directors continued**

Staff costs (including Directors) are outlined below. Directors' remuneration is also set out in the Remuneration Report on page 29:

	<b>Year ended 31 December 2017 £'000</b>	4 month period ended 31 December 2016 £'000
Wages and salaries	<b>15,785</b>	3,420
Other long-term employee benefits	—	—
Defined contribution pension cost	<b>509</b>	129
Social security costs	<b>1,497</b>	341
Other	<b>9</b>	5
	<b>17,800</b>	3,895

**Key management compensation**

The following table details the aggregate compensation paid in respect of the key management, which is considered to be the Board.

	<b>Year ended 31 December 2017 £'000</b>	4 month period ended 31 December 2016 £'000
Salaries and other short-term employee benefits	<b>1,152</b>	277
Post-employment benefits	<b>37</b>	10
	<b>1,189</b>	287

There are no defined benefit schemes for key management. Pension costs under defined contribution schemes are included in the post-employment benefits disclosed above.

**6 Direct costs (net)**

	<b>Year ended 31 December 2017 £'000</b>	4 month period ended 31 December 2016 £'000
Direct costs	<b>25,656</b>	6,967
Video Games Tax Relief Credits	<b>(8,296)</b>	(1,956)
	<b>17,360</b>	5,011

**7 Expenses by nature**

	<b>Year ended 31 December 2017 £'000</b>	4 month period ended 31 December 2016 £'000
Exceptional items	<b>2,656</b>	599
Employee benefit expense (note 5)	<b>17,800</b>	3,895
Depreciation charges (note 14)	<b>669</b>	210
Amortisation and impairment charges (note 13)	<b>27,626</b>	1,721
Operating lease payments	<b>876</b>	136
Other expenses	<b>3,580</b>	2,399
<b>Total direct costs and operating expenses</b>	<b>53,207</b>	8,960

**Exceptional items**

Exceptional items include external costs in relation to:

- 2016 – the Perwyn acquisition and related group reorganisation (£599,000)
- 2017 – the IPO and reorganisation in 2017 which primarily relate to professional fees (£2,453,000)
- 2017 – the acquisition of Atomhawk Design Limited and Atomhawk Canada Limited (£203,000)

## 8 Finance costs

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
Fair value movement on foreign exchange forward contracts	(53)	207
Debt refinancing cost release	841	-
Bank and other interest	4,593	1,280
Finance costs	5,381	1,487

## 9 Finance income

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
Interest income	3	-

## 10 Auditor's remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors at costs as detailed below:

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
Fees payable to Company's auditor and its associates for the audit of financial statements	35	10
Fees payable to Company's auditor and its associates for other services:		
The audit of subsidiary financial statements	60	45
Fees for taxation compliance services	32	20
Fees for taxation advisory services	42	-
Other assurance services	24	-
Acquisition and IPO related	500	-

Amounts paid to the Group's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed separately as the information is required to be disclosed on a consolidated basis.

**NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED**  
for the year ended 31 December 2017

**11 Taxation**

**Analysis of credit in year**

	<b>Year ended 31 December 2017 £'000</b>	4 month period ended 31 December 2016 £'000
<b>Current tax</b>		
Current taxation charge for the year	<b>1,080</b>	52
Adjustments for prior periods	<b>(58)</b>	–
<b>Total current tax</b>	<b>1,022</b>	52
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>(5,622)</b>	(485)
Adjustments in respect of prior periods	<b>62</b>	–
<b>Total deferred tax</b>	<b>(5,560)</b>	(485)
<b>Tax on loss on ordinary activities</b>	<b>(4,538)</b>	(433)
<b>Reconciliation of total tax (credit):</b>		
Loss on ordinary activities before tax	<b>(27,973)</b>	(1,818)
Loss on ordinary activities multiplied by the rate of corporation tax in the UK of 19.25% (2016: 20.00%)	<b>(5,384)</b>	(364)
Effects of:		
Non-deductible expenses	<b>968</b>	445
Fixed asset permanent differences	<b>(40)</b>	(107)
Effects of different tax rates in overseas jurisdictions	<b>50</b>	–
Non-taxable income	<b>(475)</b>	(407)
Effect of change in rates	<b>339</b>	–
Adjustments in respect of previous periods	<b>4</b>	–
<b>Total taxation (credit)</b>	<b>(4,538)</b>	(433)

**Factors that may affect future tax charges**

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020, and this has been reflected in these financial statements.

## 12 Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of Ordinary Shares in issue from the date of the IPO to 31 December 2017. The weighted average number of shares for both the current and preceding years has been stated as if the Group reorganisation had occurred at the beginning of the comparative period.

When calculating diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of 950,000 of potentially dilutive shares. These represent share options granted to employees.

The calculation of basic and diluted loss per share is based on the following data:

	Year ended 31 December 2017	4 month period ended 31 December 2016
<b>Earnings (£'000)</b>		
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to equity shareholders	<b>(23,435)</b>	(1,385)
<b>Number of shares</b>		
Weighted average number of shares for the purposes of basic earnings per share	<b>6,018,226</b>	10,488
Weighted average dilutive effect of conditional share awards	<b>950,000</b>	-
Weighted average number of shares for the purposes of diluted earnings per share	<b>6,968,226</b>	10,488
<b>Loss per Ordinary Share (pence)</b>		
Basic loss per Ordinary Share	<b>(389.40)</b>	(13,205.57)
Diluted loss per Ordinary Share	<b>(389.40)</b>	(13,205.57)
<b>Adjusted earnings per Ordinary Share (pence)</b>		
Basic adjusted earnings per Ordinary Share	<b>42.75</b>	7,808.92
Diluted adjusted earnings per Ordinary Share	<b>36.92</b>	7,808.92

The calculation of basic and diluted adjusted earnings per share is based on the following data:

	Year ended 31 December 2017	4 month period ended 31 December 2016
	£'000	£'000
<b>Loss for the period attributable to equity shareholders</b>		
Loss for the period attributable to equity shareholders	<b>(23,435)</b>	(1,385)
Add back/(deduct):		
Depreciation and amortisation charges	<b>28,295</b>	1,931
Exceptional items	<b>2,656</b>	599
Tax effect of the above	<b>(4,943)</b>	(326)
<b>Adjusted earnings</b>		
Adjusted earnings	<b>2,573</b>	819

The denominators used to calculate both basic and adjusted earnings per share are the same as those shown above for both basic and diluted earnings per share.

**NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED**  
for the year ended 31 December 2017

**13 Goodwill and other intangible assets**

	Software £'000	Customer contracts £'000	Customer relationships £'000	Goodwill £'000	Total £'000
<b>Cost</b>					
Additions	54	–	–	–	54
Arising on acquisition on 8 September 2016	195	14,285	21,432	19,225	55,137
As at 31 December 2016	249	14,285	21,432	19,225	55,191
Additions	120	–	–	–	120
Acquisition of subsidiary (note 26)	–	437	246	1,566	2,249
<b>As at 31 December 2017</b>	<b>369</b>	<b>14,722</b>	<b>21,678</b>	<b>20,791</b>	<b>57,560</b>
<b>Amortisation</b>					
Charge for the year	54	952	715	–	1,721
As at 31 December 2016	54	952	715	–	1,721
Charge for the year	162	12,646	14,818	–	27,626
<b>As at 31 December 2017</b>	<b>216</b>	<b>13,598</b>	<b>15,533</b>	<b>–</b>	<b>29,347</b>
<b>Net book value</b>					
As at 31 December 2016	195	13,333	20,717	19,225	53,470
<b>As at 31 December 2017</b>	<b>153</b>	<b>1,124</b>	<b>6,145</b>	<b>20,791</b>	<b>28,213</b>

These financial statements are the first to be prepared since Sumo Group's IPO in December 2017. They cover the period in which the Group transitioned from the previous ownership structure when it was majority owned by funds under the management of Perwyn for more than 11 months of 2017 to its new status as a listed company 10 days before the financial year end. The intangible assets on the balance sheet arise from the acquisition by Perwyn in September 2016, more than 15 months before the December 2017 accounting reference date. These intangible assets consisted of customer contracts, customer relationships and goodwill. The intangible assets held in respect of the former two categories were being amortised over useful economic lives of five years and ten years respectively, while goodwill was tested annually for impairment. The assets arose in respect of contracts and relationships as at September 2016 and do not reflect contracts signed or relationships developed since that date. As a public listed company Sumo Group has decided to change the approach to these historical intangible assets by reference to the length of each customer contract in place at September 2016 and an assessment of the appropriate time period for the customer relationship from that date. The time periods are between four and 37 months for customer contracts and 24 months for customer relationships. This is a change to an accounting estimate, not policy, and the effect is to amortise the historical intangible assets arising on the September 2016 change of ownership over a shorter period from 1 January 2017. The impact of this change in the useful lives of the assets is to accelerate the amortisation charge in the year ended 31 December 2017 by £22,099,000.

The cost of customer relationships was determined as at the date of the respective changes in ownership by reference to expected future contracts. The valuations used the discounted cash flow method. The discount rate applied at that time to the future cash flows was 9.75%.

The customer contracts represent contracted revenues. The valuation used the discounted cash flow method, based on estimated profit margins considered on a contract by contract basis. The discount rate applied at that time to the future cash flows was 9.75%.

Goodwill and other intangible assets have been tested for impairment. The method, key assumptions and results of the impairment review are detailed below:

Goodwill is attributed to the only CGU within the Group, video games development. Goodwill and other intangible assets have been tested for impairment by assessing the value in use of the cash generating unit. The value-in-use calculations were based on projected cash flows in perpetuity. Budgeted cash flows for 2017 to 2019 were used. These were based on a three-year forecast with growth rates of 9.7% to 36.1% applied for the following years. Subsequent years were based on a reduced rate of growth of 2.0% into perpetuity.

These growth rates are based on past experience and market conditions and discount rates are consistent with external information. The growth rates shown are the average applied to the cash flows of the individual cash generating units and do not form a basis for estimating the consolidated profits of the Group in the future.

The discount rate used to test the cash generating units was the Group's pre-tax WACC of 9.75%.

On the basis of this review, it has been concluded that there is no need to impair the carrying value of goodwill and other intangible assets.

All amortisation charges have been treated as an expense and charged to operating expenses in the income statement.

## 14 Property, plant and equipment

	Land and buildings £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer hardware £'000	Total £'000
<b>Cost</b>					
Additions	–	3	30	250	283
Arising on acquisition on 8 September 2016	1,573	184	83	558	2,398
Disposals	(1,573)	–	–	–	(1,573)
As at 31 December 2016	–	187	113	808	1,108
Acquisition of subsidiary (note 26)	–	–	2	15	17
Additions	–	607	100	879	1,586
<b>As at 31 December 2017</b>	<b>–</b>	<b>794</b>	<b>215</b>	<b>1,702</b>	<b>2,711</b>
<b>Depreciation</b>					
Charge for the period	3	19	16	172	210
Eliminated on disposals	(3)	–	–	–	(3)
As at 31 December 2016	–	19	16	172	207
Charge for the period	–	45	54	570	669
<b>As at 31 December 2017</b>	<b>–</b>	<b>64</b>	<b>70</b>	<b>742</b>	<b>876</b>
<b>Net book value</b>					
As at 31 December 2016	–	168	97	636	901
<b>As at 31 December 2017</b>	<b>–</b>	<b>730</b>	<b>145</b>	<b>960</b>	<b>1,835</b>

Depreciation charges are allocated to direct costs and operating expenses in the income statement.

