9 April 2019

SUMO GROUP PLC
("Sumo Group", the "Group" or the "Company")
AIM: SUMO

FINAL RESULTS 2018

Sumo Group, the award-winning provider of creative and development services to the video games and entertainment industries, announces its final results for the year ended 31 December 2018.

Financials

Reported results	**2018**	2017	**Change**
Revenue	**£38.7m**	£28.6m	**35.3%**
Gross profit	**£18.4m**	£13.3m	**38.9%**
Gross margin	**47.6%**	46.4%	
Loss before taxation[6]	**(£0.5m)**	(£28.0m)	
Cash flow from operations	**(£6.4m)**	£3.3m	
Net cash	**£3.7m**	£12.4m	
Basic and diluted loss per share	**(0.20p)**	(389.4p)	

Underlying results	**2018**	2017	**Change**
Adjusted revenue [1]	**£38.9m**	£28.6m	**35.9%**
Adjusted gross profit[2]	**£18.8m**	£13.3m	**41.7%**
Adjusted gross margin excluding royalties[3]	**47.6%**	45.4%	
Adjusted EBITDA[4]	**£10.4m**	£8.4m	**24.6%**
Adjusted profit before tax[5]	**£9.0m**	£7.5m	**20.2%**

1 The adjustment to revenue is to include £0.4m of customer revenue included within finance income, and exclude £0.2m of accrued royalty income not yet received and contingent on future sales, following the adoption of IFRS 15.

2 Adjusted gross profit is stated after the £0.2m net adjustment to revenue described above and to include £0.2m investment in co-funded games expensed is a non-GAAP metric used by management and is not an IFRS disclosure.

3 Adjusted gross margin excluding royalties is stated after the exclusion of royalties, adjustment for the impact of IFRS 15 adoption and the investment in co-funded games expensed and is a non-GAAP metric used by management and is not an IFRS disclosure.

4 Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, exceptional items, share based payment charge, and the impacts of the adjustments to revenue and gross profit described above, is a non-GAAP metric used by management and is not an IFRS disclosure.

5 Adjusted profit before tax excludes share based payment charge £2.6m (2017: nil), the above adjustments to revenue £0.2m (2017: nil), the above adjustment to gross profit £0.2m (2017: nil), exceptional items £0.1m (2017: £2.7m), amortisation of customer contracts and relationships £6.9m (2017: £27.6m) and net finance costs relating to pre-IPO financial structure £nil (2017: £5.4m).

6 Includes amortisation of £6.9m (2017: £27.6m), a non-cash and non-recurring charge resulting from a more appropriate approach to the useful economic life of historical intangible assets arising on the September 2016 change of ownership being taken in respect of client contracts from that date post IPO; transaction costs of £0.1m (2017: IPO/transaction costs £2.7m); and, for 2017, net finance costs relating to pre-IPO financial structure £5.4m.

2018 highlights

- Substantial growth in revenue and profitability:
  Adjusted revenue up 35.9% at £38.9m
  Adjusted EBITDA up 24.6% at £10.4m
  Strong adjusted gross margin, excluding royalties, of 47.6%
- Acquisition of The Chinese Room in August, accelerating own-concept pipeline
- Apple new client win in December - two own-concept games now under development for Apple Arcade
- Further new clients secured at the end of 2018, as yet undisclosed
- 14% organic growth in headcount - 21% increase in total headcount, including M&A, to 592 at end December 2018 (2017: 489)
- Three major projects announced or officially launched in 2018: Hitman 2 (IO Interactive) - published November 2018; Crackdown 3 (Microsoft) - published in February 2019; and Team Sonic Racing (SEGA) - planned release date May 2019
- Board strengthened further with Andrea Dunstan appointed as NED and Chair of Remuneration Committee

Post year end highlights

- Acquisition of Red Kite Games in January 2019, bringing 27 people and opening up a new talent pool
- Total headcount from IPO to 31 March 2019 increased by 33% to 650 at end March 2019
- Management structure broadened and Board strengthened further to facilitate growth

Current trading and outlook

- Positive start to the new financial year with an unusually high degree of earnings visibility
- Current trading in line with the management's expectations and the outlook remains positive

Carl Cavers, Chief Executive Officer of Sumo Group, said:

"With the video games market forecast by Newzoo, a leader in games analytics, to grow around 30% in the next three years, driven by demand for new cloud-based subscription platform content supported by the world's biggest publishers, we believe that the outlook for Sumo Group is as good as ever. We are successfully attracting major new global publishers, as well as strengthening our relationships with existing and previous clients, and our business development pipeline remains very healthy.

"The challenge for the business is the acquisition of talent to support and deliver on these significant growth opportunities. Our quest to attract talented people to the business, both organically and through acquisition, is delivering results and we will maintain a keen focus on this aspect of the business in 2019. Having acquired Red Kite Games at the beginning of the new financial year, we are continuing to explore further interesting acquisition opportunities.

"We have had a positive start to the new financial year and have an unusually high degree of earnings visibility with slightly over 88% of Sumo Digital's forecast 2019 development fees being already contracted or near contracted. Current trading is in line with the management's expectations and I remain confident that the business will continue to deliver in 2019 and beyond."

Enquiries:

Sumo Group plc	Tel: +44 (0) 114 242 6766
Carl Cavers, Chief Executive Officer	
David Wilton, Chief Financial Officer	
Zeus Capital Limited (Nominated Adviser & Broker)	
Nick Cowles / Richard Darlington / Andrew Jones	Tel: +44 (0) 161 831 1512
Ben Robertson / John Goold	Tel: +44 (0) 203 829 5000
Belvedere Communications Limited	
Cat Valentine (cvalentine@belvederepr.com)	Tel: +44 (0) 7715 769 078
Keeley Clarke (kclarke@belvederepr.com)	Tel: +44 (0) 7967 816 525
Llew Angus (langus@belvederepr.com)	Tel: +44 (0) 7407 023 147

About Sumo Group – www.sumogroupplc.com

Sumo Group's businesses provide acclaimed development and design services to the video games and entertainment industries from studios in the UK, India, and Canada.

Sumo Digital, as the group's primary business, is one of the UK's largest independent developers of AAA-rated video games, having studios in Sheffield, Newcastle, Nottingham, Huddersfield, Leamington Spa and Pune, India. The business has acquired two studios since IPO, which operate under their own names, BAFTA award-winning The Chinese Room and Red Kite Games. Sumo Digital provides turnkey and co-development solutions to a global blue-chip client base.

Atomhawk is a multi-award-winning visual design company, with studios in Newcastle and in Vancouver (Canada), servicing the games, film and visual effects industries.

Together, the Group delivers full-spectrum visual and development solutions, which include initial visual concepts, conceiving new products and game development involving all aspects of pre-production, production & development, as well as supporting games as a service.

CHAIRMAN'S STATEMENT

I am pleased to report that 2018, our first full year as a quoted company, was a period of substantial growth and delivery for Sumo Group. The Group's shares were admitted to trading on AIM on 21 December 2017 and, in the financial year ended 31 December 2018, we successfully delivered on all the strategic objectives set out in our Admission Document.

Deliver and expand

The Group has grown substantially, generating revenue and profitability in the year ended 31 December 2018 slightly ahead of market forecasts. This strong performance is largely driven by our talented and dedicated people, who continue to provide exceptional creativity, service and high level of expertise. It has been particularly pleasing to see many of our people begin to invest in the Company's new share incentive plans, which were launched in July 2018 to give colleagues the opportunity to participate in the success of our business. Overall, more than 61% of our colleagues are participating in either the Sumo Group plc Long Term Incentive Plan or the Share Incentive Plan.

Our ability to attract and retain the best talent in the industry is crucial to the Group's success and is a primary area of focus for the business. We delivered nearly 14% organic growth in overall headcount in 2018. The expansion of the Group continues and our talent pool has been strengthened further with hires in the new financial year.

New strategic partners

As well as strengthening our excellent existing client relationships, one of our key aims is to broaden the growth opportunities available to the Group by winning new clients. We secured several new contracts in the final weeks of 2018, to which we referred in our Trading Update issued on 21 January 2019. While we are unable to disclose full details, two of these contracts are with Apple, a new client for Sumo Group, for the development of games for its Apple Arcade subscription service.

Acquire complementary revenue streams

In addition to organic growth, we strengthened the Group's talent base further through acquisitions and other means. Sumo Digital took on the former CCP Games studio in Newcastle on 1 January 2018, bringing 34 new people to the Group. In August 2018, we acquired The Chinese Room in Brighton. In January 2019, we completed the purchase of Red Kite Games in Huddersfield. Both the Newcastle and Brighton studios expanded during the year and we are confident that Red Kite Games will also grow successfully.

Atomhawk, our multi-award-winning visual design company acquired in June 2017, continues to perform well and we are reaping the benefits of having premium creative art services available for both external and intra-group customers.

