Under strict embargo until 7am
21 April 2020

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

FINAL RESULTS 2019

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 2019 ("FY19"), which are slightly ahead of market expectations. This follows the announcement on 25 March when Sumo Group confirmed that it would comply with the FCA's request that all listed companies observe a moratorium on the publication of preliminary financial statements for at least two weeks and postpone the announcement of the Group's final results which was scheduled for 1 April 2020.

Financials

Reported results	**2019**	2018	**Change**
Revenue	**£49.0m**	£38.7m	**26.6%**
Gross profit	**£23.9m**	£18.4m	**30.0%**
Gross margin	**48.9%**	47.6%	**+130bps**
Profit/(loss) before taxation	**£7.4m**	(£0.9m)	
Cash flow from operations	**£14.4m**	(£6.4m)	
Net cash	**£12.9m**	£3.7m	
Basic earnings / (loss) per share	**5.19p**	(0.41p)	
Diluted earnings / (loss) per share	**5.07p**	(0.41p)	

Underlying results	**2019**	2018	**Change**
Adjusted gross profit[1]	**£25.2m**	£18.6m	**35.5%**
Adjusted gross margin excluding royalties[2]	**50.2%**	47.1%	**+310bps**
Adjusted EBITDA[3]	**£14.1m**	£10.2m	**37.5%**

1 Adjusted gross profit is stated after including £1.3m (2018: £0.2m) investment in co-funded games expensed and is a non-GAAP metric used by management and is not an IFRS disclosure.

2 Adjusted gross margin excluding royalties is stated after the exclusion of royalties and the investment in co-funded games expensed and is a non-GAAP metric used by management and is not an IFRS disclosure.

3 Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, exceptional items, share based payment charge, the investment in co-funded games expensed and, in 2019, the impact of IFRS 16, is a non-GAAP metric used by management and is not an IFRS disclosure.

In the FY 18 results adjusted gross profit and adjusted EBITDA were both stated after adjusting for customer revenue included within finance income (2018: £0.4m) and accrued royalty not yet received and contingent on future sales (2018: (£0.2m)). When we announced our half year results on 26 September 2019 we stated that we would not in future be making any adjustments to gross profit or EBITDA for the effect of IFRS 15.

2019 highlights

- Strong revenue growth of 26.6% (2018: £35.3%), of which 12.5% was organic, with revenue CAGR of c.34% since 2016
- Adjusted EBITDA slightly ahead of market expectations with an improved margin of 28.7%
- High visibility, relatively low risk model generating significant growth, strong cash conversion and sustainable profit margins
- Significant Own-IP revenue of £16.4m (2018: £3.9m) in the year representing 33% of total Group revenue (2018: 10%) and of which £16.0m was earned as contracted development fees
- Acquisition of Red Kite Games in January 2019, adding 27 people and extending the Group's engineering and code support services
- Capacity and capability extended with the opening of new studios in Leamington Spa, focusing on mobile games, and Warrington - Group now comprises 10 studios in three countries (2018: seven)
- Exciting new clients secured, including publisher 2k, representing some of the most respected and creative game franchises in the market
- Tencent investment: acquired c. 10% shareholding in the Company in November 2019
- Total headcount increased by 29% to 766 (2018: 592) - with nearly 25% organic growth and the utilisation rate for the Group remaining high at 95.8% (2018: 94.7%)
- Winner of the highly coveted Develop Star Awards "Best Studio" and TIGA Award "Best Independent Studio"
- Management structure broadened and Board re-organised to facilitate growth

Post year end activity

- Sumo Digital is working on 21 projects with 12 different clients, of which seven games or publisher partnerships have been announced
- Curve Digital announced Hotshot Racing in February 2020 and Sega launched console versions of Two Point Hospital
- Spyder, a co-funded Own-IP game with Apple, was launched on Apple Arcade in March 2020
- Strategic focus on accelerating growth through development of Own-IP games, either self-funded, co-funded or fully-funded, and through acquisition

COVID-19

- Actions announced on 25 March 2020
  - people successfully transitioned to working from home, albeit with some disruption and loss of efficiency
  - telephony and video conferencing mitigating loss of face time with existing and potential new clients
- Manageable level of disruption and loss of efficiency expected to continue, as project management controls and internal management systems are re-calibrated
- The Group's exposure lies primarily on the supply side with some potential loss of efficiency delaying milestone payments, although all steps possible are being taken to mitigate and limit this risk
- The Group is not using any furloughing arrangements, nor does it expect or intend to do so

Outlook

- High degree of earnings visibility for FY20 on contracted or near contracted development fees – now 73% up from 71% announced on 25 March 2020
- FY20 results expected to be significantly weighted to second half, as seen previously in FY19
- Global demand for Group's services remains strong with video games market forecast to grow at 9% CAGR over the next three years. Early indications show demand increasing while COVID-19 "lockdown" measures affect our leisure activities.
- Slow-down in new talent recruitment expected across Group businesses, as a result of lockdown measures, though this is likely to be partially offset by lower attrition rates
- Sumo Group is a strong and resilient business with a relatively low-risk business model and robust liquidity position with £24.0m cash (net cash £14.0m) at 20 April 2020, providing a good foundation to withstand the challenges of the COVID-19 pandemic
- Some inevitable impact from the pandemic on FY20 performance but Directors remain confident in the Group's strategy and ability to continue delivering strong returns for stakeholders in the longer term

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

"The Group entered 2020 in great shape and global demand for our services remains strong. The video games market is forecast to grow at 9% CAGR over the next three years and early indications show this increasing as COVID-19 "lockdown" measures affect our leisure activities. Whilst March was challenging for the Group operationally, as we transitioned to remote working, our people have risen to the challenge and are adapting well to their new working routines. The business continued to press ahead throughout this disruption and our earnings visibility on contracted or near contracted development fees for FY20 has increased further in the last few weeks to approximately 73%.

"It is still too early to estimate accurately the financial impact of the pandemic on the Group. However, our low-risk business model, strong balance sheet and robust liquidity position, with £24.0m cash (net cash £14.0m) at 20 April 2020, provide firm foundations on which to withstand the challenges. I am pleased to report that we are not using any furloughing arrangements, nor do we expect or intend to do so.

"Whilst there will inevitably be some impact from the pandemic on the Group's performance in FY20, the Directors remain confident in the Group's strategy and its ability to continue delivering strong returns for stakeholders in the longer term."

Enquiries:

Sumo Group plc	Via Belvedere Communications
Carl Cavers, Chief Executive Officer	Tel: +44 (0) 7715 769 078
David Wilton, Chief Financial Officer	
Zeus Capital Limited (Nominated Adviser & Joint Broker)	
Nick Cowles / Andrew Jones	Tel: +44 (0) 161 831 1512
Ben Robertson / John Goold	Tel: +44 (0) 203 829 5000
Investec Corporate & Investment Banking (Joint Broker)	
David Flin	Tel: +44 (0) 207 597 5970
Belvedere Communications Limited	
Cat Valentine	Tel: +44 (0) 7715 769 078
Keeley Clarke	Tel: +44 (0) 7967 816 525
Llew Angus	Tel: +44 (0) 7407 023 147
	SumoPR@belvederepr.com

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, Leamington Spa, Warrington and Pune, India. The business has acquired two studios since IPO, which operate under their own names, BAFTA award-winning The Chinese Room in Brighton and Red Kite Games in Leeds. 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.

CHAIRMAN'S STATEMENT

I am very pleased to introduce Sumo Group's Final Results, our third as a quoted company and my first as Chairman. I would like to thank Ken Beaty, my predecessor as Chairman, for handing over a company and Board that is in such good shape. The strengths of the Group, particularly our relatively low-risk business model and robust liquidity, and the market that we serve seems especially important, as we all face the uncertainty caused by the COVID-19 pandemic.

We responded early to the Governmental advice issued on COVID-19, switching rapidly to "working from home" across all our territories and studios to safeguard our people, their families and our other stakeholders. Our people have adapted well. I thank everyone for their dedication and resilience through this difficult period and also our clients for their support in facilitating the move to remote working.

As these results show, 2019 was another year of significant growth for Sumo Digital, which ended the year with seven studios in the UK and one in India. Atomhawk is present in the UK and in Vancouver, Canada. The Group ended the year with 766 colleagues. This growth is a testament to the trust that our clients place in the talent, creativity and professionalism of everyone in the Sumo Group.

We view talent as a major asset and place a high value on our people. This is demonstrated in the investment that we make in creating positive working environments and in listening and responding to what our colleagues tell us. Sumo Newcastle and Atomhawk will shortly re-locate to brand-new studios fitted out to their precise requirements. Red Kite Games moved during the year to a prime location in the centre of Leeds and, in the first quarter of the new financial year, we secured new premises for expansion of Atomhawk, Vancouver. While it was pleasing to retain our rating in the Best Companies survey, our ambition is to do even better.