## 15 Investments

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

Class of share capital held	Proportion held		Nature of Business
	By Parent Company	By the Group	
Project Republica Topco Limited	Ordinary	84%	84%
Project Republica Bidco Limited	Ordinary	–	84%
Sumo Digital Holdings Limited	Ordinary	–	84%
Sumo Digital Group Limited	Ordinary	–	84%
Sumo Digital Entertainment Limited	Ordinary	–	84%
Sumo Digital Limited	Ordinary	–	84%
Sumo Digital (Genus) Limited	Ordinary	–	84%
Sumo Digital (Atlantis) Limited	Ordinary	–	84%
Cirrus Development Limited	Ordinary	–	84%
Aghoco 1337 Limited	Ordinary	–	84%
Mistral Entertainment Limited	Ordinary	–	84%
Sumo Video Games Private Limited	Ordinary	–	84%
Riverside Games Limited	Ordinary	–	84%
Atomhawk Design Limited	Ordinary	–	84%
Atomhawk Canada Limited	Ordinary	–	84%

An employee benefit trust, Sumo Group plc Employee Benefit Trust, was set up on 13 December 2017. This holds the remaining 16% of the entities listed above. The shares are subject to put and call options with the shareholders, and as such beneficial control remains with the Group. On this basis there has been no accounting for non-controlling interest.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

### 15 Investments continued

All the companies listed above are incorporated in England and Wales, and have a registered address of 32 Jessops Riverside, Brightside Lane, Sheffield, S9 2RX, with the following exceptions:

Company	Country of incorporation	Address
Sumo Video Games Private Limited	India	MCCIA Trade Tower, B Building, 205-206, Senapati Bapat Rd, Chhattushringi, Gokhale Nagar, Pune, Maharashtra 411016
Atomhawk Design Limited	UK	Northern Design Centre Abbott's Hill, Baltic Business Quarter, Gateshead, Tyne and Wear, NE8 3DF
Atomhawk Canada Limited	Canada	8th Floor, 543 Granville Street, Vancouver, British Columbia, V6C 1X8

There are no restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group's subsidiaries.

### 16 Trade and other receivables

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Amounts falling due within one year:</b>		
Trade receivables not past due	1,151	825
Trade receivables past due	185	585
Trade receivables past due and impaired	19	—
Less provision for trade receivables	(19)	—
<b>Trade receivables net</b>	<b>1,336</b>	<b>1,410</b>
Prepayments and accrued income	1,654	1,193
Other debtors	304	—
VGTC recoverable	4,659	5,732
Amounts recoverable on contracts	2,202	1,299
Work in progress on self-published titles	—	467
	<b>10,155</b>	<b>10,101</b>

Trade and other receivables are all current and any fair value difference is not material. Trade and other receivables are considered past due once they have passed their contracted due date. Trade receivables are reviewed for impairment if they are past due beyond 30 days.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Euro	4	372
United States Dollar	178	—
	<b>182</b>	<b>372</b>

Movements on the Group's provision for impairment of trade receivables are as follows:

	2017 £'000	2016 £'000
At beginning of period	—	—
Provision for receivables impairment	19	—
Receivables written-off during the year as uncollectable	—	—
Unused amounts reversed	—	—
At 31 December	<b>19</b>	<b>—</b>

The creation and release of provision for impaired receivables have been included in 'other expenses' in the income statement (note 7). Amounts charged to the allowance account are generally written-off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

## 17 Cash and cash equivalents

	2017 £'000	2016 £'000
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	<b>12,424</b>	4,482
The following amounts were held in foreign currencies:		
British Pound	11,937	4,226
Canadian Dollar	30	-
United States Dollar	335	134
Indian Rupee	122	122
	<b>12,424</b>	4,482

## 18 Trade and other payables

	2017 £'000	2016 £'000
Trade payables	2,468	764
Tax and social security	474	961
Other payables, accruals and deferred income	7,821	5,663
	<b>10,763</b>	7,388

The fair value of financial liabilities approximates their carrying value due to short maturities.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2017 £'000	2016 £'000
British Pound	10,647	7,302
Euro	27	8
United States Dollar	25	-
Indian Rupee	64	78
	<b>10,763</b>	7,388

## 19 Borrowings

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Current</b>		
Bank loans and overdrafts	-	-
Term loan	-	4,088
Loan notes	-	-
	<b>-</b>	4,088
<b>Non-current</b>		
Bank loans and overdrafts	-	-
Term loan	-	18,305
Loan notes	-	34,325
	<b>-</b>	52,630

**NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED**  
for the year ended 31 December 2017

**19 Borrowings continued**

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Amount repayable</b>		
Within one year	–	4,088
In more than one year but less than two years	–	1,610
In more than two years but less than three years	–	1,633
In more than three years but less than four years	–	1,657
In more than four years but less than five years	–	47,730
	–	56,718

The above carrying values of the borrowings equate to the fair values. Borrowings are secured against the assets of the Group.

	As at 31 December 2017 %	As at 31 December 2016 %
<b>Average interest rates at the balance sheet date</b>		
Term loan	–	4.25
Bank loan	1.50-2.50	–
Loan notes	–	10.00

The above borrowings are denominated in Sterling. The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant.

**20 Share-based payments**

**The Performance Share Plan (the 'LTIP')**

The Group operates a performance share plan for senior executives, further details of which can be found in the Directors' Remuneration Report in the Group financial statements.

Under the LTIP, the Group has made awards over 950,000 conditional shares to certain Directors and employees.

The maximum charge in respect of the LTIP's equity-settled share-based payment transactions in the year ended 31 December 2017 is immaterial and hence has not been recognised.

Management are in the process of obtaining a full valuation, under IFRS 2, and the impact of current and future awards will be recognised in next year's financial statements.

**21 Deferred tax**

	2017 £'000	2016 £'000
Liability at beginning of period	(4,963)	–
Credit to income statement	5,560	484
On acquisition on 8 September 2016	–	(5,447)
On acquisition of subsidiary	(123)	–
Asset/(liability) at 31 December	474	(4,963)

The deferred tax asset/(liability) relates to the following:

Accelerated capital allowances on property, plant & equipment	17	7
On intangible assets	(1,284)	(6,095)
On losses	1,741	1,125
	474	(4,963)

## 22 Commitments and contingencies

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Capital commitments</b>		
Contracted for but not provided in the financial statements	<b>693</b>	-
<b>Operating lease commitments</b>		
Within 1 year	825	625
Later than 1 year and less than 5 years	2,949	2,168
After 5 years	3,002	1,797
	<b>6,776</b>	4,590

The Group leases various office units under non-cancellable operating lease agreements. The lease terms are between 1 month and 15 years.

The Group also leases various plant and machinery and vehicles, with terms between 4 months and 3 years. The lease expenditure charged to the income statement during the year is disclosed in note 7.