Develop valuable own intellectual property ("own-IP")

Shortly after our IPO, we established an IP Creation Committee, which includes our Non-Executive Director and industry guru, Ian Livingstone. This committee meets regularly to review ideas emerging from our Game Jams process, as well as ideas produced by Sumo Digital's concept team and those emanating from our newly acquired businesses. The Group's ability to generate own-IP opportunities is strengthening. Our new relationship with Apple is for the development of a Sumo Game Jam concept, with the working title of "Spyder". Our acquisition of The Chinese Room added two original concepts to the Group's IP portfolio. With the additional necessary investment provided by Sumo Digital, one of these concepts, Little Orpheus, is also being developed with Apple.

We continue to view monetisation of our own-IP portfolio as an important driver of future growth and profitability of the Group.

Board and Governance

The Board has continued to develop its governance structures and processes throughout the year. In September 2018, we confirmed our adoption of the Quoted Companies Alliance updated Corporate Governance Code and set out in detail how we comply. The full statement covering this is available on the Company's website and will be in the Corporate Governance section of the Annual Report, due to be published in May 2019.

The Board was strengthened further in the same month by the appointment of Andrea Dunstan as a new Non-Executive Director. Andrea has brought additional and valuable HR and remuneration experience to the Group and has been appointed Chair of the Board's Remuneration Committee.

We have also announced today the appointment of Paul Porter to the Board of Sumo Group plc as Chief Operating Officer. Paul is one of the co-founders of Sumo Digital and has been Managing Director of that business since IPO. I am confident Paul will make a significant and valuable contribution both to the Board and the Group in his new role.

As a Board, we believe it is important to keep our own performance under review. The outcomes of an evaluation assessment carried out in November 2018 will be in the Corporate Governance section of our Annual Report.

Ken Beaty
Non-executive Chairman

CHIEF EXECUTIVE'S REVIEW

Introduction

Our first full year as a plc was another successful and highly productive one for the Group. Sumo is a people business and we continue to grow rapidly; since IPO we have increased our headcount overall by 33%. At the year end we had 592 people (2017: 489) working in seven studios (2017: five) in three countries. Shortly after the year end, we acquired Red Kite Games, a work-for-hire studio in Huddersfield employing 27 people focused on engineering and code support services. Sumo Digital has recently opened a new studio in Leamington Spa to focus on mobile game development, which takes us to nine studios.

Our market is strong and growing and our relatively low risk, high visibility business model generates both cash and sustainable profit margins. In 2018, three of our major projects were announced or officially launched by clients: Hitman 2 for IO Interactive, Crackdown 3 for Microsoft and Team Sonic Racing for SEGA. In the last few weeks of the financial year, we agreed terms or signed contracts on four new major projects. These give us excellent contracted or near contracted visibility on 88.7% of our budgeted development fees for Sumo Digital for 2019.

A challenge we face in presenting our business to the outside world is the stringent confidentiality requirements placed on us by our clients, confidentiality which they value highly. As much as we want to tell our investors about all the exciting games on which we are working, we are generally unable to do so. The announcement of such games is, rightly, in the hands of the publisher and I look forward to updating investors on new clients and games as projects progress. We are now able to publicise that we are developing two games for Apple's recently announced subscription gaming service, Apple Arcade. Shortly before this announcement, Google also announced a new cloud-gaming service, Stadia. These major announcements are indicative of the positive backdrop for content developers in our market.

Our business model remains relatively low risk. The Group is generally not directly exposed to the commercial success of a game but can benefit from upside opportunity where there are royalties in place. We are, however, generating new opportunities to accelerate the Group's growth and increase our margins through the development of own-IP games, either self-funded or co-funded, and through acquisition. The Group also benefits from being able to reuse its own tools and technology and having a significant presence in India, which provides a lower cost base.

Concept creation

The development of our own-IP is an important part of our strategy. We launched our own game, Snake Pass, in March 2017. The development cost was relatively low and the game was a great success, generating a return on investment of circa 130% to the end of 2018, and sales continue. Our people are highly talented and creative and, whilst our primary focus is on developing clients' IP, we are generating some outstanding game ideas of our own. We encourage creativity and will continue to develop the best game ideas to generate financial returns, but without taking undue risk.

Concepts are created from three main sources: from Game Jams, which we are now running across most of the Group; from our concept team; and from acquisitions, for example The Chinese Room. The ideas generated are rigorously tested both internally and externally and we are highly selective in deciding which concepts are worthy of investment and further development. If a concept is for a relatively small game, we will consider funding the project in full and then either self-publishing, as we did with Snake Pass, or using an external publisher to leverage greater sales opportunities. For larger projects, we are now looking to obtain external funding from a publisher for the majority or all of the cost, thereby keeping our risk appropriately low while also looking to generate higher returns through royalties which reflect the value of the original concept creation. Our contracts with Apple for Little Orpheus and "Spyder" are excellent examples of this and the accounting treatment of these new types of project is considered in the Group Financial Review.

Results

I'm delighted with the continuing growth of the Group. In the year ended 31 December 2018, revenue rose by 35.3% to £38.7m (2017: £28.6m). These figures exclude £9.3m of pass-through revenue in 2018 (2017: £2.0m) on which Sumo Digital does not make a margin. The underlying revenue for 2018 adjusted for the impact of the adoption of IFRS 15 was £38.9m, representing an increase of 35.9% on the figure of £28.6m in 2017. This was driven by continuing strong organic growth at Sumo Digital and the first full year of ownership of Atomhawk, which contributed revenue of £2.7m in the year. Development fees for the year were £37.5m (2017: £26.4m), an increase of 41.9% on the prior year and an increase of 39.2% on a like for like basis adjusted for the effect of IFRS 15 and excluding acquisitions.

The Group achieved Adjusted EBITDA of £10.4m in 2018, a substantial increase on the £8.4m reported in 2017.

Further details of the financial results, including the impact of IFRS 15, a new accounting standard for revenue, are set out in the Group Financial Review.

Operational review

Sumo Digital

In June 2018, we celebrated the 15th anniversary of Sumo Digital, the Group's largest business representing just over 95% of revenue. Sumo Digital 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 (end to end full development lifecycle for games). In 2018, the business operated from studios in Sheffield, Nottingham, Newcastle, Brighton and Pune in India. With the addition of Red Kite Games and the opening of a new studio in Leamington Spa post year end, Sumo Digital now operates from seven locations.

Studios and expansion

We started 2018 by taking on the Newcastle studio of CCP Games, bringing a further 34 people to the business and an additional studio location. This studio was quickly integrated and has performed strongly under our ownership. In December, we relocated the team to the Northern Design Centre building in Gateshead where the primary Atomhawk studio is located.

In August, we acquired The Chinese Room, an award-winning independent game development studio in Brighton. The acquisition accelerated our own-IP pipeline, as well as adding new intellectual property and creative talent. The Chinese Room had two original concepts, one of which, 13th Interior, was at prototype demo stage and the other is Little Orpheus, which, following our input and investment, is now being developed for Apple Arcade. It also gave us the opportunity to develop a new studio in the South of England, allowing us to access an additional pool of talent in a creative hot-spot, extending the reach and accelerating the growth of our core business. We are very pleased with the progress and performance since acquisition. At the year end, we had a team of nine in the Brighton studio and we continue to recruit to grow this team.

On 31 January 2019, post year end, we acquired Red Kite Games, a work-for-hire studio focusing on engineering and code support services. The acquisition supports the Group's growth strategy by further increasing our capacity and enabling us to access another new talent pool in West Yorkshire. Red Kite Games operates from a single studio in Huddersfield and has a team of 27 people. This talented and highly experienced development team works with some of the industry's best-known publishers and developers, most recently Codemasters on DiRT 4, Sony Computer Entertainment (SCE) on God of War III: Remastered and Activision on Call of Duty: Strike Team. Early indications show that this business is operating in line with expectations as part of Sumo Digital.

Sheffield continues to be our largest studio and our head office. The studio had another strong year and the team is currently working on several exciting projects, including "Spyder" for Apple Arcade. We completed a significant refurbishment programme of these premises in the first quarter of 2018 to create a larger and much improved working environment for our people. Our intention is to expand further into an adjacent unit and continue our investment in maintaining a desirable working environment.

The Nottingham studio performed well in the year. Many of our people in Nottingham were working on Team Sonic Racing. The team has also been working with CCP Games and on distributed development supporting other studios in the Group. It is a highly versatile studio and towards the end of the year started working on two new projects.

Across the four UK studios in 2018, including Brighton for part of the year, we achieved utilisation rates of circa 95%, which is in line with our targets. We consider these utilisation rates to be sustainable, having regard to levels achieved in previous years.

Sumo Digital has been operating in India for 12 years. We have established a highly skilled team at our studio in Pune which continues to perform strongly. The relatively attractive cost structure underpins our profit margins and helps us to remain competitive. We now have significant engineering talent and games designers working with the long-established art team and expect this studio to move to full game development in the future. Accordingly, we attended the India Game Development Conference at Hyderabad in December 2018. The utilisation rate at this studio increased to 92% in 2018 (2017: 90%).

Operating from multiple locations gives us the capacity to deliver our headcount growth targets and we are constantly reviewing opportunities to accelerate growth by opening studios in other strategic locations. The recent opening of the new studio in Leamington Spa, led by a highly regarded studio head, to focus on mobile game development, is yet another example of our growth strategy in action. We are considering other new locations both in the UK and abroad as well as looking at potential acquisition opportunities.