Sumo Group makes highly innovative games for the most prestigious publishers in the world, with an increasing number of titles based on our original Own-IP concepts. We mirror their faith in us by way of co-investment in a number of projects. Our aim is to build on this over time to include fully-funding some these concepts ourselves.

A key part of my role as Chairman is to ensure that the Board devotes as much of its time and expertise as possible to the strategic development of the Group and is familiar with the games, art and design that we produce in relation to competitor products. We have increased the frequency with which the Board receives demonstrations of games in development and devote time at every Board meeting to industry updates and current market trends.

The other important function the Board performs is governance and our Annual Report 2019 will detail the structures and processes that we have in place. It is our role as directors to ensure that we have the right framework in place to enable our business and talent to grow and flourish in a sustainable way and we will be placing increasing emphasis on ESG (Environmental, Social and Governance) matters going forward.

2019 was a very successful year for the Group. On behalf of the Board, I thank everyone who contributed to that success. Whilst we face the unprecedented uncertainty of COVID-19, I am confident in the Group's abilities and look forward to the future with optimism in the knowledge that we can do even better.

Ian Livingstone
Chairman

CHIEF EXECUTIVE'S REVIEW

Introduction

The year ended 31 December 2019, our second full year as a plc, was another successful one for the Group. We were active on both Client-IP and Own-IP, developing great games, and recruited even more talented people to help us grow and expand our business. By the year end, Sumo Group employed 766 people, up from 592 at 31 December 2018, in ten studios (31 December 2018: seven) in three countries.

The financial results for FY19, which are in line with management expectations and slightly ahead of market expectations, reflect the significant H2 performance weighting which we highlighted in our H1 results announcement.

Visibility of development fee revenue for the year ending 31 December 2020 ("FY20") and beyond is strong and, following the rapid implementation of home working across the Group, we believe that we are well placed to withstand the unprecedented challenges presented by the COVID-19 pandemic. As announced on 25 March 2020, our people have adapted well to remote working and, whilst there has been inevitable disruption to our projects and some loss of efficiency, early indications are encouraging. We will continue to monitor our performance closely, taking action wherever possible to mitigate and limit any delays to milestone payments, as we re-calibrate our project management controls and internal management systems. Once again, we expect the results for FY20 to be significantly weighted towards the second half of the year.

Our strategic objectives are unchanged:

- To deliver and expand by developing franchise titles and downloadable content, providing more engagement through Games As A Service "GaaS", and by generating royalties, on projects where our interests are clearly aligned with our clients;
- 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;
- To develop complementary revenue streams by extending into new premium services, possibly through acquisition; and
- To continue to develop Own-IP opportunities either self-funded, co-funded or fully-funded.

In January 2019, we acquired Red Kite Games, a work-for-hire studio focusing on engineering and code support services, adding 27 talented colleagues to the business, increasing our technical and engineering capacity and providing access to a new talent pool in West Yorkshire. We also opened a new studio, dedicated to the fast-growing mobile game development market, in Leamington Spa in March 2019. This studio, which is led by a highly regarded studio director and now employs 20 people, is performing well and fulfilling our early expectations. In October 2019, we opened a studio in Warrington; Sumo Digital's seventh UK and eighth global studio. This has expanded the Group's capabilities by focusing specifically on the delivery of engineering and code support services to the Group's prestigious clients. Scott Kirkland, the Studio Director, is a BAFTA nominee with a 23-year track-record of innovation and leadership.

The Group continues to benefit creatively, commercially and financially from the use of its proprietary technologies, developed over many years, and from its significant presence in India, which provides valuable talent on a lower cost base. We have been successful in winning work from new clients, including Apple and 2K, a video games publisher managing some of the most creative and respected brands in the market today. In August, we announced Pass the Punch, a self-funded Own-IP "beat 'em up" title, which is now planned for release in 2020 and in September 2019 we launched the much acclaimed Own-IP game Dear Esther on iOS, developed by The Chinese Room.

In November, Tencent acquired a near 10% shareholding in Sumo Group. Tencent connects hundreds of millions of Internet users every day. It operates communications and social platforms, digital content (including online games, video, literature, music, and media), payment and cloud businesses. Tencent is the world's largest game developer and publisher by revenue. It has invested in several innovative and successful game developers and publishers globally. We were delighted by this investment and look forward to exploring game development opportunities with Tencent going forwards.

Our market remains strong and continues to grow rapidly. Early indications are showing rising demand for video games as a result of the measures taken to combat the COVID-19 pandemic. Video game publishers and developers may benefit accordingly, and we expect some improvement in royalty income from games already published. We are a people business, however, and the uncertainty and concern caused by the pandemic and the practical consequences of the lockdown measures being implemented in the UK and elsewhere will inevitably have some impact on talent recruitment, though it is likely that this will be partially mitigated by reduced attrition rates.

Despite the restrictions on travel and cancelled trade events, we are continuing to see business development opportunities on major new projects with both existing and new clients. We have contracted or near contracted visibility on 73% of our budgeted development fees for Sumo Digital for FY20, which is high relative to historical levels albeit lower than the unprecedented figure of 88.7% secured at this stage in 2019. It is notable that this percentage has increased from the 71% we announced just under four weeks ago. We look forward to talking about the amazing games on which we are working but continue to be subject to the understandably stringent confidentiality requirements placed on us by our clients and with which we are fully aligned. Sumo Digital's people are now working on 21 projects with 12 clients of which seven games or publisher partnerships have been announced.

Business model and concept creation

Sumo Group has a relatively low risk, high visibility business model, which generates both cash and sustainable profit margins. Our creative talent in all areas of our business continues to make high quality content and is globally respected. The Group is rarely directly exposed to the commercial success of our clients' games but can benefit from upside where royalties are in place. We are looking to accelerate the Group's growth and increase margins in the long term, through the development of Own-IP games, either self-funded, co-funded or fully-funded, and through acquisition. Our business model has evolved since our IPO in December 2017 and, for the first time, we are disclosing our revenue by distinguishing between that generated from working on Client-IP and that from working on Own-IP. Further details are set out in the Group Financial Review. In FY19, we generated revenue of more than £16m, more than 33% of total revenue, from work on Own-IP, including development fees from publishers.

We are now working on five contracts under which external funding is provided by a publisher for all or the majority of the development costs for a game, conceptualised by Sumo Group. The revenue and profit from these games are recognised on the development fees payable by the publisher during the term of the contract. Where costs are incurred by Sumo Group in the development of co-funded games these are expensed. During FY19, the costs incurred on the co-funded projects amounted to £1.3m (FY 18: £0.2m) in aggregate.

The development and investment in our self-funded Own-IP is an increasingly important part of our strategy. We launched our first game, Snake Pass, in March 2017, followed by Dear Esther on iOS in September 2019. Most recently, we announced the launch of Pass the Punch. Our primary focus remains and will continue to be on developing Client-IP, but we expect to work increasingly on Own-IP to generate greater financial returns, without taking undue risk, and to provide a creative outlet for our highly talented people.

Concepts are created predominately from our concept team and our development studios and also from Game Jams, which we are now running across most of the Group. 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 continue to prefer to obtain external funding from a publisher for the majority or all of the cost, keeping our risk appropriately low while also looking to generate higher returns, through royalties and direct game sales, which reflect the value of the original concept creation.

Results

We have continued to grow rapidly during 2019. Revenue rose by 26.6% to £49.0m (2018: £38.7m). Since 2016 we have achieved a revenue CAGR of nearly 34%. The increase in revenue was driven by continuing strong organic growth at Sumo Digital and Atomhawk and the acquisition of Red Kite Games at the end of January 2019. The Chinese Room, acquired in August 2018, and Red Kite Games together generated revenue of £5.8m in the year. Excluding The Chinese Room and Red Kite Games, the Group's revenue increased by 12.5%. Utilisation across the group was 95.8% up from 94.7% in the previous year.

The Group reported a statutory profit before taxation of £7.4m (2018: loss of £0.9m) and achieved Adjusted EBITDA of £14.1m in 2019, an increase of 37.5% on the comparable figure of £10.2m in 2018.

Further details of the financial results, including the new categorisation of revenue and the impact of the adoption of IFRS 16, the new accounting standard for leases, are set out in the Chief Financial Officer's Review.

Operational review

Sumo Digital – representing 93.6% of Group revenue

Sumo Digital provides a full-service development solution, including initial concept and pre-production, production and development and post-release support: the end to end full development lifecycle for games. It uses leading edge technology, much of which is proprietary, to provide high end game development services, both creative and technical, to leading publishers with whom we have ingrained and intertwined relationships. Our proprietary technology includes an in-house game engine, proprietary tools, project management software and systems. Together our tools and management systems give the Group a competitive edge.