## 23 Financial risk management

The Group uses various financial instruments. These include loans, cash, forward foreign exchange contracts, issued equity investments and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

### Market risk

Market risk encompasses three types of risk, being currency risk, interest rate risk and price risk. In this instance price risk has been ignored as it is not considered a material risk to the business. The Group's policies for managing interest rate risk are set out in the subsection entitled 'interest rate risk' below.

### Currency risk

The Group contracts with certain clients in Euros and US Dollars and manages this foreign currency risk using forward foreign exchange contracts which match the expected receipt of foreign currency income. As at 31 December 2016 this covers the period up to June 2018.

### Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs by closely managing the cash balance and by investing cash assets safely and profitably.

The Group policy throughout the period has been to ensure continuity of funding. Short-term flexibility is achieved by revolving working capital facilities. The maturity of borrowings is set out in note 19.

The table below analyses the Group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

<b>At 31 December 2017</b>	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
Trade and other payables	<b>10,738</b>	-	-	<b>25</b>

<b>At 31 December 2016</b>	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	4,088	1,610	51,020	-
Forward foreign exchange contracts	207	-	-	-
Trade and other payables	7,362	-	-	26

# NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

## 23 Financial risk management continued

### Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowings and loan notes. The Directors' policy to manage interest rate fluctuations is to regularly review the costs of capital and the risks associated with each class of capital, and to maintain an appropriate mix between fixed and floating rate borrowings.

### Sensitivity to interest rate fluctuations

As the debt was settled as part of the IPO proceeds there is minimal interest rate risk, and therefore sensitivity to interest rate disclosures have not been made.

### Credit risk

The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is limited, as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from the Group's trade receivables. In order to manage credit risk the Directors set limits for clients based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history.

The Directors consider that the Group's trade receivables were impaired for the period ended 31 December 2017 and, accordingly, a provision of £19,000 has been created. See note 16 for further information on financial assets that are past due.

### Summary of financial assets and liabilities by category

The carrying amount of financial assets and liabilities recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Financial assets</b>		
Trade and other receivables	1,640	1,410
Cash and cash equivalents	12,424	4,482
	<b>14,064</b>	5,892
<b>Financial liabilities</b>		
<b>Financial liabilities measured at fair value through profit or loss</b>		
Forward foreign exchange contracts	-	(207)
<b>Financial liabilities measured at amortised cost</b>		
<b>Non-current:</b>		
Borrowings	-	(52,630)
<b>Current:</b>		
Borrowings	-	(4,088)
Trade and other payables	(10,763)	(7,388)
	<b>(10,763)</b>	(64,313)
Net financial assets and liabilities	<b>3,301</b>	(58,421)
<b>Non-financial assets and liabilities</b>		
Plant, property and equipment	1,835	901
Goodwill	20,791	19,225
Other intangible assets	7,422	34,245
Prepayments and accrued income	1,654	1,193
Amounts recoverable on contracts	2,202	1,299
Work in progress on self-published titles	-	467
VGTC recoverable	4,659	5,732
Corporation tax payable	(1,316)	(623)
Provisions for deferred tax	474	(4,963)
	<b>37,721</b>	57,476
Total equity/(deficit)	<b>41,022</b>	(945)

Financial instruments carried at fair value include forward foreign exchange contracts which are valued using Level 2 inputs in accordance with IFRS 13.

## 23 Financial risk management continued

### Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

This is achieved through close management of working capital and regular reviews of pricing. Decisions on whether to raise funding using debt or equity are made by the Board based on the requirements of the business.

Capital for the reporting period under review is shown as total equity in the table above.

## 24 Share capital

	Ordinary Shares 1.00	A Ordinary Shares 0.0125	B1 Ordinary Shares 0.016	B2 Ordinary Shares 0.016	C Ordinary Shares 0.00001	Ordinary Shares 0.00001	Ordinary Shares 0.010000609158926	Ordinary Shares 0.01	Total Share Capital £	Share Premium £
At 26 August 2016	1	–	–	–	–	–	–	–	1	–
Converted during the period	(1)	80	–	–	–	–	–	–	–	–
Issued on 8 September 2016	–	2,036,934	734,137	313,499	–	–	–	–	42,224	266,233
Issued during the period	–	248,407	–	–	637,892	–	–	–	3,111	85,518
At 31 December 2016	–	2,285,421	734,137	313,499	637,892	–	–	–	45,336	351,751
Issued on 27 June 2017	–	–	–	–	79,390	–	–	–	1	7,938
Issued on 20 November 2017	–	–	–	–	–	39,000,000	–	–	390	–
Issued on conversion of debt	–	1,453,322	–	–	–	–	–	–	18,166	28,879,142
Issue, including bonus	–	–	–	–	–	106,521,617,940	–	–	1,065,216	(1,065,216)
Share consolidation	–	–	–	–	–	(106,560,621,840)	106,554,131	–	–	–
Group reorganisation	–	(3,738,743)	(734,137)	(313,499)	(717,282)	–	–	–	(63,503)	(29,238,831)
Group reorganisation	–	–	–	–	–	3,900	–	–	–	89,931,686
Capital reduction	–	–	–	–	–	–	(106,554,131)	106,554,131	(65)	(88,866,470)
Issue on IPO	–	–	–	–	–	–	–	–	38,445,869	384,459
IPO costs charged to share premium	–	–	–	–	–	–	–	–	–	(1,940,000)
<b>At 31 December 2017</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>145,000,000</b>	<b>1,450,000</b>
										<b>36,121,410</b>

The Company was incorporated on 20 November 2017 as a private company limited by shares in England and Wales, with share capital of £390 divided into 39,000,000 Ordinary Shares of £0.00001 each.

The Company became the ultimate holding company of the Group with Project Republica Topco Limited ('Topco') becoming the Company's direct subsidiary on 13 December 2017 by the issue of 3,900 Ordinary Shares of £0.00001 each to the existing shareholders of Topco in return for the entire issued share capital of Topco. The shares were issued to each of the shareholders in proportion to the relative value of each of their shareholdings in Topco.