Awards
We always appreciate being recognised by our industry or outside organisations in the form of awards. At Gamescom 2018, Team Sonic Racing, which has a planned launch date of May 2019, received the Best Casual Game award. It was particularly pleasing that Jessica Gaskell, one of our producers, was awarded the Game Dev Heroes Winner - Production. Other members of our team received nominations for numerous awards, including Games Dev Heroes, Woman in Games and GamesIndustry.biz 100 Future Talent list.

In December 2018, Sumo Group was named SME of the Year at the Yorkshire Business Awards 2018.

Clients
Over the past few years, we have worked with Sony, Microsoft (including Turn 10 Studios), Sega, Deep Silver, IO Interactive and CCP Games. Whilst constrained by client confidentiality from providing further detail until permitted, I am pleased to report that Sumo Digital continued to work with some of the largest publishers in the world during 2018 and that we were delighted to add Apple to our client list late in the year.

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.

Atomhawk

Atomhawk performed well in the first full year of ownership. It has two studios, one in Newcastle and the other in Vancouver, where the team moved to larger premises in February 2018. The two studios work together closely and we have created an intra-company transfer scheme to promote knowledge sharing across the business.

Atomhawk 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. The business primarily serves the creative industries, working with video games studios, as well as film and television. It has international clients across the entertainment sector. We have delivered sustained and stable growth both in terms of headcount and revenue in the year under review with senior appointments in both locations. Clients include 2K, WB Games, Microsoft and LEGO in the UK and Zynga, EA, Daybreak and Microsoft in Canada. The business has expanded its motion graphics and marketing art service lines, the latter area focusing on the retail and theme park sectors. I am pleased to report that Atomhawk won Best Art Supplier at TIGA in 2018, recognising the creative team's efforts and exceptional talent in the business.

Atomhawk continues to operate primarily with its own client base but is increasingly collaborating with Sumo Digital on projects including own-IP.

Strategy

Sumo Group's strategy remains unchanged: to deliver and expand, to win new clients, M&A, particularly with a view to add complementary revenue streams, and to develop our own IP, both self-funded and co-funded opportunities:

- 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;
- We plan to win new clients through the expansion of our publisher portfolio, collaborating with other publishers and extending our co-development relationships, and through selective acquisitions;
- We seek to develop complementary revenue streams through moving into new premium services, possibly through acquisition, as we have done successfully with Atomhawk; and
- Following the highly successful release of Snake Pass in 2017, we will continue to develop our own-IP as referred to above. We plan to release at least one self-funded own-IP title in 2019.

Acquisitions

We have an interesting pipeline of acquisition opportunities ranging in activities, sizes and locations. The Group is particularly keen to acquire owner-managed businesses, where the vendors remain with the business post acquisition and where we can use our listed shares to provide suitable ongoing incentive arrangements.

People

We emphasise that Sumo Group is a people business and its continuing success is entirely dependent on recruiting and retaining talented people. I am pleased to report that, at the end of March 2019, our headcount had increased to 650, an increase of 58 from 592 at the end of December 2018. During 2018, our headcount increased by more than 100 and the year end headcount was significantly above our expectation at the start of the year. It is notable that this large increase was achieved despite our staff attrition rate in the UK rising to 13.8%. The attrition rate has now dropped significantly and we will work to maintain acceptable levels moving forward. The two principal factors behind the increased attrition were a Group-wide job levelling process, which was undertaken in the year, and, whilst we successfully transitioned most teams onto other existing or new projects, the completion of an unusually large number of major projects in the year.

We are strengthening our HR team and processes and have taken focused and planned actions to improve staff retention. Such measures include our incentive arrangements and investing in our premises to provide a high-quality working environment. Andrea Dunstan, who has a wealth of relevant people experience, joined the Board in September as a Non-Executive Director and Chair of the Remuneration Committee. I am very pleased to note that, in this short period of time, she has already made a positive impact on the business and its processes.

The Group has continued to meet challenging recruitment targets successfully over many years. Good people are in high demand and we must continue to focus on providing an attractive employment opportunity for the best. Video game developers tend to look for security of employment and interesting work. Sumo does offer the opportunity to work on many platforms and in many genres of games using various technologies. We recruit at all levels of experience and have strong relationships with universities both in the UK and abroad. We also benefit from recruiting in many locations with significant talent pools.

Of the four original founders of Sumo Digital, three remain with the business: Darren Mills, Studio Director of Sheffield, myself as CEO and Paul Porter. Paul was appointed Chief Operating Officer of Sumo Group on 1 April and joins the Board with effect from today. He was previously Managing Director of Sumo Digital. I am delighted that Paul is taking on this important new role and welcome him to the Board.

I am also pleased that Gary Dunn has taken on Paul's previous role as Managing Director of Sumo Digital. Gary has impressed the Board considerably since he joined the Sumo Digital team as Portfolio Director in October 2017, demonstrating excellent leadership, growing successful teams and managing projects from concept to launch. We welcome him to his new role and look forward to his continuing contribution.

We are committed to maintaining Sumo Group's creative culture as we grow. Exceptional talent drives opportunity and, on behalf of the Board, I would like to thank everyone at Sumo Group for their passion, commitment and desire to create outstanding games and imagery.

The market

Our market is strong and growing. In a recent GamesIndustry.biz article the value of the global games market was estimated to be $134.9bn using data from Newzoo. The market value was further analysed as $63.2bn for Mobile, $38.3bn for Console and $33.4bn for PC. Year on year growth rates of these three segments were estimated to be 12.8%, 15.2% and 3.2% respectively, giving an overall market growth of 10.9%. The latest quarterly update of the Global Games Market Report forecast that 2.3bn gamers worldwide would spend $134.9bn on games in 2018 and that the market will grow by c.30% to $174bn by 2021.

The UK is an important part of the global video games market and the market is a very important one for the UK. The TIGA Business Opinion Survey 2019 reported that video games development contributed nearly £1.5bn towards UK GDP in the year to November 2017 and an estimated £613m in direct and indirect tax revenue to the Exchequer. TIGA estimates that 37,536 people in the UK work directly or indirectly for the video games industry, including 13,277 people in games development. UK operators are positive about the market opportunity and the future. In the TIGA survey, it was reported that 77% of operators planned to expand their workforce in 2019 and 52% of respondents said the outlook for investment in their business was more optimistic than 12 months earlier, despite the uncertainty surrounding Brexit.

There are several very interesting trends developing in the market, including the move to streaming, the rapid growth of e-sports and the continuing development of Games As A Service.

Recently, Microsoft CEO Satya Nadella briefed journalists at an invitational editors' meeting at Microsoft's headquarters on what they describe as "Netflix for games". He discussed Microsoft's move to video game streaming with Project xCloud, where a gamer can play high-quality, blockbuster games on any device with the game being powered by a remote computer. On 19 March 2019, Google announced Stadia, its cloud-based system able to run on PC, mobile, tablet and TV. On 25 March 2019, Apple announced Apple Arcade, and we are delighted to be developing two games for this subscription service. These are very significant steps for the streaming of video games.

e-sports continues to grow rapidly. Recently GamesIndustry.biz reported that this sector is estimated to be growing at up to 40% per annum. Total prize money awarded for e-sports tournaments in 2018 was $140m. Global e-sports revenues are expected to grow to $1bn for 2019.

These trends underpin the drive for high quality games, which supports Sumo Group's business model and growth strategy. The opportunities for our business are further strengthened by the ongoing move towards GAAS, in which developers or publishers engage with players over a protracted period following the release of a game providing downloadable content and other ongoing services. The Group is well positioned to benefit from the changes in a very dynamic market.

Outlook

With the video games market forecast by Newzoo to grow c.30% in the next three years, driven by demand for new cloud-based subscription platform content supported by the world's biggest publishers, we believe that the outlook for Sumo Group is as good as ever. We are successfully attracting major new global publishers, as well as strengthening our relationships with existing and previous clients, and our business development pipeline remains very healthy.

The challenge for the business is the acquisition of talent to support and deliver on these significant growth opportunities. Our quest to attract talented people to the business, both organically and through acquisition, is delivering results and we will maintain a keen focus on this aspect of the business in 2019. Having successfully acquired Red Kite Games at the beginning of the new financial year, we are continuing to explore further interesting acquisition opportunities.

We have had a positive start to the new financial year and have an unusually high degree of earnings visibility with around 88% of Sumo Digital's forecast 2019 development fees being already contracted or near contracted. Current trading is in line with the management's expectations and I remain confident that the business will continue to deliver in 2019 and beyond.

Carl Cavers
Chief Executive Officer

GROUP FINANCIAL REVIEW

These financial statements cover the financial year ended 31 December 2018, the first full year of Sumo Group as an AIM quoted company, following the IPO in December 2017.

Results overview

The underlying trading of the Group was strong in the year under review. Statutory revenue for the year was £38.7m (2017: £28.6m). Our revenue figures are now stated excluding pass-through revenues upon which Sumo does not make a margin and the 2017 comparative figures have been restated accordingly. Pass through revenue in 2018 was £9.3m (2017: £2.0m). These figures reflect continuing strong organic growth at Sumo Digital and the first full year of the ownership of Atomhawk, which contributed £2.7m and £0.7m of revenue and EBITDA respectively. The 2018 figures also include four and a half months of ownership of The Chinese Room which performed ahead of expectations by breaking even on revenue of £0.3m. The like for like increase in adjusted revenue[1], excluding the effect of acquisitions, was £8.6m, an increase on the prior year of 31.6%.