Sheffield remains our largest studio, as well as the Group's central support location. The team in Sheffield has been and is currently working on several exciting projects, including Spyder which was launched on Apple Arcade on 20 March 2020, and we have taken on the lease of a further adjacent unit on this site. We are also investing in an audio studio in Sheffield. The Nottingham studio is working on Hotshot Racing, the arcade-style racing game to be published by Curve Digital, the trailer for which was released at the end of February. Our talented teams in the Nottingham and Newcastle studios and The Chinese Room studio in Brighton all increased in number in the period. The Chinese Room is working on Little Orpheus for Apple. We will shortly be moving both the Newcastle and Brighton studios into new larger premises.

Red Kite Games, acquired in January 2019, comprises a talented and highly experienced development team, working with some of the industry's best-known publishers and developers. Whilst the business retains its identity and branding, the integration with Sumo Digital has gone smoothly and to plan. Red Kite Games has recently relocated from Huddersfield to larger premises, in the centre of Leeds. This move into a talent hot spot supports our growth strategy and is expected to facilitate further expansion. Red Kite Games has developed the console versions of Two Point Hospital, the simulation game published by Sega, for PlayStation 4, Xbox One and Nintendo Switch, which were released in February 2020 and which as at 20 April 2020 had achieved Metacritic scores of between 82 and 85.

Our new Leamington Spa studio was opened in March 2019 to focus on mobile game development and has made great progress in recruitment. In October, we announced the opening of our Warrington studio to focus on the delivery of high-end engineering and code support services and in February 2020 we took on a larger space for this studio.

The utilisation rate across the UK studios in the year was 96.9% (2018: 95.4%). The long-established India studio in Pune continues to perform strongly. The utilisation rate at this studio was 91.3% (2018: 93.0%) in the year and the utilisation for Sumo Digital overall was 95.9% (2018: 95.0%).

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 and making smaller bolt-on acquisitions. We are actively considering new locations both in the UK and abroad, as well as progressing potential acquisition opportunities.

During the year, we have focused on empowering the studios, improving employee engagement and retention, managing the project portfolio risk, prioritising investment in Own-IP creation, promoting distributed development and establishing the mobile focused studio. As part of this process, we have also developed the individual studio branding for clearer differentiation in the respective specialist areas.

Over the past few years, Sumo Digital has worked with Sony, Microsoft (including Turn 10 Studios), Sega, IO Interactive and CCP Games. Apple was added to this illustrious client list late in 2018 and, in July 2019, we also announced a partnership with 2K. The business is currently working on 21 live projects, including Spyder (launched 20 March 2020), Little Orpheus, Pass the Punch, Two Point Hospital (released in February 2020) and Hotshot Racing.

We were very pleased to win the highly coveted Develop Star Awards "Best Studio" and TIGA Award "Best Independent Studio" during the Period. And in March 2020 Sumo Digital won the "External Development Partner of the Year" at the MCV Develop Awards 2020. Sumo Group retained its Best Company 1 Star Award and Crackdown 3 won the Sheffield Digital Awards "Best Video Game".

Atomhawk – representing 6.4% of Group revenue

Atomhawk celebrated its tenth anniversary in 2019 with a year of sustainable growth and development. Both the UK and Canada teams grew in size and worked on more than 70 projects for circa 50 clients including 2K, Microsoft, EA, WB Games and Zenimax and other leading retail and leisure industry clients. From its studios in Newcastle and Vancouver, 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. It primarily serves the creative industries, working with video games studios, as well as film and television.

Atomhawk was heavily involved in the visual development of a number of AAA video games launched in 2019, including Mortal Kombat 11 for WB Games/NetherRealm Studio, Star Wars Jedi: Fallen Order for EA/Respawn Entertainment, Minecraft Earth for Microsoft, Age of Empires 2: Definitive Edition for Xbox Game Studios and FIFA 20 for EA.

The business delivered a strong performance in the year and the team was strengthened further with a number of key hires including a Client Service Director, Lead Artist and a Creative Development Director. An intra-company transfer programme has been established and four UK staff have transferred successfully to Canada.

We are delighted to report that Atomhawk won the 2019 Prolific North Animation/Graphics Company of the Year Award and was named as one of the 50 Best Places to Work by the Newcastle Journal & Chronicle and was shortlisted for the TIGA Awards as Art Animation Supplier. The team ran a successful Kickstarter campaign to fund Atomhawk's latest book, The Art of Atomhawk: Volume 3, in the Period, which is due for publication in early 2020, and ran the "Solarpunk" art competition with Artstation attracting over 230 entries from across the world.

Atomhawk continues to operate primarily with its own client base but is increasingly collaborating with Sumo Digital on projects including Own-IP and is working with Sumo on cross-selling opportunities.

Acquisition pipeline

We have a strong pipeline of acquisition opportunities, ranging in activity, size and location, and are actively pursuing a number of these opportunities. We remain 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 attractive ongoing incentive arrangements.

People

We constantly emphasise that Sumo Group is a people business and its continuing success is entirely dependent on recruiting and retaining talented people. The Group continued to meet its own challenging recruitment targets in FY19, as it has done successfully over many years. Our headcount increased by 174 and the year-end headcount was significantly above our expectation at the start of the year. This large increase was achieved in part due to our reducing staff attrition rates in the UK and India running at 8.6% and 11.5% respectively (2018: 13.6% and 23.1% respectively). As mentioned above, we are expecting to see a slowdown in recruitment as a result of the COVID-19 pandemic and for this to continue for the foreseeable future. It is worth noting that attrition rates are also likely to reduce at the same time.

As previously announced, Paul Porter, one of the co-founders of Sumo Digital, was appointed Chief Operating Officer of Sumo Group on 1 April 2019 and he joined the Board on 9 April. Gary Dunn has taken on Paul's previous role as Managing Director of Sumo Digital. Ian Livingstone was appointed Chairman of Sumo Group on 26 September 2019.

We are committed to maintaining Sumo Group's creative culture, as we grow and invest in the growth and development of our people. During the year, we invested significantly in Learning & Development capability and will continue to do so. We have also established a Diversity Focus Group. Exceptional talent drives opportunity and I would like to thank everyone at Sumo Group for their creativity, passion and commitment and for their support and resilience in the face of the COVID-19 situation.

Environmental, Social and Governance ("ESG")

At Sumo Group, we are very conscious of our ongoing responsibility to stakeholders and understand the increasing importance that sustainable business practices will play in our ability to grow successfully and maintain profitability over the long term. ESG is becoming increasingly important and a number of our existing and potential investors have flagged this in recent meetings with one investor having written to "put on record" their recognition that our responsibilities extend beyond the delivery of short-term financial objectives. It is not just investors, but also employees and clients, who want to work for and with responsible businesses and it is our intention, therefore, to place more emphasis on ESG going forward and develop our reporting structure in 2020 and beyond.

The market

Our market is very large and fast growing, fuelled by the emergence of cloud gaming and platform enhancements. Commentators suggest the market was valued at around $152bn in 2019 and is likely to enjoy CAGR of around nine percent over the next three years. There are estimated to be around 2.5bn gamers worldwide. Mobile gaming revenues are thought to account for around 45% of global gaming revenues and nearly 50% of global gaming revenue comes from the APAC region.

The key growth drivers of the industry are considered to be the further proliferation of digital distribution, cloud-based platforms, GaaS, changes in consumer behaviour, free to play and mobile games, esports and the rise of Asia, particularly China. Apple Arcade was launched in September 2019 and Google Stadia in November. There is press speculation about other potential new entrants to cloud gaming and new console launches are expected later in 2020. The esports market is growing rapidly with the rise of platforms to broaden market reach. The viewer base is now estimated at 450m.

The trends and expectations in the industry are very positive for Sumo Group as a provider of high-quality interactive content. Demand for game development services plus visual development concept art and marketing art are all likely to increase as new consoles are launched, games become more complex, new cloud gaming services are launched and GaaS generates more workflow.

Outlook

The Group entered 2020 in great shape and global demand for our services remains strong. The video games market is forecast to grow at 9% CAGR over the next three years and early indications show this increasing as COVID-19 "lockdown" measures affect our leisure activities. Whilst March was challenging for the Group operationally, as we transitioned to remote working, our people have risen to the challenge and are adapting well to their new working routines. The business continued to press ahead throughout this disruption and our earnings visibility on contracted or near contracted development fees for FY20 has increased further in the last few weeks to approximately 73%.

It is still too early to estimate accurately the financial impact of the pandemic on the Group. However, our low-risk business model, strong balance sheet and robust liquidity position, with £24.0m cash (net cash £14.0m) at 20 April 2020, provide firm foundations on which to withstand the challenges. I am pleased to report that we are not using any furloughing arrangements, nor do we expect or intend to do so.