On 13 December 2017 the Company capitalised amounts of £1,065,216 standing on the share premium account and utilised the amount for distribution amongst the shareholders of the Company in proportion to the number of shares held by them respectively on the basis of 2,731 bonus shares for every 1 share held, such that an aggregate of 106,521,617,940 new Ordinary Shares of £0.00001 each were issued. Following this issue and allotment, all the issued Ordinary Shares of £0.00001 each were then consolidated into 106,554,131 Ordinary Shares of £0.010000609158926 each.

On 13 December 2017, the Company undertook a reduction of share capital in accordance with Section 643 of the Companies Act, in which the nominal value of the Ordinary Shares was reduced to £0.01 each, which had the effect of reducing the share premium to £nil, with the balance credited to retained earnings.

The insertion of the Company as a new holding company by way of a share-for-share exchange constitutes a Group reorganisation and the transaction is accounted for as a capital reorganisation.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

### 24 Share capital continued

Under merger accounting principles, the shares issued in this transaction were recorded in the consolidated balance sheet at the nominal value of the shares issued plus the fair value of any additional consideration, which was recorded as a reverse acquisition reserve in the Group financial statements. The assets and liabilities of the subsidiaries are consolidated at book value in the Group financial statements and the consolidated reserves of the Group are adjusted to reflect the statutory share capital, share premium and reverse acquisition reserve of the Company as if it had always existed.

On 21 December 2017 the Company issued 38,445,869 Ordinary Shares of £0.01 each, for consideration of £38,445,869 in an IPO, with the balance recorded as share premium. £1,940,000 of the IPO costs have been charged to the share premium account.

A reverse acquisition reserve of £60,623,000 was created during the year as a result of the share for share exchange under which Sumo Group plc became the parent undertaking prior to the IPO. Under merger accounting principles, the assets and liabilities of the subsidiaries were consolidated at book value in the Group financial statements and the consolidated reserves of the Group were adjusted to reflect the statutory share capital, share premium and other reserves of the Company as if it had always existed, with the difference presented as the reverse acquisition reserve.

The foreign currency translation reserve of £27,000 as at 31 December 2017 (31 December 2016: £43,000) comprises foreign currency translation differences arising from the translation of financial statements of the Group's Indian operations into GBP.

### 25 Related party transactions

#### Identity of related parties

The Directors consider there to be no ultimate controlling party during the period. Related parties include representatives of major shareholders and parent and intermediate parent entities ultimately owned by the same shareholders. Related party balances with the Company are as follows:

#### Trading balances

Related party	Purchases made from		Balance due to	
			As at	
	2017 £'000	2016 £'000	31 December 2017 £'000	31 December 2016 £'000
NorthEdge Capital LLP	—	6	—	—
Perwyn LLP	185	141	—	13
PIF Republica S.a.r.l	24	8	—	2
Cragg Wood Limited	81	18	6	6
Gealka Limited	16	—	—	—

In addition to the above, interest on loans from related parties was charged throughout the period.

Related party	To/ as at		To/ as at 31 December 2016 £'000
	31 December 2017 £'000	31 December 2016 £'000	
Atomhawk Loan Notes – interest charge	60	—	—
Other Loan Notes – Ken Beaty interest charge	—	4	4
Other Loan Notes – Ian Livingstone interest charge	—	7	7
NorthEdge – Loan Note A – interest charge	—	5,498	5,498
Perwyn – A1 Loan Note – interest charge	1,840	510	510
Perwyn – A1 Loan Note – balance	—	18,682	18,682
Perwyn – PIF Loan – interest charge	1,021	219	219
Perwyn – PIF Loan – balance	—	7,374	7,374

Key management compensation is disclosed in note 5.

## 26 Business combinations

### Acquisition of Atomhawk Design Limited

Under an agreement dated 29 June 2017, the Group acquired the share capital of Atomhawk Design Limited, a visual design company registered in the United Kingdom for consideration of £2.9m.

The book and fair values of the assets and liabilities acquired are set out below:

	Book value recognised at acquisition £'000	Fair value adjustments £'000	Fair value £'000
<b>Assets</b>			
Intangible assets	–	683	683
Property, plant and equipment	17	–	17
Trade and other receivables	346	–	346
Cash and cash equivalents	613	–	613
	976	683	1,659
<b>Liabilities</b>			
Corporation tax payable	(146)	–	(146)
Trade and other payables	(56)	–	(56)
Deferred tax	–	(123)	(123)
	(202)	(123)	(325)
	774	560	1,334
Goodwill			1,566
			2,900
<b>Summary of net cash outflow from acquisition</b>			
Cash paid			2,900
Cash acquired			(613)
			2,287
Cash consideration transferred			2,900
Acquisition costs charged to expenses			203

### Consideration transferred

The acquisition of Atomhawk was settled in cash amounting to £2,900,000. There is no contingent consideration.

Acquisition related costs amounting to £203,000 are not included as part of consideration transferred and have been recognised as an expense in the income statement as part of operating expenses – exceptional.

Following the acquisition a former key shareholder of Atomhawk invested £1,300,000 into the Sumo Group.

### Goodwill

Goodwill of £1,566,000 is primarily related to growth, technical knowledge, and market diversification.

### Contribution to the Group results

Atomhawk generated a profit of £331,000 for the six months from acquisition. Revenue for the period was £1,276,000. If Atomhawk had been acquired at the beginning of the period then revenue would have increased by £916,000 and profit by £249,000.

**NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED**  
for the year ended 31 December 2017

**27 Notes to the cash flow statement**

	Year ended 31 December 2017 £'000	4 month period ended 31 December 2016 £'000
Loss for the financial year/period	<b>(23,435)</b>	(1,385)
Income tax	<b>(4,538)</b>	(433)
Net finance costs	<b>5,378</b>	1,487
Operating loss	<b>(22,595)</b>	(331)
Depreciation charge (note 14)	<b>669</b>	210
Amortisation of intangible assets (note 13)	<b>27,626</b>	1,721
Post-employment benefits less payments	<b>–</b>	12
Increase in bad debt provision	<b>19</b>	–
Decrease in trade and other receivables	<b>273</b>	1,637
Increase in trade and other payables	<b>3,113</b>	23
Loss on disposal of fixed assets	<b>–</b>	4
Net cash inflow from operating activities	<b>9,105</b>	3,276

	As at 1 January 2017 £'000	Cash flows £'000	As at 31 December 2017 £'000
Non-current borrowings	52,630	(52,630)	–
Current borrowings	4,088	(4,088)	–
	56,718	(56,718)	–

**28 Prior year adjustment**

The Group has adjusted the accounting disclosure of Video Games Tax Relief Credits. This has historically been shown in other operating income and is now shown within Direct costs (net) – see note 6.