Adjusted EBITDA[4] was £10.4m. This was significantly ahead of the Adjusted EBITDA in 2017 of £8.4m, an increase of 24.6% and slightly ahead of the Board's expectations. The underlying adjusted profit before tax, share based payment charge, adjustment for customer revenue included within finance income, investment in co-funded games expensed, exceptional items and amortisation for the year was £9.0m (2017: £7.5m also adjusted for net finance costs relating to pre-IPO financial structure) and reported loss before tax was £0.5m (2017: £28.0m) as set out in note 14. The reported loss before tax is stated after, inter alia, the non-cash amortisation charge of £6.9m.

The net cash outflow for the year was £8.6m which was in line with our expectations at the start of the year. Cash balances at the year end were £3.7m (2017: £12.4m).

The audited results are the first prepared having adopted IFRS 15: Revenue from Contracts with Customers. In the Annual Report 2017, the Board stated that it did not expect the adoption of IFRS 15 to have a material impact on the financial information of the Group in the period of initial application. In our Half Year Results 2018, we referred to changed terms on one contract, which has unusual payment terms. Under IFRS 15, there were adjustments in the period under review of £0.2m and £0.3m to revenue and interest income respectively, relating to this contract, and there will be further adjustments in 2019. The adjustment to revenue of £0.2m comprises two separate amounts: £0.4m adjustment to development fees relating to the funding income on the project and £0.2m recognition of variable consideration on future royalty income. Further details are set out in note 12.

As our talent pool grows, the Group is generating more own-IP opportunities, including concepts which lend themselves to larger, more complex game development. We remain committed to our relatively low risk model, however, and, as such, we will not take significant principal risk. Towards the end of 2018, we began work on a new type of co-development contract, under which external funding is provided by a publisher for all or the majority of the development costs for a game, the concept of which was created by Sumo Group. This new approach will enable us to generate returns which best reflect the value of a Sumo Group concept, whilst keeping principal risk relatively low. Two such contracts were signed in the latter stages of 2018, for projects on which the publishers will pay for the majority of the development costs, in exchange for the right to access or use the IP created, and Sumo Group will fund a smaller proportion of the costs. The revenue and profit are recognised on the development fees payable by the publisher during the term of the contract but the costs incurred by Sumo Group are expensed. During 2018, the costs incurred on these two projects amounted to £0.2m in aggregate. The equivalent costs to be incurred in 2019 will be larger.

During the year the Group incurred £0.1m of transaction costs on the acquisition of The Chinese Room.

The Board believes that it is helpful to include alternative performance measures which exclude certain non-cash charges and are adjusted for the three matters referred to above to present the underlying results of the Group. These measures are reconciled to the income statement in note 14.

The non-cash charges included in the Group's results relate to the amortisation of goodwill and to share based payments. The other three adjustments are firstly for the financing of the one contract under IFRS 15, secondly for the costs expensed on the development of the two games referred to above and thirdly the transaction costs on the acquisition of The Chinese Room.

To assist the understanding of how IFRS 15 applies to the three different types of contract presently being undertaken by Sumo, illustrative case studies are set out in the Final Results 2018 investor presentation, available on the Group's website, and in the Group's Annual Report, which will be published in May 2019.

Trading

Development fees for the year were £37.5m, an increase of 41.9% on the £26.4m in 2017. Atomhawk, which was acquired on 29 June 2017, contributed revenue of £2.7m in the year (2017: £1.3m in the period post acquisition). The Chinese Room, which was acquired on 13 August 2018, contributed £0.3m of revenue in the year. On a like for like basis the Group's development fees, adjusted for the effect of IFRS 15, increased by 39.2%.

The Group generated own-IP title revenue of £0.4m (2017: £1.7m). Royalty income was £0.8m (2017: £0.5m). Both these revenue figures are in line with the Board's expectations. The own-IP revenue is generated from the ongoing sales of Snake Pass which was launched in March 2017. The royalty income now includes an amount of £0.2m in recognition of variable consideration under IFRS 15 which is future royalty income expected to be received in 2019

Statutory gross profit for the year was £18.4m, an increase of 38.9% on the £13.3m in the prior year.

Gross margin adjusted for IFRS 15 and excluding royalties was 47.6% (2017: 45.4%).

Operating expenses for the year were £19.1m (2017: £35.8m). Included within operating expenses were amortisation and depreciation of £6.9m and £1.1m respectively (2017: £27.6m and £0.7m respectively). The non-cash amortisation charge is explained below. The overall increase in operating expenses excluding amortisation and depreciation was primarily due to investment in people and systems, the inclusion of a full year of Atomhawk and increased premises costs on the newly acquired leasehold units in Sheffield. The Group spent £0.6m on research and development, all of which has been expensed.

One of the core reasons why the Group became a public listed company was to use its quoted shares to incentivise our people. The Sumo Group plc Long Term Incentive Plan and the Sumo Group plc Share Incentive Plan were launched in March 2018 and July 2018 respectively. There is a non-cash charge under IFRS 2 of £2.6m in 2018 to reflect the cost of these plans.

The net finance income for the year was £0.2m (2017: net finance cost of £5.4m). The Group had no borrowings during the period and the net finance income consists of the IFRS 15 financing income referred to above partially offset by the bank commitment fee payable.

The Corporation Tax credit for the year was £0.2m (2017: £4.5m credit). Further information regarding taxation is set out in note 8.

Profit margins

Statutory gross margin for the year was 47.6% (2017: 46.4%). These margins reflect the royalty income of £0.8m (2017: £0.5m) in the year which flows directly through to gross profit. The gross margin adjusted for IFRS 15 adoption impact, investment in co-funded games expensed and excluding royalties was 47.6% (2017: 45.4%).

Adjusted EBITDA margin was 26.8% (2017: 29.2%). The reduction in EBITDA margin was expected as we invest in the platform to support future growth.

The gross margin is underpinned by the high levels of, and rapidly increasing, demand for premium development and creative services to the video game and wider entertainment industries combined with the Group's delivery and cost model. In particular, Sumo Group benefits from its core technology which enables accelerated prototyping, the efficiency and de-risking of the development phase and optimising development through the use of proven technology. The Group also operates from relatively low-cost locations notably in India.

The adjusted EBITDA margin for 2018 reflects the significant investment in the year in the Group's overhead base to provide a strong platform to support long term growth.

Client concentration

During 2018 there were four major clients that individually accounted for at least 10% of total revenues (2017: three clients). In aggregate, these four clients accounted for 65.9% of total revenue and the top three accounted for 52.5%.

Due to the nature of Sumo Group's market and the services provided the Group will always serve a relatively small number of clients at any given time, usually on major long-term contracts. The Group has strong relationships with its clients some of whom have been very long-standing strategic partners. Over time, our client concentration has reduced and it is likely to continue to do so. Several contracts secured in the final weeks of 2018 are with significant clients with whom the Group has not worked before, including Apple.

Video Games Tax Relief ("VGTR")

Sumo Digital continues to claim and receive significant amounts under VGTR. We include VGTR within our direct costs 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. The amounts included for 2017 and 2018 are £8.3m and £6.9m respectively.

Shortly before our IPO in December 2017, we made due diligence enquiries into the status of VGTR. These enquiries indicated ongoing cross-party support for the measure. A British Film Institute report published in October 2018 showed that in 2016 the total development spend in the video games sector was £1.25bn, of which £390m accessed VGTR and that VGTR supported spending generated £294m of direct gross value added. For every £1 spend, the UK has seen an additional £4 of gross value added and, according to the BFI, it has generated around 9,170 full-time equivalent roles. In 2017, the EU Commission announced that the VGTR scheme would continue until at least 2023. It is worth noting that similar schemes are in place in many other countries, notably Canada, the US, and France, some of which are at higher rates than in the UK. It is reported that Germany, the Republic of Ireland and Poland are considering introducing similar incentive schemes.

In a recent survey by TIGA, respondents referred to the need to make the UK's Video Games Tax Relief more internationally competitive when asked about obstacles to growth in the sector.

Treatment of acquisition and IPO costs

The net consideration of £0.6m paid for the acquisition of The Chinese Room has been capitalised and goodwill and other intangibles of £0.6m are carried on the balance sheet as at 31 December 2018. £0.1m of transaction costs were charged through the income statement and are treated as an adjustment in the calculation of Adjusted EBITDA.

In the previous year, 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 in that year. Transaction costs of £0.2m were charged through the income statement for the acquisition of Atomhawk.

Cash flow

As expected, net outflow of cash from operating activities was £6.4m (2017: cash inflow £3.3m). The principal factors behind the cash outflow for the year were:

- the payment in 2018 of fees of £1.7m arising on the December 2017 IPO;
- the timing of VGTR receipts; and
- the timing of milestone receipts, in particular on one contract in which the cash is receivable after the game is released. This contract is the one referred to above regarding IFRS 15. It accounted for £5.7m of the increase in working capital and arose primarily due to the payment terms on this one contract whereby, for commercially attractive terms, the Group is financing an element of development combined with the timing of milestone receipts. The increase in working capital on this particular contract is expected to reverse in 2019.