Whilst there will inevitably be some impact from the pandemic on the Group's performance in FY20, the Directors remain confident in the Group's strategy and its ability to continue delivering strong returns for stakeholders in the longer term.

Carl Cavers
Chief Executive Officer

GROUP FINANCIAL REVIEW

These financial statements cover the financial year ended 31 December 2019, the second full year of Sumo Group as an AIM quoted company, following the IPO in December 2017.

Revenue

The underlying trading of the Group was in line with management's expectations and slightly ahead of market expectations. The phasing within the year reflects the timing of royalty receipts, in addition to the weighting of costs in H1 and revenue in H2 relating to Own-IP and the increase in headcount during the year. The Group's reported revenue was £49.0m.

For the first time, we are disclosing revenue in more detail in order to improve the visibility of how much revenue is being generated from work on Own-IP. Historically we have disclosed our revenue under three categories: development fees, royalties and Own-IP. This disclosure has worked well when we either worked on Client-IP on which we generated development fees or royalties or we generated sales revenue from a self-funded game such as Snake Pass which was launched in March 2017. Our business model has evolved significantly and we now generate both development fees and potentially royalties on Own-IP. Therefore, we are now disclosing revenue under five categories as set out below, distinguishing between revenue generated from working on Client-IP and that generated from working on Own-IP. The former consists of development fees and royalties as before and the latter consists of development fees, royalties and game revenue. The advantage of this disclosure is that it better fits our evolved business model. In particular it improves visibility on our increased Own-IP activity while still enabling royalties to be separately identified. This allows us to continue to focus on gross margin excluding royalties and for development fees to be visible continuing to highlight our relatively low-risk model while also enabling analysts to use their existing headcount-based revenue models. The revenue for 2019 analysed on this basis, together with the 2018 comparative figures, is as follows:

	2019	**2018**
Client-IP development fees	£31.3m	£34.0m
Client-IP royalties	£1.3m	£0.8m
Total Client-IP	**£32.6m**	**£34.8m**
%	**67%**	**90%**
Own-IP development fees	£16.0m	£3.5m
Own-IP royalties	-	-
Own-IP sales	£0.4m	£0.4m
Total Own-IP	**£16.4m**	**£3.9m**
%	**33%**	**10%**
Total revenue	£49.0m	£38.7m

The analysis includes Own-IP royalties, although there was no such revenue in either 2018 or 2019.

In 2019 more than 33% of our revenue was generated from Own-IP, a significant increase on the 10% in the previous year. As set out in the Chief Executive's Review, our strategy is to move towards working more on Own-IP where we see longer term opportunities to earn higher returns but to do so on a relatively low risk basis. It is worth emphasising that £16.0m of the Own-IP revenue was earned as contracted development fees on games fully or partly funded by our clients. Whilst we are keen to work more on Own-IP we retain our focus on suitable Client-IP and we expect revenue from Client-IP to continue to be the largest part of our total revenue. We will continue to select the best opportunities for the business whether Client-IP or Own-IP and the mix of our overall revenue from these two origination sources will depend upon the relative profitability of opportunities presented as we move forwards.

Client-IP royalty income includes an amount of £1.0m (2018: £0.2m) in recognition of variable consideration under IFRS 15, which is future royalty income expected to be received.

When we announced our half year results on 26 September 2019, we stated that we would not in future be making any adjustments to either gross profit or EBITDA for the effect of IFRS 15. In these results the adjusted gross profit and adjusted EBITDA for FY 18 are stated on a basis that is consistent with the definition for FY 19.

A number of significant contracts were secured towards the end of 2019 which underpin the Group's financial forecasts for the year ahead. As we reported in our Final Results 2018 announced on 9 April 2019, the Group had contracted or near contracted visibility on 88.7% of forecast development fees for Sumo Digital for 2019. This level of forward cover was unprecedented for the business and a considerable achievement. The Board is delighted to report that the Group now has strong visibility for the year ending 31 December 2020 of 73%.

Gross profit and margin

Statutory gross profit for the year was £23.9m, an increase of 30.0% on the £18.4m in the prior year.

Statutory gross margin for the year was 48.9% (2018: 47.6%). This includes royalty income of £1.3m (2018: £0.8m), which flowed directly through to gross profit. The gross margin adjusted for the investment in co-funded games expensed and excluding royalties was 50.2% (2018: 47.0%). This high percentage reflects the project mix during the year and the level of utilisation in the year.

Operating expenses

Operating expenses for the year were £16.4m (2018: £19.5m). Included within operating expenses were amortisation and depreciation of £0.8m and £2.2m respectively (2018: £6.9m and £1.1m respectively). The depreciation charge of £2.2m in 2019 includes £0.9m relating to the right of use asset relating to property leases under IFRS 16 where there was no such charge in 2018. The amortisation charge of £6.9m in 2018 reflects the residual non-cash goodwill amortisation charge following the decision taken in 2017 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. There was a non-cash charge of £2.7m (2018: £3.0m) to reflect the cost of the Sumo Group plc Long Term Incentive Plan ("LTIP") and the Sumo Group plc Share Incentive Plan, which were launched in March 2018 and July 2018 respectively. If amortisation, depreciation, the share-based payment charge, the investment in co-funded games expensed and exceptional items are excluded and the operating lease costs capitalised under IFRS 16 are deducted, operating expenses increased by £1.7m from 2018 to £9.9m. This overall increase was primarily due to further investment in people and systems, the acquisition of Red Kite Games early in the financial year, the opening of the new studio at Leamington Spa and the full year impact of The Chinese Room.

IFRS 16

In these financial statements the Group has, with effect from 1 January 2019, adopted IFRS 16. Under the new standard, the distinction between operating and finance leases is removed and most leases will be brought onto the balance sheet, as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset will be depreciated and the liability will be increased for the accumulation of interest and reduced by lease payments. There is no impact on cashflow. The Company applied the modified retrospective approach to adoption of IFRS 16 and prior year financial information has not been restated, resulting in a £0.1m decrease in retained earnings as at 1 January 2019 on transition. On adoption, this resulted in the recognition of a right of use asset of £5.0m. During the year there was a further £2.8m addition to right of use assets relating primarily to the lease of new premises.

Adjusted EBITDA and margin

Adjusted EBITDA for the year was in line with management expectations at £14.1m (2018: £10.2m).

In arriving at adjusted EBITDA adjustments have been made for depreciation, amortisation, share-based payment, the investment in co-funded games expensed and exceptional items and, in 2019, the impact of IFRS 16.

The financial results for 2019 were, as expected, weighted towards the second half of the year. This was flagged at the time of the announcement of our final results for 2018 on 9 April 2019 and was due to the timing of royalty receipts, the costs and revenue from Own-IP and the increasing headcount through the year. We expect the financial results for 2020 also to be similarly weighted towards the second half of the year, reflecting the timing of projects and the increasing headcount through the year.

Adjusted EBITDA margin was 28.7% (2018: 26.5%). This level of margin reflects the high gross margin in the year and also the higher royalty revenue in the year.

Profit before taxation

The statutory profit before taxation was £7.4m (2018: loss before taxation of £0.9m)

Taxation

The Corporation Tax credit for the year was £0.1m (2018: credit of £0.3m). This tax credit reflected the deferred tax credit of £0.2m partially offset by current tax of £0.1m.

Earnings per share

The basic and diluted earnings per share for 2019 are 5.19p and 5.07p respectively (2018: loss of 0.41p).

For the first time this year we are publishing adjusted earnings per share figures. The adjusted basic earnings per share, which seeks to measure the profit which management controls, is used by Sumo Group as a measure of the financial performance of the business for the purpose of some elements of management incentive awards and has some consistency with the models used by the analysts who publish research on the Group. As set out in Note 18, for the purpose of this calculation the earnings figure is derived from the adjusted EBITDA less depreciation (but excluding the depreciation charged in respect of the right of use asset under IFRS 16), including rent costs and after the net finance charge and after applying a notional tax charge at the Corporation Taxation rate of 19%. For the alternative diluted earnings per share calculation, the number of shares is the maximum that could be issued under arrangements in place at the date of publication. For 2019, the adjusted basic earnings per share was 6.99p (2018: 5.09p) and the adjusted diluted earnings per share was 6.46p (2018: 4.75p). Further details including the basis of calculating the number of shares which is different to the statutory basis is set out in Note 18.

Client concentration

During the year, four major clients individually accounted for at least 10% of total revenues (2018: four clients). In aggregate, these four clients accounted for 74.3% of total revenue and the top three accounted for 63.7%. The equivalent figures for 2018 were 65.9% and 52.5%. As set out in the Chief Executive's Review, Sumo Digital works on a relatively small number of large and long-term contracts and is likely always to have a concentrated client base. During the year Sumo Digital worked on seven significant projects for the top three clients.