The reason for the change is that Video Games Tax Relief Credits are closely related to the production of the games and therefore should be reflected in the gross margin reported.

The impact this has had on the income statement is to increase gross margin by £1,956,000 in the comparative period. There is no impact on the net profit.

The VGTC amounts recoverable which were previously presented within 'Corporation tax recoverable' on the balance sheet are now presented as 'VGTC recoverable' within 'Trade and other receivables', and the cash flows are now presented as operating cash flows (previously tax cash flows). This has had no impact on the net assets of the Group.

**29 Post balance sheet events**

On 1 January 2018, the Group, through its wholly-owned subsidiary Sumo Digital Limited took on the Newcastle studio of CCP Games under an asset purchase agreement for nominal consideration. All 34 staff working at the studio became employees of the Group and the lease for the property in which the studio was located was assigned to Sumo Digital Limited.

## 30 Pro forma information

The comparative information presented in the income statement represents the period from 8 September 2016 to 31 December 2016, and the results and cash flows for the 12 month period from 1 January 2016 to 31 December 2016 have therefore been presented below to allow comparability across the two years. The 12-month figures for 2016 have been extracted, without exception, from the Admission Document submitted for the purposes of the Initial Public Offering on 21 December 2017. As indicated, these pro forma amounts are unaudited.

### Income statement

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 Unaudited £'000
<b>Revenue</b>	<b>30,612</b>	24,106
Direct costs (net)	(17,360)	(15,101)
<b>Gross profit</b>	<b>13,252</b>	9,005
Operating expenses	(33,191)	(7,223)
Operating expenses – exceptional	(2,656)	(912)
Operating expenses – total	(35,847)	(8,135)
<b>Group operating (loss)/profit</b>	<b>(22,595)</b>	870
<b>Analysed as:</b>		
Adjusted EBITDA <sup>1</sup>	8,356	6,045
Amortisation	(27,626)	(3,692)
Depreciation	(669)	(571)
Exceptional items	(2,656)	(912)
<b>Group operating loss</b>	<b>(22,595)</b>	870
Net finance costs	(5,378)	(2,982)
<b>Loss before taxation</b>	<b>(27,973)</b>	(2,112)
Taxation	4,538	866
<b>Loss for the year attributable to equity shareholders</b>	<b>(23,435)</b>	(1,246)

<sup>1</sup> Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure.

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
for the year ended 31 December 2017

**30 Pro forma information continued**

**Cash flow statement**

	<b>Year ended 31 December 2017 £'000</b>	<b>Year ended 31 December 2016 Unaudited Restated<sup>1</sup> £'000</b>
<b>Cash flows from operating activities</b>		
Loss before taxation	<b>(27,973)</b>	(2,112)
Adjustments for:		
Depreciation	<b>669</b>	571
Amortisation of intangible assets	<b>27,626</b>	3,692
Movement in provisions	<b>19</b>	13
Movement in derivative financial instruments	<b>–</b>	207
Profit on disposal of property, plant and equipment	<b>–</b>	(560)
Finance costs	<b>5,381</b>	2,991
Finance income	<b>(3)</b>	(9)
	<b>5,719</b>	4,793
Changes in working capital:		
Decrease in trade and other receivables	<b>273</b>	274
Increase in trade and other payables	<b>3,113</b>	1,224
<b>Cash flows from operating activities</b>	<b>9,105</b>	6,291
Interest paid	<b>(5,378)</b>	(3,031)
Tax (paid)/recovered <sup>1</sup>	<b>(475)</b>	67
<b>Net cash inflow from operating activities</b>	<b>3,252</b>	3,327
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(1,586)</b>	(885)
Purchase of intangible assets	<b>(120)</b>	(227)
Proceeds on sale of property, plant and equipment	<b>–</b>	1,632
Acquisition of subsidiary – net of cash acquired	<b>(2,287)</b>	–
Net cash outflows on change of ownership	<b>–</b>	(43,944)
<b>Net cash outflow from investing activities</b>	<b>(3,993)</b>	(43,944)
<b>Cash flows from financing activities</b>		
Repayment of borrowings	<b>(56,718)</b>	(15,571)
Proceeds from borrowings	<b>–</b>	56,719
Proceeds from issues of shares	<b>67,358</b>	397
Transaction costs relating to the issue of shares	<b>(1,940)</b>	–
Payment of loan arrangement fees	<b>–</b>	(975)
Dividends paid	<b>–</b>	(404)
<b>Net cash inflow from financing activities</b>	<b>8,700</b>	40,166
Net increase in cash and cash equivalents	<b>7,959</b>	69
Cash and cash equivalents at beginning of period	<b>4,482</b>	4,347
Foreign exchange	<b>(17)</b>	66
<b>Cash and cash equivalents at end of period</b>	<b>12,424</b>	4,482

<sup>1</sup> The presentation of cash flows relating to VGTC amounts has been restated – refer note 28.

## 30 Pro forma information continued

### Earnings per share

The below presents the earnings per share figures using the post-IPO capital structure. The weighted average number of shares is restricted by the 6,082,069 shares held by the EBT, as these shares are not freely available on the open market.

The earnings have been taken from the pro forma income statement above, and adjusted earnings exclude depreciation and amortisation charges, exceptional items, and their associated tax effect.