Capital expenditure in the year was £2.2m (2017: £1.7m), most of which related to either the refitting of the premises in Sheffield, which was ongoing over the 2017 year end, or the purchase of IT equipment and systems.

The cash cost of the acquisition of The Chinese Room was £1.6m and it had cash balances of £1.6m at the date of acquisition.

The Board expects the Group to be significantly cash generative in 2019.

Cash balances at 31 December 2018 were £3.7m (31 December 2017: £12.4m).

Balance sheet

Goodwill and other intangibles reduced by £5.8m to £22.4m. The reduction reflects the residual non-cash goodwill and amortisation charge of £6.9m, following from the decision taken in the previous year to review the policy for historical intangible assets in respect of client contracts and client relationship intangible assets arising from the acquisition by Perwyn in September 2016. Following the review, these intangible assets were valued 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 also took account of changes in the scope of the client contracts and client relationships. These amendments constituted a change in accounting estimate, and the effect is to amortise the historical intangible assets arising on the September 2016 change of ownership over a shorter period. The accelerated amortisation charge arose in the nine months up to September 2018, being the date of the second anniversary of the Perwyn transaction. The reduction in the intangible asset was partly offset by the increase in other intangibles arising from the acquisition of The Chinese Room in the period.

Current assets were £28.9m (31 December 2017: £23.8m). Trade and other receivables were £25.2m (31 December 2017: £11.4m). The increase of £13.8m in trade receivables is primarily due to the contract with unusual payment terms which represented £5.7m of the movement.

Cash balances at 31 December 2018 were £3.7m (31 December 2017: £12.4m). The Group has 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 from 15 December 2017. As at the date of these financial statements, this facility remains undrawn.

Trade and other payables reduced by £1.0m to £11.0m at 31 December 2018.

The consolidated balance sheet at 31 December 2018 includes own shares of £4.9m which relates to shares issued under the terms of the Sumo Group plc Long Term Incentive Plan.

Foreign currency

Until recently, virtually all the Group's contracts have been denominated in pounds sterling. Atomhawk has generated revenues in foreign currency, primarily US dollars. Costs are incurred in India in local currency.

Two development contracts signed in late 2018 are denominated in US dollars, hence Sumo will have relatively significant revenues in that currency. It is Sumo Group's policy to hedge such revenues to protect the Group from fluctuations in exchange rates and the forecast revenue receipts on these two contracts have been hedged accordingly in 2019.

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

During the year, options were granted and remain outstanding under the LTIP over an aggregate of 8,631,278 shares. 4,618,735 shares were issued on 9 March 2018 to be held in order to satisfy the element of the proposed LTIP awards which are to be held under a joint ownership arrangement. The Group also launched the Sumo Group plc Share Incentive Plan ("SIP") in July 2018 and 92,287 shares were issued in 2018 under the terms of the SIP.

Sumo Group issued 357,485 shares to the vendors of The Chinese Room as part of the consideration upon acquisition which was announced on 14 August 2018.

Post balance sheet date events

On 1 February 2019, we announced the acquisition of Red Kite Games, a work-for-hire studio focusing on engineering and code support services. The net consideration is circa £1.5 million, as Red Kite Games has been acquired with circa £0.5 million of cash on the balance sheet. The business will continue to operate under the Red Kite Games name, as a wholly owned subsidiary of Sumo Digital.

Sumo Group has agreed to issue 1,162,791 shares to the vendors of Red Kite Games on the first anniversary of the completion as part of the acquisition consideration, which was completed on 31 January 2019.

Since the year end, options have been granted under the LTIP over 618,392 shares and 4,550 shares have been issued to date in 2019 under the terms of the SIP.

David Wilton
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2018 £'000	Restated[1] Year ended 31 December 2017 £'000
Revenue	5	**38,696**	28,591
Direct costs		**(27,191)**	(23,635)
Video Games Tax Relief		**6,898**	8,296
Direct costs (net)	6	**(20,293)**	(15,339)
Gross profit		**18,403**	13,252
Operating expenses		**(19,004)**	(33,191)
Operating expenses – exceptional	7	**(94)**	(2,656)
Operating expenses – total		**(19,098)**	(35,847)
Group operating loss		**(695)**	(22,595)
Analysed as:			
Adjusted EBITDA[2]		**10,407**	8,356
Amortisation	10	**(6,947)**	(27,626)
Depreciation		**(1,104)**	(669)
Share based payment charge		**(2,578)**	-
Customer revenue included within finance income	12	**(421)**	-
Accrued royalty not yet received and contingent on future sales	12	**250**	-
Investment in co-funded games expensed	7	**(208)**	-
Exceptional items	7	**(94)**	(2,656)
Group operating loss		**(695)**	(22,595)
Finance cost		**(99)**	(5,381)
Finance income		**311**	3
Loss before taxation		**(483)**	(27,973)
Taxation	8	232	4,538
Loss for the year attributable to equity shareholders		(251)	(23,435)
Basic and diluted loss per share (pence)	9	**(0.20)**	(389.40)

[1] 2017 comparative restated for pass through revenues and costs upon which Sumo does not make a margin. During the year the directors reassessed their accounting treatment for certain 'pass through' costs which are recharged at nil margin and concluded that it would be appropriate for these costs to be netted against recharged income. This change in presentation reduced revenue and direct costs for the year ended 31 December 2017 by £2m but had no impact upon gross profit, earnings or financial position.

[2] Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, exceptional items, share based payment charge, customer revenue included within finance income, accrued royalty not yet received and contingent on future sales and the investment in co-funded games expensed, is a non-GAAP metric used by management and is not an IFRS disclosure.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss for the year attributable to equity shareholders	**(251)**	(23,435)
Other comprehensive expense:		
Exchange differences on retranslation of foreign operations	(48)	(16)
Total other comprehensive expense	(48)	(16)
Total comprehensive expense for the year	(299)	(23,451)

Items in the statement above are disclosed net of tax which is immaterial.

CONSOLIDATED BALANCE SHEET
as at 31 December 2018

	Note	2018 £'000	Restated[3] 2017 £'000
Non-current assets			
Goodwill and other intangible assets	10	**22,378**	28,213
Property, plant and equipment		**2,496**	1,835
Deferred tax asset		**1,981**	474
Total non-current assets		**26,855**	30,522
Current assets			
Trade and other receivables		**25,172**	11,414
Cash and cash equivalents		**3,730**	12,424
Total current assets		**28,902**	23,838
Total assets		**55,757**	54,360
Current liabilities			
Trade and other payables		**11,050**	12,022
Corporation tax payable		**810**	1,316
Total current liabilities		**11,860**	13,338
Total liabilities		**11,860**	13,338
Net assets		**43,897**	41,022
Equity			
Share capital		**1,501**	1,450
Share premium		**40,994**	36,121
Reverse acquisition reserve		**(60,623)**	(60,623)
Merger relief reserve		**590**	-
Foreign currency translation reserve		**(21)**	27
Own shares		**(4,919)**	-
Retained earnings		**66,375**	64,047
Total equity		**43,897**	41,022

[3] *Prior year 2017 restated for a reclassification between trade receivables and trade payables.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Merger relief reserve £'000	Foreign currency translation reserve £'000	Own shares £'000	Retained earnings £'000	**Total equity £'000**
Balance at 1 January 2017	**45**	**352**	-	-	43	-	**(1,385)**	**(945)**
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	(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**
Balance at 31 December 2017	**1,450**	**36,121**	**(60,623)**	**-**	**27**	**-**	**64,047**	**41,022**
IFRS 15 adoption impact (note 12)	-	-	-	-	-	-	(131)	(131)
Restated balance as at 1 January 2018	**1,450**	**36,121**	**(60,623)**	-	**27**	-	**63,916**	**40,891**
Loss for the year	-	-	-	-	-	-	(251)	**(251)**
Exchange differences on retranslation of foreign operations	-	-	-	-	(48)	-	-	**(48)**
Total comprehensive expense for the year	-	-	-	-	(48)	-	(251)	**(299)**
Transactions with owners:								
Issue of shares in year	50	4,873	-	-	-	-	-	**4,923**
Reserve on issue of shares on acquisition of subsidiary	-	-	-	590	-	-	-	**590**
Share based payment transactions	-	-	-	-	-	-	2,711	**2,711**
SIP share issues and SIP reserve	1	-	-	-	-	-	(1)	**-**
Acquisition of shares by the Employee Benefit Trust	-	-	-	-	-	(4,919)	-	**(4,919)**
	51	4,873	-	590	-	(4,919)	2,710	**3,305**
Balance at 31 December 2018	**1,501**	**40,994**	**(60,623)**	**590**	**(21)**	**(4,919)**	**66,375**	**43,897**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2018