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 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 2018 and 2019 are £5.8m and £7.4m respectively. The latest report from UK Interactive Entertainment ("UKIE") underlines that VGTR is a key catalyst in enabling job creation and investment in the UK and continues to have broad political support.

Treatment of acquisition costs

The net consideration of £1.6m paid for the acquisition of Red Kite Games has been capitalised and goodwill and other intangibles of £1.5m are carried on the balance sheet as at 31 December 2019.

The exceptional items charged in 2019 of £0.5m consist of professional adviser and other transaction costs, including those incurred on the acquisition of Red Kite Games.

Alternative performance measures

The Board believes that it is helpful to include alternative performance measures which exclude certain non-cash charges and are adjusted for the matters referred to above to present the underlying results of the Group. These measures are reconciled to the income statement in Note 18.

Cash flow

The net cash generated from operating activities for the year was £14.4m (2018: outflow of £6.4m). Cash balances at 31 December 2019 were £12.9m (31 December 2018 £3.7m and 30 June 2019 £4.3m). 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. At 31 December 2019 the facility was undrawn. We have recently, as part of the mitigation actions taken for COVID-19, drawn down £10m from this facility, which is due for repayment by 30 November 2022.

Capital expenditure on tangible assets in the year was £3.7m (2018: £1.7m), of which £2.9m related to IT hardware and £0.8m to fixtures and fittings and leasehold improvements. A further £0.8m was spent on the purchase of intangible assets (2018: £0.5m) of which £0.5m related to software and £0.3m was on intellectual property on an Own-IP game.

The cash cost, excluding transaction costs, of the acquisition of Red Kite Games was £0.5m at completion and a further £0.1m deferred consideration and it had cash balances of £0.5m at the date of acquisition.

The net finance charge for the year was £0.1m (2018: net finance income £0.2m). The Group had no borrowings during the year and the net finance charge consists of the accounting charge for the foreign currency hedging, the IFRS 16 interest charge and the bank commitment fee payable, partially offset by the IFRS 15 financing income and a very small amount of interest income.

Balance sheet

Goodwill and other intangibles at 31 December 2019 were £24.0m. This is an increase of £1.6m from 31 December 2018 and reflects the increase in goodwill and other intangibles arising from the acquisition of Red Kite Games partially offset by the amortisation charge of £0.8m.

Current assets were £37.3m (31 December 2018: £28.9m). Trade and other receivables were £23.7m a decrease of £1.4m from the figure of £25.2m at 31 December 2018 and trade and other payables were £14.2m (31 December 2018: £11.5m). During the year, in accordance with the terms of the contract, £7.5m of the £7.8m included within revenue in excess of billings at 31 December 2018 in respect of the one contract previously highlighted was received.

As at 31 December 2019 the net working capital position (excluding the IFRS 16 lease liability due within one year of £0.8m) was £10.2m down from £13.7m at 31 December 2018.

The consolidated balance sheet at 31 December 2019 once again includes own shares of £4.9m within equity, which relates to awards made under the terms of the Sumo Group plc LTIP.

Foreign currency

During the year, the Group generated US dollar denominated revenue of $16.7m. It is Sumo Group's policy to hedge such revenues to protect the Group from fluctuations in exchange rates and these revenues have been hedged accordingly.

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 and options

During the year 16,569 shares in aggregate were issued under the Sumo Group plc Share Incentive Plan (the "SIP"). A further 519,961 shares were issued following the exercise of options.

As at 31 December 2019, options were granted or remain outstanding under the LTIP over an aggregate of 9,190,194 shares. As previously reported 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 held under a joint ownership arrangement. Further options were outstanding over 450,000 shares and there is a warrant over 1,450,000 shares.

On 31 January 2020, being the first anniversary of completion of the acquisition of Red Kite Games, 1,162,791 shares were issued to the vendors of that business.

Since the year end, 2,806 shares have been issued to date under the terms of the SIP.

David Wilton
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £'000**	Year ended 31 December 2018 (Restated[2,3]) £'000
Revenue	5	**48,987**	38,696
Direct costs		**(32,409)**	(26,096)
Video Games Tax Relief		**7,350**	5,803
Direct costs (net)	6	**(25,059)**	(20,293)
Gross profit		**23,928**	18,403
Operating expenses		**(15,906)**	(19,430)
Operating expenses – exceptional	7	**(523)**	(94)
Operating expenses – total		**(16,429)**	(19,524)
Group operating Profit/(loss)		**7,499**	(1,121)
Analysed as:			
Adjusted EBITDA[1,2]		**14,072**	10,236
Amortisation	10	**(834)**	(6,947)
Depreciation	11	**(2,226)**	(1,104)
Share-based payment charge		**(2,684)**	(3,004)
Investment in co-funded games expensed	7	**(1,292)**	(208)
Operating lease costs capitalised under IFRS16	16	**986**	-
Exceptional items	7	**(523)**	(94)
Group operating Profit/(loss)		**7,499**	(1,121)
Finance cost		**(313)**	(99)
Finance income		**253**	311
Profit/(loss) before taxation		**7,439**	(909)
Taxation	8	**117**	304
Profit/(loss) for the year attributable to equity shareholders		**7,556**	(605)
Profit/(loss) per share (pence)			
Basic	9	**5.19**	(0.41)
Diluted		**5.07**	(0.41)

Note 1: Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, exceptional items, share-based payment charge, IFRS 16 impact, and the investment in co-funded games expensed, is a non-GAAP metric used by management and is not an IFRS disclosure.

Note 2: Adjusted EBITDA for the period to 31 December 2018 has been restated to exclude customer revenue included in finance income of £421,000 and to include accrued royalty not yet received and contingent on future sales of £250,000, in order to present comparative underlying earnings on a consistent basis with the period to 31 December 2019.

Note 3: For 2018 the results and financial position have been restated to recognise a provision for national insurance contributions due on the future vesting of share-based payments of £426,000, and a corresponding deferred tax asset of £72,000. During 2019, the Directors considered their accounting policy for the recognition of these costs and elected to spread the costs over the vesting period of share-based payments.

Note 4: During the year ended 31 December 2019, the Directors reassessed their accounting policy for VGTR income, which is transferred back to clients at nil margin, and concluded that it would be more appropriate for this income to be netted against the associated direct costs. The change in presentation reduced Direct Costs and Video Games Tax Relief for the year ended 31 December 2019 by £1.4m (2018: £1.1m) but had no impact on direct costs (net), gross profit, earnings or financial position.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 (Restated) £'000
Profit/(loss) for the year attributable to equity shareholders	**7,556**	(605)
Other comprehensive expense – items that will not be recycled into the P&L in future periods:		
Exchange differences on retranslation of foreign operations	**(89)**	(48)
Total other comprehensive expense	**(89)**	(48)
Total comprehensive income/(expense) for the year	**7,467**	(653)

CONSOLIDATED BALANCE SHEET
as at 31 December 2019

	Note	2019 £'000	2018 (Restated) £'000
Non-current assets			
Goodwill and other intangible assets	10	**23,975**	22,378
Property, plant and equipment	11	**11,715**	2,496
Deferred tax asset	14	**2,512**	2,053
Total non-current assets		**38,202**	26,927
Current assets			
Trade and other receivables		**23,732**	25,172
Corporation tax receivable		**703**	-
Cash and cash equivalents		**12,890**	3,730
Total current assets		**37,325**	28,902
Total assets		**75,527**	55,829
Current liabilities			
Trade and other payables		**14,246**	11,476
Corporation tax payable		**-**	810
Total current liabilities		**14,246**	12,286
Non-current liabilities			
IFRS 16 lease liabilities	12	**6,524**	-
Total liabilities		**20,770**	12,286
Net assets		**54,757**	43,543
Equity			
Share capital		**1,506**	1,501
Share premium		**41,605**	40,994
Reverse acquisition reserve		**(60,623)**	(60,623)
Merger relief reserve		**590**	590
Foreign currency translation reserve		**(110)**	(21)
Own shares		**(4,919)**	(4,919)
Shares to be issued		**1,514**	-
Retained earnings		**75,194**	66,021
Total equity		**54,757**	43,543