	Year ended 31 December 2017 Unaudited	Year ended 31 December 2016 Unaudited
<b>Earnings (£'000)</b>		
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to equity shareholders	(23,435)	(1,246)
<b>Number of shares</b>		
Weighted average number of shares for the purposes of basic earnings per share	138,917,931	138,917,931
Weighted average dilutive effect of conditional share awards	950,000	950,000
Weighted average number of shares for the purposes of diluted earnings per share	139,867,931	139,867,931
<b>Loss per Ordinary Share (pence)</b>		
Basic loss per Ordinary Share	(16.87)	(0.90)
Diluted loss per Ordinary Share	(16.87)	(0.90)
<b>Adjusted earnings per Ordinary Share (pence)</b>		
Basic adjusted earnings per Ordinary Share	1.85	2.59
Diluted adjusted earnings per Ordinary Share	1.84	2.58

The calculation of basic and diluted adjusted earnings per share is based on the following data:

	2017 Unaudited £'000	2016 Unaudited £'000
Loss for the period attributable to equity shareholders	(23,435)	(1,246)
Add back/(deduct):		
Depreciation and amortisation charges	28,295	4,263
Exceptional items	2,656	912
Tax effect of the above	(4,943)	(326)
<b>Adjusted earnings</b>	<b>2,573</b>	<b>3,603</b>

The denominators used to calculate both basic and adjusted earnings per share are the same as those shown above for both basic and diluted earnings per share.

### Revenue by category

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 Unaudited £'000
Development fees	28,439	23,800
Own IP	1,695	-
Royalties	478	306
<b>Total revenue</b>		
	<b>30,612</b>	<b>24,106</b>

The development fees include £2,021,000 (Unaudited pro forma 2016: £3,644,000) of pass-through revenue on which the Group does not charge a margin.

# COMPANY BALANCE SHEET

as at 31 December 2017

	Note	2017 £'000
<b>Fixed assets</b>		
Investments – shares in subsidiary undertakings	3	<b>89,932</b>
		<b>89,932</b>
<b>Current assets</b>		
Trade and other receivables	4	<b>29,806</b>
Cash and cash equivalents		<b>7,117</b>
		<b>36,923</b>
<b>Current liabilities</b>		
Trade and other payables	5	<b>(2,267)</b>
<b>Net current assets</b>		<b>34,656</b>
<b>Total assets less current liabilities</b>		
<b>Net assets</b>		<b>124,588</b>
<b>Capital and reserves</b>		
Called up share capital	6	<b>1,450</b>
Share premium	6	<b>36,121</b>
Retained earnings		<b>87,017</b>
<b>Total shareholders' funds</b>		<b>124,588</b>

The Company loss for the period was £1,850,000.

The Company financial statements on pages 66 to 71 were approved by the Board of Directors on 23 April 2018 and were signed on its behalf by:



**Carl Cavers**  
Director



**David Wilton**  
Director

The notes on pages 68 to 71 form part of these Company financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the 42 day period ended 31 December 2017

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
On incorporation on 20 November 2017	–	–	–	–
Loss for the period	–	–	(1,850)	(1,850)
Total comprehensive expense for the year	–	–	(1,850)	(1,850)
Transactions with owners:				
Issue of shares	1,065	88,867	–	89,932
Capital reduction	–	(88,867)	88,867	–
Issue of shares on IPO	385	38,061	–	38,446
Share issue expenses	–	(1,940)	–	(1,940)
	1,450	36,121	88,867	126,438
<b>Balance at 31 December 2017</b>	<b>1,450</b>	<b>36,121</b>	<b>87,017</b>	<b>124,588</b>

The notes on pages 68 to 71 form part of these Company financial statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2017

## 1 Basis of preparation and accounting policies

### Basis of preparation

Sumo Group plc ('the Company') was incorporated and registered in England and Wales on 20 November 2017 as a private company limited by shares under the Companies Act 2006 with the name Aghoco 1611 Limited and with the registered number 11071913. The Company was re-registered as a public limited company with the name Sumo Group plc on 14 December 2017. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

The principal activities of Sumo Group plc and its subsidiaries (together the 'Group') are that of video games development. The principal activity of the Company is that of a holding company.

The Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange on 21 December 2017. These Group financial statements are the Company's first subsequent to its admission to AIM and followed a Group reorganisation to facilitate the IPO.

The Group financial statements have been prepared under the merger method of accounting principles because the transaction under which the Company became the holding company of Project Republica Topco Limited ('Topco'), the previous parent undertaking of the Sumo Group, was a Group reconstruction with no change in the ultimate ownership of the Sumo Group. All the shareholdings in Topco were exchanged via a share-for-share transfer on 13 December 2017. The Company did not actively trade at that time.

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'), on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. The principal accounting policies, which have been applied consistently to all the years presented, are set out below.

The following exemptions from the requirements in IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 'Presentation of Financial Statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 11 (cash flow statement information); and
  - 134-136 (capital management disclosures)
- IFRS 7 'Financial Instruments: Disclosures';
- IAS 7 'Statement of Cash Flows';
- IAS 24 (paragraphs 17 and 18a) 'Related Party Disclosures' (key management compensation); and
- IAS 24 'Related Party Disclosures' – the requirement to disclose related party transactions between two or more members of a group.

As the Group financial statements include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 'Share Based Payments' in respect of Group settled equity share-based payments; and
- Certain disclosures required by IFRS 13 'Fair Value Measurement' and disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

### Company profit and loss account

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The Company's loss after taxation for the year was £1.85m. There are no material differences between the profit after taxation in the current and prior year and its historical cost equivalent. Accordingly, no note of historical cost profits and losses has been presented.

### Dividend distribution

The distribution of a dividend to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which it is approved by the Company's shareholders.

### Investment in subsidiary undertakings

Investments in Group undertakings are stated at cost, unless their value has been impaired in which case they are valued at the lower of their realisable value or value in use.

### Deferred taxation

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

Deferred tax assets are regarded as recoverable and recognised in the Group financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts which have been prepared and approved by the Board. No timing differences are recognised in respect of revalued tangible fixed assets or fair value adjustments to acquired tangible fixed assets where there is no commitment to sell the asset. The deferred tax assets and liabilities are not discounted.

## 1 Basis of preparation and accounting policies continued

### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

### Share-based payments

In the year ended 31 December 2017, the Company operated an equity-settled share-based payment plan. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant.

The fair value determined at the grant date of equity-settled share-based payments issued to the Company's employees is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

The fair value determined at the grant date of equity-settled share-based payments issued to employees of subsidiary undertakings is recognised as an addition to the cost of investment in subsidiary undertakings on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by the use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Employer social security contributions payable in connection with the grant of share awards are considered an integral part of the grant itself and the charge is treated as a cash-settled transaction.

### Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of issue.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

### Financial assets

#### Classification

The Company classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to clients. They are initially recognised at fair value, and are subsequently stated at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables comprise mainly cash and cash equivalents and trade and other receivables, including amounts owed by related entities. Trade and other receivables relate mainly to the sale of products to trade clients.

#### Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales and administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written-off against the associated provision.

### Financial liabilities

The Company initially recognises its financial liabilities at fair value net of transaction costs where applicable and subsequently they are measured at amortised cost using the effective interest method. Financial liabilities comprise trade and other payables, amounts owed to Group undertakings, other liabilities and accruals and deferred income and are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other liabilities include payments in advance from clients and rebates.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### Critical accounting estimates and judgements

The critical accounting estimates set out in the Group accounts also apply to the Company.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

## 2 Remuneration of Directors and auditors

Details of Directors' remuneration are shown in the Directors' Remuneration Report on page 29 of the Group financial statements. Details of auditor remuneration are shown in note 10 of the Group financial statements.

## 3 Investments in subsidiary undertakings

	£'000
<b>Cost and carrying amount</b>	
On incorporation	-
Additions	89,932
<b>At 31 December 2017</b>	<b>89,932</b>

On 13 December 2017, the Company acquired 84% of the share capital of Project Republica Topco Limited by way of a share-for-share exchange, with the issue of 3,900 Ordinary Share of £0.000001 nominal value at a premium of £89,931,686.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The Company directly or indirectly owns 84% of the issued Ordinary Shares of the following subsidiary undertakings:

	Class of share capital held	Proportion held		Nature of business
		By Parent Company	By the Group	
Project Republica Topco Limited	Ordinary	84%	84%	Holding company
Project Republica Bidco Limited	Ordinary	-	84%	Holding company
Sumo Digital Holdings Limited	Ordinary	-	84%	Holding company
Sumo Digital Group Limited	Ordinary	-	84%	Holding company
Sumo Digital Entertainment Limited	Ordinary	-	84%	Holding company
Sumo Digital Limited	Ordinary	-	84%	Video game development
Sumo Digital (Genus) Limited	Ordinary	-	84%	Video game development
Sumo Digital (Atlantis) Limited	Ordinary	-	84%	Video game development
Cirrus Development Limited	Ordinary	-	84%	Video game development
Aghoco 1337 Limited	Ordinary	-	84%	Employee benefit trust trustee
Mistral Entertainment Limited	Ordinary	-	84%	Video game development
Sumo Video Games Private Limited	Ordinary	-	84%	Video game development
Riverside Games Limited	Ordinary	-	84%	Dormant
Atomhawk Design Limited	Ordinary	-	84%	Visual design
Atomhawk Canada Limited	Ordinary	-	84%	Visual design

An employee benefit trust, Sumo Group plc Employee Benefit Trust, was set up on 13 December 2017. This holds the remaining 16% of the shares in Project Republica Topco Limited. The shares are subject to put and call options with the shareholders, and as such beneficial control remains with the Group. On this basis there has been no accounting for non-controlling interest.

All the companies listed above are incorporated in England and Wales, and have a registered address of 32 Jessops Riverside, Brightside Lane, Sheffield, S9 2RX, with the following exceptions:

Company	Country of incorporation	Address
Sumo Video Games Private Limited	India	MCCIA Trade Tower, B Building, 205-206, Senapati Bapat Rd, Chattrashringi, Gokhale Nagar, Pune, Maharashtra 411016
Atomhawk Design Limited	UK	Northern Design Centre Abbott's Hill, Baltic Business Quarter, Gateshead, Tyne and Wear, NE8 3DF
Atomhawk Canada Limited	Canada	8th Floor, 543 Granville Street, Vancouver, British Columbia, V6C 1X8

## 4 Trade and other receivables

	2017 £'000
Amounts owed by Group undertakings	<b>29,756</b>
Prepayments and accrued income	50
	<b>29,806</b>

All of the amounts owed by Group undertakings shown above are repayable on demand.

## 5 Creditors: amounts falling due within one year

	2017 £'000
Trade payables	815
Amounts owed to related entities	633
Accruals and deferred income	819
	<b>2,267</b>

The Company is party to a Group banking arrangement, which is a £13,000,000 revolving credit facility.

## 6 Share capital

Details of movements in shares are set out in note 24 to the Group financial statements.

## 7 Related party transactions

The Company has taken advantage of the exemption included in IAS 24 'Related Party Disclosures' to not disclose details of transactions with Group undertakings, on the grounds that it is the parent company of a Group whose accounts are publicly available.

### Directors' transactions

Details of the Directors' interests in the Ordinary Share capital of the Company are provided in the Directors' Report.

## 8 Share-based payments

### The Performance Share Plan (the 'LTIP')

The Company operates a performance share plan for senior executives, further details of which can be found in the Directors' Remuneration Report in the Group financial statements.

Under the LTIP, the Company has made awards of conditional shares to certain Directors and employees, details of which can be found in note 20 of the Group financial statements.

The Company recognised total expenses of £nil in respect of the LTIP's equity-settled share-based payment transactions in the year ended 31 December 2017.

## 9 Contingent liabilities

The Company is party to a Group Revolving Credit Facility with Clydesdale Bank plc of up to £13,000,000 together with certain subsidiary companies. The amounts drawn down at 31 December 2017 were £nil.

## 10 Post balance sheet events

On 1 January 2018, the Company, through its wholly-owned subsidiary Sumo Digital Limited took on the Newcastle studio of CCP Games under an asset purchase agreement for nominal consideration. All 34 staff working at the studio became employees of the Group and the lease for the property in which the studio was located was assigned to Sumo Digital Limited.

## FINANCIAL CALENDAR

Financial year end	31 December 2017
Preliminary announcement of full-year results	24 April 2018
Publication of Annual Report and Accounts	May 2018
Annual General Meeting	27 June 2018
Preliminary announcement of half-year results	Late September 2018
Publication of Interim Report	Mid October 2018
Financial year end	31 December 2018
Preliminary announcement of full-year results	April 2019
Publication of Annual Report and Accounts	May 2019

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