	Note	**Year ended 31 December 2018 £'000**	Restated[3] Year ended 31 December 2017 £'000
Loss for the financial year/period		**(251)**	(23,435)
Income tax		**(232)**	(4,538)
Net finance costs		**(212)**	5,378
Operating loss		**(695)**	(22,595)
Depreciation charge		**1,104**	669
Amortisation of intangible assets	**10**	**6,947**	27,626
(Decrease)/increase in bad debt provision		**(11)**	19
Share based payments charge		**2,578**	-
(Increase)/decrease in trade and other receivables		**(13,739)**	(916)
(Decrease)/increase in trade and other payables		**(1,072)**	4,302
Cash flows from operating activities		**(4,888)**	9,105
Net finance costs		**212**	(5,378)
Tax paid		**(1,687)**	(475)
Net cash (used in)/generated from operating activities		**(6,363)**	3,252
Cash flows from investing activities			
Purchase of intangible assets		**(513)**	(120)
Purchase of property, plant and equipment		**(1,740)**	(1,586)
Acquisition of subsidiary - net of cash acquired		**1**	(2,287)
Net cash used in investing activities		**(2,252)**	(3,993)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	67,358
Transaction costs relating to the issue of shares		**-**	(1,940)
Repayments of borrowings		**-**	(56,718)
Net cash generated from financing activities		**-**	8,700
Net (decrease)/increase in cash and cash equivalents		**(8,615)**	7,959
Cash and cash equivalents at the beginning of the year		**12,424**	4,482
Foreign exchange		**(79)**	(17)
Cash and cash equivalents at the end of the year		**3,730**	12,424

[3] *Prior year 2017 restated for a reclassification between trade receivables and trade payables.*

NOTES TO THE GROUP FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. GENERAL INFORMATION

Sumo Group plc (“the Company”) is registered in England and Wales as a public limited company. 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 2018, and were approved by the Directors on 8 April 2019

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 2019 and 31 December 2020 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 adopted during the year:

In these financial statements the Group has, with effect from 1 January 2018, adopted IFRS 9 and IFRS 15.

IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. No differences arose on the transition to IFRS 9.

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to 'IFRS 15'), replace IAS 18 'Revenue', IAS 11 'Construction Contracts, and several revenue related Interpretations. The new standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018. Two transition differences noted for IFRS 15 is the separation of the financing element of one specific contract where the payment profile extends beyond twelve months and the recognition of variable consideration. The transaction price from this contract has been adjusted for the length of time between the period the services are transferred to the customer and payment date, and the prevailing interest rate of 6%. The use of the 6% rate in this instance is considered to be a key judgement. Otherwise there are no new standards that have become effective in the period that have had a material effect on the Group's 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:

- IFRS 16 Leases

The new accounting standard is effective for years commencing on or after the 1 January 2019.

Under the new standard, the distinction between operating and finance leases is removed and most leases will be brought onto the statement of financial position, as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset will be depreciated in accordance with IAS 16 'Property, Plant and Equipment' and the liability will be increased for the accumulation of interest and reduced by lease payments. There will be no impact on cashflow.

The Company has opted not to early adopt IFRS 16 and prior year financial information will not be restated resulting in no impact on retained earnings on transition. We do not intend to grandfather the lease definition as it has no material impact on our lease population.

A key judgement associated with the adoption of this standard is the identification of the discount rate to be used to calculate the present value of the future lease payments on which the reported lease liability and right-of-use asset are based.

We intend to use the modified retrospective transitional approach meaning that the right of use asset and the lease liability are brought onto the balance sheet using the discount rate applicable at the transition date. The discount rate will therefore be based on the incremental cost of borrowing as at 1 January 2019 where an interest rate is not implicit in the lease contract.

The Company plans to make use of the available exemptions and expedients where applicable. Given the current information available, however, we expect that we will only apply the low value leases exemption and the expedient for leases with a short remaining term although this will remain under review.

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 arises from the provision of game development services. To determine whether to recognise revenue, the Group follows a 5-step process as follows:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue is measured at transaction price, stated net of VAT and other sales related taxes.

Third party funded game development

There is generally one performance obligation with customers, being the development of a completed project or game and as such, the transaction price is allocated to the single distinct performance obligation. The transaction price is set out in the contract and is made up of fixed elements in the form of the development fee and guaranteed royalties and variable elements in the form of future royalties. At inception of each contract the Group begins by estimating the amount of the royalty to be received generally using the "expected value amount" approach. This amount is then included in the Group's estimate of the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur once any uncertainty surrounding the royalty is resolved. In making this assessment, the Group considers the length of the royalty period, the extent of external factors including how the publisher brings the game to market, expected critic scores and other expected game launches. The highly probable nature of the variable consideration is reviewed for each game at each reporting cycle.

As the Group's development activity creates and enhances the game that the customer controls as the game is developed, revenue is recognised over time as the Group satisfies performance obligations by transferring the promised services to its customers in accordance with paragraph 35(b) of IFRS 15. The amount of revenue to recognise is determined based upon the input method that calculates actual costs incurred relative to the total budgeted costs for the project based upon a percentage of completion calculation.

Estimates of revenues, costs or the extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known.

Where the original contract is modified, for example for a change to the scope or price of the contract, the nature of modification is considered as to whether it gives rise to a performance obligation distinct from the promises in the original contract. In cases where the modification gives rise to a distinct performance obligation, the modification is treated as a new contract in its own right and the 5-step model considered for this new contract. Where it does not, the modification is accounted for as if it was part of the original contract. The effect that the modifications have on the transaction price and the measure of progress towards the complete satisfaction of the performance obligation is recognised as an adjustment to revenue at the date of the contract modification. The adjustment to revenue is made on a cumulative catch-up basis.

The fixed elements of the transaction price are invoiced based upon a payment schedule. If the services rendered by the Group exceed the payments, a contract asset for amounts recoverable on contracts is recognised. If the payments exceed the services rendered, a contract liability representing advances for game development is recognised.

There is one contract at 31 December 2018 that contains a financing component where the customer receives a benefit from the Group financing the transfer of services to the customer, generally over a period of time extending beyond 12 months. For arrangements with a significant financing component the transaction price is adjusted for both the length of time between when the Group delivers the services and when the customer pays for those services, and the effects of the time value of money using prevailing interest rates.

When determining what rate to use, management considers the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception taking into account the credit characteristics of the customer.

Licencing revenues

Should the Group develop its own games, it may opt to licence the game to publishers. There is generally a single performance obligation to grant a licence over the developed game. The transaction price includes only fixed elements, typically in the form of a guaranteed royalty. Revenue is recognised at a point in time when the completed game is delivered and the customer has the right to use the asset. As the fixed element of the transaction price will be recognised in advance of payments being received, a contract asset will be recognised. Game revenues from the right to use asset will be recognised as earned, based upon the future sales of the game in accordance with paragraphs B63-B63B of IFRS 15.

Own-IP

The Group also creates its own concepts and IP. No revenue is recognised during the development phase. Once the game is completed and launched, the Group recognises the revenues as they are earned (at a point in time).

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, the impact of IFRS 15 adoption and the investment in co-funded games expensed are excluded from EBITDA to calculate Adjusted EBITDA. For further explanation and details see note 14 and Consolidated Income Statement.

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.

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, are as follows:

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

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.

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 over the term of the lease, as an integral part of the total lease expense.

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 where the initial recognition exemption applies;
- 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 Game Tax Relief

Video Game Tax Relief has 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 “VGTR recoverable” within current assets.

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 loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses in cases where the credit risk on trade and other receivables has increased significantly since initial recognition. In cases where the credit risk has not increased significantly, the Group measures the loss allowance at an amount equal to the 12-month expected credit loss. This assessment is performed on a collective basis considering forward-looking information.

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 purchase of businesses.

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.

Merger relief reserve

Represents the difference between the fair value and nominal value of shares issued on acquisition of a Group subsidiary.

Foreign currency translation reserve

Represents the exchange differences on retranslation of foreign operations.

Own shares

The Group holds shares in an employee benefit trust. The consideration paid for the purchase of these shares is recognised directly in equity. Any disposals are calculated on a weighted average method with any gain or loss being recognised through reserves.

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group financial statements. Any assets held by the EBT cease to be recognised on the group balance sheet when the assets vest unconditionally in identified beneficiaries. The cost of purchasing own shares held by the EBT are shown as a deduction within shareholder's equity. The proceeds from the sale of own shares are recognised in shareholder's equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

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 is presented within direct costs as it is directly related to the level of expenditure incurred. See note 6.

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 Monte Carlo and Black Scholes models.

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). The fair value of the options appraised at the grant date includes the impact of market based vesting 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 £21,379,000 (2017: £20,791,000) and the carrying amount of other intangible assets is £999,000 (2017: £7,422,000) as at 31 December 2018. 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 the 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 rates between 17% and 36%. Subsequent years are based on a reduced growth rate of 2.0% into perpetuity.

The discount rate used was the Group's pre-tax WACC of 12%. The WACC used for the impairment review is reflective of the industry sector WACC rather than the WACC used in investment decisions.

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 have largely 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 10 to the Financial statements.