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share capital £'000	Share Premium £'000	Reverse acquisition reserve £'000	Merger relief reserve £'000	Foreign currency translation reserve £'000	Own shares £'000	Shares to be issued £'000	Retained Earnings £'000	**Total Equity £'000**
Balance at 1 January 2018	**1,450**	**36,121**	**(60,623)**	**-**	**27**	**-**	**-**	**64,047**	**41,022**
IFRS 15 adoption impact	-	-	-	-	-	-	-	(131)	**(131)**
Restated balance at 1 January 2018	**1,450**	**36,121**	**(60,623)**	**-**	**27**	**-**	**-**	**63,916**	**40,891**
Loss for the year (Restated)	-	-	-	-	-	-	-	(605)	**(605)**
Exchange differences on retranslation of foreign operations	-	-	-	-	(48)	-	-	-	**(48)**
Total comprehensive expense for the year (Restated)	-	-	-	-	(48)	-	-	(605)	**(653)**
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)**
Balance at 31 December 2018 (Restated)	**1,501**	**40,994**	**(60,623)**	**590**	**(21)**	**(4,919)**	**-**	**66,021**	**43,543**
IFRS 16 adoption impact	-	-	-	-	-	-	-	(77)	**(77)**
Restated balance at 1 January 2019	**1,501**	**40,994**	**(60,623)**	**590**	**(21)**	**(4,919)**	**-**	**65,944**	**43,466**
Profit for the year	-	-	-	-	-	-	-	7,556	**7,556**
Exchange differences on retranslation of foreign operations	-	-	-	-	(89)	-	-	-	**(89)**
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(89)**	**-**	**-**	**7,556**	**7,467**
Transactions with owners:									
Issue of shares in year	5	611	-	-	-	-	-	(616)	**-**
Shares to be issued in respect of deferred consideration	-	-	-	-	-	-	1,514	-	**1,514**
Share-based payment transactions	-	-	-	-	-	-	-	2,310	**2,310**
Balance at 31 December 2019	**1,506**	**41,605**	**(60,623)**	**590**	**(110)**	**(4,919)**	**1,514**	**75,194**	**54,757**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £'000**	Year ended 31 December 2018 (Restated) £'000
Profit/(loss) for the financial year		**7,556**	(605)
Income tax	8	**(117)**	(304)
Finance income		**(253)**	(311)
Finance costs		**313**	99
Operating profit/(loss)		**7,499**	(1,121)
Depreciation charge	11	**2,226**	1,104
Amortisation of intangible assets	10	**834**	6,947
Decrease in bad debt provision		**(6)**	(11)
Share-based payments charge		**2,580**	3,004
Decrease/(increase) in trade and other receivables		**1,814**	(13,739)
Increase/(decrease) in trade and other payables		**1,304**	(1,072)
Cash flows from operating activities		**16,251**	(4,888)
Finance income		**9**	311
Finance costs		**(216)**	(99)
Tax paid		**(1,605)**	(1,687)
Net cash generated from/(used in) operating activities		**14,439**	(6,363)
Cash flows from investing activities			
Purchase of intangible assets	10	**(824)**	(513)
Purchase of property, plant and equipment	11	**(3,272)**	(1,740)
Acquisition of subsidiary – net of cash acquired	15	**38**	1
Net cash used in investing activities		**(4,058)**	(2,252)
Cash flows from financing activities			
Lease payments		**(1,021)**	-
Net cash used in financing activities		**(1,021)**	-
Net increase/(decrease) in cash and cash equivalents		**9,360**	(8,615)
Cash and cash equivalents at the beginning of the year		**3,730**	12,424
Foreign exchange		**(200)**	(79)
Cash and cash equivalents at the end of the year		**12,890**	3,730

NOTES TO THE GROUP FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. GENERAL INFORMATION

Sumo Group plc (the 'Company') is registered in England and Wales as a public limited company limited by shares. 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.

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 preliminary results for the year ended 31 December 2019 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the consolidated financial statements of the Group for the year ended 31 December 2019.

Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The accounting policies adopted have been consistently applied in all material aspects to all the periods presented, except for the adoption of new standards effective 1 January 2019.

Going concern

The results have been prepared on the going concern basis.

Directors' assessment of going concern:

The Group made a profit for the year of £7.6m, had Net Current Assets at the period end of £54.4m and a Net Cash Inflow from Operating Activities of £14.4m. Primarily, the Group's day to day working capital requirements are expected to be met through existing cash resources and cash equivalents at the balance sheet date of £12.9m and receipts from its continuing business activities. The Group expects to have sufficient income and cash resources to fund operations for a period of at least 12 months from the date of the financial statements. The Directors have reviewed the forecasts for the years ending 31 December 2020, 31 December 2021 and 31 December 2022 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.

COVID-19 Impact

Sensitivities have been applied to the Group's projections based on all reasonably possible downside scenarios to illustrate the potential impact from the COVID-19 pandemic, including a loss of efficiency in the Group's production process during home working, a loss of capacity from staff being unable to work due to sickness and constraints in the Group's ability to grow headcount or onboard new clients during 2020 outside of those already contracted. This process included a reverse 'stress test' used to inform downside testing which identified the break point in the Group's liquidity. Whilst the sensitivities applied do show an expected downside impact on the group's financial performance in future periods, in all scenarios modelled the Group maintains a robust balance sheet and liquidity position. The key factors supporting this are:

- 73% of forecast 2020 development revenue is contracted or near contracted;
- The Group has significant cash reserves available to cover all reasonably foreseeable downside scenarios;
- The Group is able to continue business operations through remote working, with encouraging early signs that project milestones can continue to be met with a manageable level of disruption;
- The majority of the Group's clients are blue chip organisations and expected to benefit from a potential increase in video games revenues during a period of restrictions to daily life. Therefore, the Group does not expect any credit losses on contract receivables.

Furthermore, on 24th March 2020 the Group drew down from its existing revolving credit facility £10 million as an extra safeguard to support the Group's liquidity position and medium-term growth plans in light of the ongoing pandemic.

Based on this work and the measures taken to mitigate the impact of COVID-19, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of the Group financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

New and amended standards and interpretations

The Group has, with effect from 1 January 2019, adopted IFRS 16. IFRS 16 'Leases' replaced IAS 17 'Leases' and IFRIC4 'determining whether an arrangement contains a lease' and sets out the principles for the recognition, measurement, presentation and disclosure of leases and has been applied from 1 January 2019 using the modified retrospective approach. Under IFRS 16 the main difference for the Group is that certain leases where the Group is a lessee are recognised on the balance sheet, as both a right-of-use asset and a lease liability. Low value (defined as leases with an individual asset value of less than £5,000 at the date of initial recognition) and short-term leases (those with a term of 12 months or less) were excluded from these calculations under the practical expedients allowed in the standard. The Group also elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use a single discount rate to a portfolio of leases with reasonably similar characteristics. The right-of-use asset is depreciated in accordance with IAS 16 'Property, Plant and Equipment' and the liability is increased for the accumulation of interest and reduced by cash lease payments. There is no impact on cashflow.

On the income statement the Group recognises a depreciation charge and an interest charge instead of a straight-line operating cost. This changes the timing of cost recognition on the lease, resulting in extra cost in early years of the lease, and reduced cost towards the end of the lease.

The Group elected to exclude all short-term leases and all leases for which the underlying asset is of low value (as above).

The adoption of IFRS 16 resulted in the recognition of a right of use asset with a depreciated cost of £4,981,000 together with a corresponding financial liability of £5,245,000 as at 1 January 2019. The difference of £264,000 was debited to retained earnings as at 1 January 2019. Offset against this, £268,000 of lease liability accruals under the previous standard IAS 17, and £96,000 of rent prepayments, were also credited/debited to retained earnings at that date. Further information on the impact of adoption of IFRS16 is presented in Note 16.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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 clients, 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 clients 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 2019 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.

Own-IP

The Group also creates its own concepts and IP. The accounting for Own-IP differs depending on whether the Group retains control over the IP or passes control over to clients.

Own-IP – Development revenues and royalties

Where the Group passes control of IP over to its client during development, fixed and variable revenues are recognised over time, consistent with third party-funded game development revenues.

Own-IP – Game revenues

Where the Group retains control of its own IP, during the development phase no revenue is recognised. Once the game is completed and launched the Group recognises the revenues as they are earned (at a point in time). Intangible assets relating to Own-IP controlled by the Group are measured at cost and tested for impairment. Once the game is launched the intangible asset is amortised as the game generates revenues and is subject to review for impairment at all times.

The Group may opt to licence its Own-IP games 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.

At the point at which a contract is established with a publisher, the Own-IP intangible asset will be converted to a work in progress contract asset. In this scenario the asset would be derecognised at the point the game is handed over to the publisher.

EBITDA and Adjusted EBITDA

Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, exceptional items, share-based payment charge, IFRS 16 impact, and the investment in co-funded games expensed, is a non-GAAP metric used by management and is not an IFRS disclosure. 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, share-based payment charges, the impact of IFRS 16 adoption and the investment in co-funded games expensed are excluded from EBITDA to calculate Adjusted EBITDA. For further explanation and details see Note 18 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.

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	3 to 5 years
Right of use assets	Over period of lease

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 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 and is presented within operating expenses. 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

Leases

The Group has applied IFRS 16 from 1 January 2019. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end the end of the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

Lease Liabilities

The lease liability is initially measured at the present value of lease payments that were not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

If there is a remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded directly in profit or loss if the carrying amount of the right of use asset is zero.

The Group presents right-of-use assets within property, plant and equipment.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or leases for assets with a value of less than £5,000. These lease payments are expensed on a straight-line basis over the lease term.

Note 16 provides a disclosure of the impact of IFRS 16.

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.

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 staff costs 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. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 9).

The group provides for National Insurance liabilities on the exercise of share based payments over time, using the best estimate of the liability at the balance sheet date.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Critical accounting estimates

Revenue recognition on development contracts

There are estimates made in respect of the recognition of revenue on customer contracts, including:

- Development revenue recognised over time is determined based upon estimates on the overall contract margin and percentage of completion of the contract at each period end. These estimates are based on contract value, historical experience and forecasts of future outcomes. These include specific estimates 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. A reduction of 1% of the revenue recognised on contracts which were not complete at 31 December 2019 (and therefore subject to these estimates) would result in a £397,000 reduction in revenue;
- Certain development contracts include an element of variable consideration, such as royalty income, which is contingent on future game sales. Such variable consideration is only recognised to the extent that it is highly probable that a significant reversal of cumulative revenue recognised will not occur once the certainty related to the variable consideration is subsequently resolved. 2019 revenue includes £1,000,000 of variable consideration not yet received and contingent on future sales.

Video Games 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. In 2019, £4,187,000 of Video Game Tax Relief income has been recognised in respect of claims not yet reviewed and approved by HMRC, being £5,729,000 of Video Game Tax Relief receivable at the balance sheet date, of which £1,542,000 is reimbursable to clients on receipt.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. Options with both market and non-market conditions are most impacted by these estimates. An increase in the assumption of fair value at grant date of 10% for this category of options would result in an increase in the cumulative IFRS 2 charge of £45,000.

The share options charge is subject to an assumption about the number of options that will vest as a result of the expected achievement of certain non-market conditions. A 1% reduction in the percentage of lapses assumed in each option category in respect of the achievement of performance conditions would result in an increase in the cumulative IFRS 2 charge of £39,000.

Recognition of Deferred Tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. A proportion of the deferred tax asset at 31 December 2019 is subject to a restricted period of overlapping profits. A reduction in 2020 taxable profits of 10% would result in a reduction in the deferred tax asset recognised of £45,000.

Other accounting estimates

Impairment of goodwill and other intangible assets

The carrying amount of goodwill is £22,851,000 (2018: £21,379,000) and the carrying amount of other intangible assets is £1,124,000 (2018: £999,999) as at 31 December 2019. 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 14% and 24%. 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 11%. 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.

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. The Directors review customer contracts and customer relationships on an annual basis which also involves an estimation of the length of the contract and an assessment of the relationship. The estimates concerning the length of customer contracts have resolved during 2019 as the balances naturally unwound 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.

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.

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; 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 the control of the Group, the recognition of this revenue is an inherently difficult judgement, and may result in revenues being recognised in a later period than when the performance obligations were satisfied.

Video Game Tax Relief

It is 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. The Directors have considered the requirements and key accounting indicators of both IAS 20 (Accounting for Government Grants) and IAS 12 (Income Taxes) and have determined that Video Game Tax Relief is most appropriately accounted for under IAS 20. 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 2019 and the year ended 31 December 2018. The statutory accounts for 2019 will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors, Ernst & Young 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 2019 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, The Chinese Room Limited, and Red Kite Games 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 £444,000 (2018: £397,000) which were located in India and Canada.

Major clients

In 2019 there were four major clients that individually accounted for at least 10 percent of total revenues (2018: four clients). The revenues relating to these clients in 2019 were £12.8m, £10.9m, £7.5m and £5.2m (2018: £8.1m, £6.6m, £5.7m and £5.1m).

Analysis of revenue

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

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
UK & Ireland	**16,622**	14,775
Europe	**5,440**	7,935
Rest of the World	**26,925**	15,986
	48,987	38,696

2019 "Royalties" of £1,309,000 (2018: £765,000) include £1,000,000 (2018: £250,000) of variable consideration identified as part of the transaction price for performance obligations already satisfied at the year-end date. The amount has been constrained to reflect uncertainty in the variable consideration which will be resolved in future periods. This uncertainty relates to circumstances outside of the group's control such as future success of video games which the group has developed. Royalties also include amounts recognised in revenue in 2019 relating to performance obligations satisfied in previous periods for which the outcome was uncertain totalling £309,000 (2018: £515,000).

The following aggregated amounts of transaction prices relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied at 31 December 2019.

	2020	2021
	£'000	£'000
Revenue expected to be recognised	29,058	7,552

Revenue by IP origination

The Group's revenue can be disaggregated by considering the source of created intellectual property (IP) as shown below:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Client-IP - Development	**31,315**	34,003
Client-IP - Royalty	**1,309**	765
Total Client-IP	**32,624**	34,768
Own-IP - Development	**15,998**	3,490
Own-IP - Royalty	**-**	
Own-IP - Game Revenues	**365**	438
Total Own-IP	**16,364**	3,928
Total Revenue	**48,987**	38,696

The above categories of revenue are recognised over time, with the exception of 'Own-IP - Game Revenues', 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') and is reassessed at each reporting date (with changes in the estimate recognised in the income statement), and recognised over time. Client-IP includes concepts and IP commissioned or originated by clients for development by, or in partnership with, the Group and for which clients retain ownership of such IP after development is complete.

Own-IP includes concepts and IP originated by the Group. In some instances, the Group may transfer certain rights to such IP, originated by the Group, to the client for a finite period or in perpetuity, typically earning a combination of fixed consideration in the form of development revenues and variable consideration such as royalties or similar income.

Where the Group fully funds the development of its Own-IP and retains legal title to such IP, it will earn game revenues or similar income. The Group may, at times, licence such IP to clients with a view to maximising game revenues.

Assets and liabilities relating to contracts with clients

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

	2019	2018
	£'000	£'000
Contract assets – amounts recoverable on contracts	**9,847**	11,310
Contract liabilities – advances for game development	**394**	512

Contract assets – amounts recoverable on contracts represents contracts whereby the services rendered by the Group at the reporting date exceed the customer payments. Included within the above contract assets are amounts of variable consideration that are highly probable of not reversing of £1,000,000 (2018: £250,000). In the event that this variable consideration is no longer considered probable, 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 represent customer payments received in advance of performance obligations that are expected to be recognised as revenue in 2020. These amounts recognised will generally be utilised within the next reporting period.

6. DIRECT COSTS (NET)

	Year ended 31 December 2019	Year ended 31 December 2018 (Restated)
	£'000	£'000
Direct costs	**32,409**	26,096
Video Games Tax Relief	**(7,350)**	(5,803)
	25,059	20,293

During the year ended 31 December 2019, the Directors reassessed their accounting policy for certain elements of VGTR income which is transferred back to clients at nil margin and concluded that it would be more appropriate for this income to be netted against the associated direct costs, to more clearly reflect the impact of VGTR receipts on the Group's profit. The change in presentation reduced Direct Costs and Video Games Tax Relief for the year ended 31 December 2019 by £1.4m but had no impact on direct costs (net), gross profit, earnings or financial position. Direct costs for the prior period have been restated resulting in a reduction in Video Games Tax Relief income and Direct costs of £1.1m.

As a result of these changes, the Video Games Tax relief income disclosed in the consolidated income statement reflects only the amounts retained by Sumo.

7. EXPENSES BY NATURE

	Year ended 31 December 2019	Year ended 31 December 2018 (Restated)
	£'000	£'000
Exceptional items	523	94
Employee benefit expense	31,155	27,155
Depreciation charges (Note 11)	2,226	1,104
Amortisation and impairment charges (Note 10)	834	6,947
Operating lease payments	200	1,230
Investment in co-funded games expensed	1,292	208

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:

- 2018 – the acquisition of The Chinese Room Limited (£94,000)
- 2019 – the acquisition of Red Kite Games Limited (£157,000), transactions relating to restructuring costs (£153,000) and other ongoing acquisition activity (£213,000)

8. TAXATION

The effective tax rate of the group for the period ended 31 December 2019 is (1.6)% (2018: 33.4%)

Analysis of credit in year

	Year ended 31 December 2019	Year ended 31 December (Restated) 2018
	£'000	£'000
Current tax		
Current taxation charge for the year	**92**	1,268
Adjustments for prior periods	**(22)**	(128)
Total current tax	**70**	1,140
Deferred tax		
Origination and reversal of timing differences	**(68)**	(2,409)
Adjustments in respect of prior periods	**(119)**	965
Total deferred tax	**(187)**	(1,444)
Income tax credit reported in income statement	**(117)**	(304)
Reconciliation of total tax (credit):		
Profit/(loss) before tax	**7,439**	(909)
Profit/(loss) multiplied by the rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**1,413**	(173)
Effects of:		
Permanent differences	**144**	544
Share-based payments	**(121)**	37
Fixed asset permanent differences	**48**	15
Unrecognised deferred tax	**156**	-
Effects of different tax rates in overseas jurisdictions	**19**	22
Non-taxable income (Video Games Tax Relief)	**(1,656)**	(1,663)
Effect of change in rates	**21**	77
Adjustments in respect of previous periods	**(141)**	837
Total taxation (credit)	**(117)**	(304)

Taxation on items taken directly to equity was a credit of £272,000 (2018: £132,000) and relates to deferred tax on share option schemes and transitional adjustments on the implementation of IFRS 16.