Revenue recognition on development contracts

There are a number of judgements in respect of the recognition of revenue on development contracts, including:

- the determination of the number of distinct separate performance obligations in a contract. This is based upon judgement around whether the customer can benefit from the use of the service on its own or together with other resources that are readily available to it, and also whether the promise to transfer the service is separately identifiable from other promises in the contract. As explained in the accounting policy for revenue, there tends to be one distinct performance obligation, being the development of a completed project or game;
- whether the Group transfers control of the game over time, and therefore satisfies the performance obligation and recognises revenue over time. This requires judgement as to whether the customer controls the game as it is created and enhanced. As the customer approves the development work as it progresses, and is involved in directing the development activity, it is generally considered that control is transferred over time and revenue is recognised accordingly;
- recognition over time is determined based upon 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;
- for revenue contracts with a significant financing component the transaction price is adjusted for both the length of time between when the Group delivers the services and when the customer pays for those services, and the effects of the time value of money using prevailing interest rates. When determining what rate to use, management consider the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception taking into account the credit characteristics of the customer. This involves a certain degree of judgement;
- variable consideration is constrained on contract inception until the time at which it is considered highly probable that the revenue will not reverse in future periods. As this determination includes a number of factors outside control of the Group, it is inherently difficult to estimate, and may result in revenues being recognised in a later period than when the performance obligations were satisfied.

Video Game Tax Relief

The process of claiming Video Game Tax Relief 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 Game Tax Relief as a deduction from direct costs best reflects the substance and nature of these credits. See note 6.

4. GROUP ANNUAL REPORT AND STATUTORY ACCOUNTS

The financial information set out in the preliminary announcement does not constitute the Group's statutory accounts for the year ended 31 December 2018 and the year ended 31 December 2017. The statutory accounts for 2018 will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors, Grant Thornton UK LLP, have reported on these accounts, their report is unmodified, does not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and does not constitute a statement under either Section 498(2) or (3) of the Companies Act 2006.

The Annual Report and full financial statements for the year ended 31 December 2018 will be available on the Company's website (www.sumogroupplc.com) in due course, at which time a notification will be sent to shareholders.

5. 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, Atomhawk Canada Limited and The Chinese Room Limited. The central activities, comprising services and assets provided to Group companies, are considered incidental to the activities of this single segment 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 £397,000 (2017: £400,00) which were located in India and Canada.

Major clients

In 2018 there were four major clients that individually accounted for at least 10 percent of total revenues (2017: three clients). The revenues relating to these clients in 2018 were £8.1m, £6.6m, £5.7m and £5.1m (2017: £7.7m, £4.7m, and £3.2m).

Analysis of revenue

The amount of revenue from external customers can be disaggregated by location of the customers as shown below:

	Year ended 31 December 2018	Restated Year ended 31 December 2017
	£'000	£'000
UK & Ireland	**14,775**	9,237
Europe	**7,935**	10,861
Rest of the World	**15,986**	8,493
	38,696	28,591

Revenue by category

The Group's revenue can be disaggregated by category as shown below:

	Year ended 31 December 2018 £'000	Restated Year ended 31 December 2017 £'000
Development Fees		
Video Game Industry	**37,225**	26,282
Art & Leisure	**134**	96
Film & TV	**-**	15
Retail	**134**	25
Total Development Fees	**37,493**	26,418
Own IP	**438**	1,695
Royalties	**765**	478
Total Revenue	**38,696**	28,591

The above recognised are recognised over time, with the exception of 'Own IP', which is recognised at a point in time.

On third party game development contracts, the estimated transaction price for the performance obligation includes both fixed ('development fees') and variable revenues (such as 'royalties'), is reassessed at each reporting date (with changes in the estimate recognised in the income statement), and is recognised over time.

2018 "Royalties" of £765,000 including £250,000 (2017: Nil) of variable consideration recognised in advance. This is an IFRS 15 adoption requirement, to recognise variable consideration as part of the transaction price to the extent that it is highly probable not to reverse once the uncertainty is resolved in future periods.

The following aggregated amounts of transaction prices relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied at 31 December 2018.

	2019 £'000	2020 £'000
Revenue expected to be recognised	**16,291**	5,389

Assets and liabilities relating to contracts with customers

The Group has recognised the following asset and liabilities relating to contracts with customers:

	2018 £'000	2017 £'000
Contract assets – amounts recoverable on contracts	**11,310**	3,461
Contract liabilities – advances for game development	**512**	1,259

Contract assets – amounts recoverable on contracts represents contracts whereby the services rendered by the Group at the reporting date exceed the customer payments. The significant increase in 2018 is principally due to the extended payment terms on one particular development contract. Included within the above contract assets are amounts of variable consideration that are highly probable of not reversing of £250,000 (2017: £nil). In the event that this variable consideration is not received, a provision for credit losses will be recorded. There are no provisions for credit losses in respect of contract assets at either year-end.

In cases where the payments exceed the services rendered as at the balance sheet date, a contract liability is recognised for advances for game development.

Contract liabilities for 2017 have been restated between this category and Contract assets - amounts recoverable on contracts to better reflect the individual nature of the contracts.

Contract liabilities represent customer payments received in advance of performance obligations that are expected to be recognised as revenue in 2019. These amounts recognised will generally be utilised within the next reporting period.

Amounts recognised in revenue in 2018, relating to performance obligations satisfied in previous periods, total £515,000, representing variable consideration in the form of royalties.

6. DIRECT COSTS (NET)

	Year ended 31 December 2018	Restated Year ended 31 December 2017
	£'000	£'000
Direct costs	**27,191**	23,635
Video Game Tax Relief	**(6,898)**	(8,296)
	20,293	15,339

7. EXPENSES BY NATURE

	Year ended 31 December 2018	Restated Year ended 31 December 2017
	£'000	£'000
Exceptional items	**94**	2,656
Employee benefit expense	**26,729**	17,800
Depreciation charges	**1,104**	669
Amortisation and impairment charges	**6,947**	27,626
Operating lease payments	**1,230**	876
Investment in co-funded games expensed	**208**	-
Other expenses	**3,079**	1,559
Total direct costs and operating expenses	**39,391**	51,186

Investment in co-funded games expensed represents the costs incurred by the Group on its percentage of the game development that is considered equivalent to the intangible asset on an own IP development.

Exceptional items

Exceptional items include external costs in relation to:

- 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)
- 2018 – the acquisition of The Chinese Room Limited (£94,000)

8. TAXATION

Analysis of credit in year	**Year ended 31 December 2018**	Year ended 31 December 2017
	£'000	£'000
Current tax		
Current taxation charge for the year	**1,268**	1,080
Adjustments for prior periods	**(128)**	(58)
Total current tax	**1,140**	1,022
Deferred tax		
Origination and reversal of timing differences	**(2,337)**	(5,622)
Adjustments in respect of prior periods	**965**	62
Total deferred tax	**(1,372)**	(5,560)
Tax on loss on ordinary activities	**(232)**	(4,538)
Reconciliation of total tax (credit):		
Loss on ordinary activities before tax	**(483)**	(27,973)
Loss on ordinary activities multiplied by the rate of corporation tax in the UK of 19% (2017: 19.25%)	**(92)**	(5,384)
Effects of:		
Permanent differences	**544**	968
Share based payments	**37**	-
Fixed asset permanent differences	**15**	(40)
Effects of different tax rates in overseas jurisdictions	**22**	50
Non-taxable income	**(1,663)**	(475)
Effect of change in rates	**68**	339
Adjustments in respect of previous periods	**837**	4
Total taxation (credit)	**(232)**	(4,538)

Taxation on items taken directly to equity was a credit of £132,328 (2017: £nil) and relates to deferred tax on share option schemes.

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.

9. 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.

When calculating basic earnings per share, the weighted average number of shares has been adjusted to exclude shares held in the Employee Benefit Trust (21,235,933 at 31 December 2018 and 16,617,198 at 1 January 2018).

When calculating diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of 3,712,737 (2017: 950,000) of potentially dilutive options granted to employees. The restatement of 2017 figures to include a warrant for 1,450,000 shares issued at the date of the IPO has had no impact upon earnings per share.

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

	Year ended 31 December 2018	Restated Year ended 31 December 2017
Earnings (£'000)		
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to equity shareholders	**(251)**	(23,435)
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share	**128,560,945**	5,498,686
Weighted average dilutive effect of warrants	**1,450,000**	1,450,000
Weighted average dilutive effect of conditional share awards	**3,712,737**	950,000
Weighted average number of shares for the purposes of diluted earnings per share	**133,723,682**	7,898,686
Earnings/(Losses) per ordinary share (pence)		
Basic and diluted (loss) per ordinary share	**(0.20)**	(389.40)

The effects of share options that could potentially dilute basic earnings per share in the future were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Software	**Customer contracts**	**Customer relationships**	**Goodwill**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
COST					
As at 1 January 2017	249	14,285	21,432	19,225	55,191
Additions	120	-	-	-	120
Arising on acquisition on 29 June 2017	-	437	246	1,566	2,249
As at 31 December 2017	369	14,722	21,678	20,791	57,560
Additions	513	-	-	-	513
Acquisition of subsidiary (note 11)	-	-	-	588	588
As at 31 December 2018	882	14,722	21,678	21,379	58,661
AMORTISATION					
As at 1 January 2017	54	952	715	-	1,721
Charge for the year	162	12,646	14,818	-	27,626
As at 31 December 2017	216	13,598	15,533	-	29,347
Charge for the year	163	700	6,084	-	6,947
Effect of translation to presentation currency	(11)	-	-	-	(11)
As at 31 December 2018	368	14,298	21,617	-	36,283
NET BOOK VALUE					
As at 31 December 2017	153	1,124	6,145	20,791	28,213
As at 31 December 2018	514	424	61	21,379	22,378

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 cash generating unit ("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 CGU. The value-in-use calculations were based on projected cash flows in perpetuity. Cash flows were based on a three-year forecast with growth rates between 17% and 36%. 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 CGUs 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 12% (2017 9.75%).

As a result of these tests no impairment was considered necessary.

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

11. BUSINESS COMBINATIONS

Acquisition of The Chinese Room Limited

Under an agreement dated 13 August 2018, the Group acquired the share capital of The Chinese Room Limited, a video development company registered in the United Kingdom for consideration of £2.2m.

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

	Book value recognised at acquisition	Fair value adjustments	Fair value
	£'000	£'000	£'000
Assets			
Property, plant and equipment	4	-	4
Trade and other receivables	139	-	139
Cash and cash equivalents	1,619	-	1,619
	1,762	-	1,762
Liabilities			
Corporation tax payable	(37)	-	(37)
Trade and other payables	(100)	-	(100)
Deferred tax	(1)	-	(1)
	(138)	-	(138)
			1,624
Goodwill			588
			2,212
Summary of net cash outflow from acquisition			
Cash paid			1,618
Cash acquired			(1,619)
Cash consideration transferred			(1)
Purchase consideration			
Cash paid			1,618
Ordinary shares issued			594
Total purchase consideration			2,212
Acquisition costs charged to expenses			94

Consideration transferred

The acquisition of The Chinese Room was settled in cash amounting to £1.6million and approximately £0.6 million through the issue of 357,485 new ordinary shares in Sumo Group ("Consideration Shares") to the Sellers on completion. The Consideration Shares will be subject to a 12 month lock up period, during which time (subject to customary exceptions) such shares cannot be disposed of without Sumo Group consent, and thereafter to orderly market provisions for a further 12 months.

Acquisition related costs amounting to £94,000 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.

Goodwill

Goodwill of £588,000 is primarily related to growth, technical knowledge and market diversification. Other intangible assets, including IP at 'concept phase' at the point of acquisition had a fair value of £nil.

Contribution to the Group results

The Chinese Room Limited generated a loss of £21,000 for the 5 months from acquisition. Revenue for the period was £7,000. If The Chinese Room Limited had been acquired at the beginning of the period then revenue would have increased by £19,000 and loss decreased by £8,000.

12. IFRS 15 ADOPTION IMPACT

In 2018, the Group has adopted new guidance for the recognition of revenue from contracts with customers (IFRS 15). The new standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. Consequently, the comparative numbers are not restated.

Two transition differences noted for IFRS 15 is the separation of the financing element of one specific contract where the payment profile extends beyond twelve months and the recognition of variable consideration.

The financial impact to revenue, interest and retained profits is set out below:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Reduction in revenue – development fees	**(421)**	(183)
Recognition of variable consideration	**250**	-
Increase in interest income	**309**	52
Credit/(debit) to retained earnings	**138**	(131)

The 2017 debit to retained earnings has resulted in a restated retained earnings balance as at 01 January 2018 of £63,916,000.

The financial impact of adoption of IFRS15 on the 2018 income statement is set out below:

	Pre-IFRS15	IFRS15 adoption adjustments		**Post-IFRS15**
	Year ended 31 December 2018	Financing component	Variable consideration	**Year ended 31 December 2018**
	£'000	£'000	£'000	£'000
Revenue	**38,867**	**(421)**	**250**	**38,696**
Direct costs	(27,191)	-	-	(27,191)
Video Games Tax Relief	6,898	-	-	6,898
Direct costs (net)	(20,293)	-	-	(20,293)
Gross profit	**18,574**	**(421)**	**250**	**18,403**
Operating expenses	(19,004)	-	-	(19,004)
Operating expenses – exceptional	(94)	-	-	(94)
Operating expenses - total	(19,098)	-	-	(19,098)
Group operating loss	**(524)**	**(421)**	**250**	**(695)**
Finance cost	(99)	-	-	(99)
Finance income	2	309	-	311
Loss before taxation	**(621)**	**(112)**	**250**	**(483)**
Taxation	258	21	(48)	232
Profit/(Loss) for the year attributable to equity shareholders	**(363)**	**(91)**	**203**	**(251)**

13. POST BALANCE SHEET EVENTS

On 1 February 2019, the Group acquired Red Kite Games Limited for a total consideration of circa £2.0million. The net consideration is circa. £1.5 million, as Red Kite had circa. £0.5million of cash on the balance sheet at the date of acquisition. The Company will continue to operate under the Red Kite name, as a wholly owned subsidiary of Sumo Digital Limited.

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

	Book value recognised at acquisition	Fair value adjustments	Fair value
	£'000	£'000	£'000
Assets			
Property, plant and equipment	39	(13)	26
Trade and other receivables	202	-	202
Cash and cash equivalents	547	(5)	542
	788	(18)	770
Liabilities			
Corporation tax payable	(23)	-	(23)
Trade and other payables	(27)	(97)	(124)
Deferred tax	(2)	-	(2)
	(52)	(97)	(149)
			621
Goodwill			1,384
			2,005

Summary of net cash outflow from acquisition	
Cash paid	505
Cash acquired	(542)
Cash consideration transferred	(37)

Purchase consideration	
Cash paid	505
Ordinary shares issued	1,500
Total purchase consideration	2,005

Acquisition costs charged to expenses	-

14. ALTERNATIVE PERFORMANCE MEASURES

	Audited year ended 31 December 2018	Customer revenue included within finance income	Accrued royalty not yet received and contingent on future sales	Deferred costs on Co-funded contracts	Adjusted Year ended 31 December 2018
	£'000	£'000	£,000	£'000	**£'000**
Revenue	**38,696**	421	(250)	-	**38,867**
Gross profit	**18,403**	421	(250)	208	**18,782**

	Audited year ended 31 December 2017	IFRS15 Customer revenue included within finance income	IFRS 15 Accrued royalty not yet received and contingent on future sales	Deferred costs on Co-funded contracts	Adjusted Year ended 31 December 2017
	£'000	£'000	£,000	£'000	**£'000**
Revenue	**28,591**	-	-	-	**28,591**
Gross profit	**13,252**	-	-	-	**13,252**

Adjusted EBITDA	**Year ended 31 December 2018**	Year ended 31 December 2017
	£'000	£'000
Group operating loss	**(695)**	(22,595)
Add back/(deduct):		
Depreciation and amortisation charges	**8,051**	28,295
Share based payments charge	**2,578**	-
Customer revenue included within finance income	**421**	-
Accrued royalty not yet received and contingent on future sales	**(250)**	-
Investment in co-funded games expensed	**208**	-
Exceptional items	**94**	2,656
Adjusted EBITDA	**10,407**	8,356

Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, share based payments charge, customer revenue included within finance income, accrued royalty not yet received and contingent on future sales, Sumo's investment in co-funded games expensed and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure.

Reconciliation to unaudited underlying income statement

	Reported 2018 £'000	Revenue margin adjustments[1] £'000	Adjustments £'000	**Unaudited underlying 2018 £'000**	Reported 2017 £'000	Adjustments £'000	Unaudited underlying 2017 £'000
Revenue	**38,696**	171	-	**38,867**	28,591	-	28,591
Gross profit	**18,403**	171	208	**18,782**	13,252	-	13,252
Operating expenses excluding depreciation, amortisation, share based payments charge, exceptional items, the impact of IFRS adoption and investment in co-funded games expensed	**(7,996)**	(171)	(208)	**(8,375)**	(4,896)	-	(4,896)
Adjusted EBITDA	**10,407**	-	-	**10,407**	8,356	-	8,356
Depreciation	**(1,104)**	-	-	**(1,104)**	(669)		(669)
Net finance costs	**212**	(309)	-	**(97)**	(5,378)	5,378	-
Customer revenue included within finance income	**(421)**	421	-	**-**	-	-	-
Accrued royalty not yet received and contingent on future sales	**250**	(250)	-	**-**	-	-	-
Investment in co-funded games expensed	**(208)**	208	-	**-**	-	-	-
Amortisation of software	**(163)**	-	-	**(163)**	(162)	-	(162)
Adjusted profit before tax, share based payment charge, exceptional items and amortisation of customer contracts and customer relationships	**8,973**			**9,043**	2,147		7,525
Operating expenses - exceptional	**(94)**				(2,656)		
Share based payments charge	**(2,578)**				-		
Amortisation of customer contracts and customer relationships	**(6,784)**				(27,464)		
Loss before taxation	**(483)**				(27,973)		

The adjustment in 2018 in respect of gross margin is in relation to Sumo's investment in co-funded games, which for statutory purposes is expensed.

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

1 The revenue margin adjustments are made up of IFRS 15 adoption adjustments for customer revenue included within finance income, accrued royalty income not yet received and contingent on future sales, investment in co-funded games expensed and net financing costs.