Factors that may affect future tax charges

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020.

Accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences are expected to reverse.

However, on 11 March 2020, the 2020 UK Budget reversed the reduction in the corporation tax rate from 19% to 17%. This reversal was substantively enacted on the same date. Since this anticipated reversal of the rate reduction was not substantively enacted at the balance sheet date, deferred tax has been provided at 17%. If deferred tax had been provided at 19%, the impact would be an increase in the deferred tax asset recognised of £295,000.

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 (4,618,735 at 31 December 2019 and 31 December 2018).

When calculating diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of 689,726 (2018: 950,000) of potentially dilutive options granted to employees and 1,064,033 of shares to be issued in respect of deferred consideration on acquisition of Red Kite Games Limited.

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

	Year ended 31 December 2019	Year ended 31 December 2018 (Restated[1])
Earnings (£'000)		
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to equity shareholders	**7,556**	(605)
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share	**145,720,683**	145,176,446
Weighted average dilutive effect of warrants	**1,450,000**	1,450,000
Weighted average dilutive effect of conditional share awards	**689,727**	950,000
Weighted average dilutive effect of deferred consideration	**1,064,033**	-
Weighted average number of shares for the purposes of diluted earnings per share	**148,924,443**	147,576,446
Earnings/(losses) per ordinary share (pence)		
Basic earnings/ (loss) per ordinary share	**5.19**	(0.41)
Diluted earnings/ (loss) per ordinary share	**5.07**	(0.41)

Note 1: For 2018 the results and financial position have been restated to recognise a provision for national insurance contributions due on the future vesting of share-based payments of £426,000, and a corresponding deferred tax asset of £72,000. During 2019, the Directors considered their accounting policy for the recognition of these costs and elected to spread the costs over the vesting period of share-based payments.

The weighted average number of basic and diluted shares used to calculate earnings per share for the year to 31 December 2018 has been restated to include the impact of 16,617,198 shares held in the Employee Benefit trust for the sole benefit of the Group's founder shareholders. As this beneficial interest was unconditional, the shares should have not been excluded from the weighted average number of shares. During 2019, these shares were transferred to the beneficial owners.

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 for 2018 because they are antidilutive for the period presented.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Software	Intellectual Property	Customer contracts	Customer relationships	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000
COST						
As at 1 January 2018	369	-	14,722	21,678	20,791	57,560
Additions	513	-	-	-	-	513
Acquisition of subsidiary	-	-	-	-	588	588
As at 31 December 2018	**882**	**-**	**14,722**	**21,678**	**21,379**	**58,661**
Additions	476	348	-	-	15	839
Acquisition of subsidiary (note 15)	-	-	135	-	1,457	1,592
As at 31 December 2019	1,358	348	14,857	21,678	22,851	61,092
AMORTISATION						
As at 1 January 2018	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**
Charge for the year	214	-	559	61	-	834
As at 31 December 2019	**582**	**-**	**14,857**	**21,678**	**-**	**37,117**
NET BOOK VALUE						
As at 31 December 2018	514		424	61	21,379	22,378
As at 31 December 2019	**776**	**348**	**-**	**-**	**22,851**	**23,975**

The customer contracts represent contracted revenues. Where the impact of discounting is significant, 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 14% and 24%. 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 11% (2018: 12%).
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. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Fixtures and fittings	Computer hardware	Right of use asset	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
COST					
As at 1 January 2018	794	215	1,702	-	2,711
Additions	622	413	705	-	1,740
Transfers	(104)	104	-	-	-
Acquisition of subsidiary (Note 15)	-	2	2	-	4
As at 31 December 2018	1,312	734	2,409	-	4,455
Additions	584	210	2,894	7,725	11,413
Transfers	(409)	409	-	-	-
Acquisition of subsidiary (Note 15)	-	-	25	-	25
As at 31 December 2019	**1,487**	**1,353**	**5,328**	**7,725**	**15,893**
DEPRECIATION					
As at 1 January 2018	64	70	742	-	876
Charge for the period	214	157	733	-	1,104
Effect of translation to presentation currency	-	-	(21)	-	(21)
As at 31 December 2018	**278**	**227**	**1,454**	**-**	**1,959**
Charge for the period	290	269	762	905	2,226
Effect of translation to presentation currency	-	-	(7)	-	(7)
As at 31 December 2019	**568**	**496**	**2,209**	**905**	**4,178**
NET BOOK VALUE					
As at 31 December 2018	1,034	507	955	-	2,496
As at 31 December 2019	**919**	**857**	**3,119**	**6,820**	**11,715**

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

12. LEASES

IFRS 16 Lease liability

The leases held by the Group relate to leased land and buildings, plant and machinery and motor vehicles, as set out below. There are no variable lease payments, extension or termination options or residual value guarantees and there are no leases not yet commenced to which the Group is committed.

Amounts recognised in the Consolidated Statement of Financial Position

The balance sheet shows the following amounts relating to leases:

	31 December 2019	31 December 2018
	£'000	**£'000**
Right of use assets		
Leased land and buildings	**6,791**	-
Motor vehicles	**29**	-
	6,820	-
Lease liability		
Current	**816**	-
Non-current	**6,524**	-

Amounts recognised in the Consolidated Income Statement

The Consolidated Income Statement shows the following amounts relating to leases:

	31 December 2019 £'000	31 December 2018 £'000
Depreciation charge of right of use assets		
Leased land and buildings	**882**	-
Motor vehicles	**23**	-
	905	-
Interest expense (included in finance costs)	**149**	-
Expenses relating to short term/low value leases (included in direct costs / operating expenses)	**200**	-

13. SHARE-BASED PAYMENTS

In the year ended 31 December 2019 the Group operated two equity-settled share-based payment plans.

The Group recognised total expenses of £2,684,000 (2018 (restated): £3,004,000) in respect of equity-settled share-based payment transactions in the year ended 31 December 2019 of which £531,000 related to accrued national insurance costs (2018 (restated): £426,000).

Details of the maximum total number of ordinary shares, which may be issued in future periods in respect of awards outstanding at 31 December 2019 is shown below.

	31 December 2019 Number of shares
At 1 January 2019	9,581,278
Granted in the year	1,009,371
Exercised in the year	(430,494)
Lapsed/forfeited in the year	(519,961)
At 31 December 2019	9,640,194

14. DEFERRED TAX

The movements in the deferred tax assets/liabilities recognised by the Group, and the categories to which they relate are set out below:

	2019	2018
	£'000	£'000
Asset/(liability) at beginning of period	**2,053**	474
Credit to income statement	**187**	1,444
Credit to equity	**272**	132
Foreign exchange adjustments	**2**	4
On acquisition of subsidiary	**(2)**	(1)
Asset at 31 December	**2,512**	2,053

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

Accelerated capital allowances on property, plant & equipment	**(53)**	39
On intangible assets	**-**	(63)
On share-based payments and other timing differences	**1,455**	658
On losses	**1,110**	1,419
	2,512	2,053

The Group has unrecognised deferred tax assets on losses of £977,000 (2018: £1,058,000)

15. BUSINESS COMBINATIONS

Acquisition of Red Kite Games Limited

On 31 January 2019, the Group acquired Red Kite Games Limited for a total consideration of £2.2million. The net consideration is circa. £1.7 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			
Intangible assets	-	135	135
Property, plant and equipment	47	(22)	25
Trade and other receivables	202	(59)	143
Cash and cash equivalents	547	(4)	543
	796	50	846
Liabilities			
Corporation tax payable	(23)	-	(23)
Trade and other payables	(27)	(97)	(124)
Deferred tax	(2)	-	(2)
	(52)	(97)	(149)
			697
Goodwill			1,457
			2,154

Summary of net cash inflow from acquisition	
Cash paid	505
Cash acquired	(543)
Cash consideration transferred	(38)
Purchase consideration	
Cash paid	505
Contingent consideration	135
Ordinary shares	1,514
Total purchase consideration	2,154
Acquisition costs charged to expenses	157

Consideration transferred

The acquisition of Red Kite Games Limited was settled in cash amounting to £505,000 and approximately £1,514,000 through the issue of 1,162,791 new ordinary shares in Sumo Group ('Consideration Shares') to the Sellers. The Consideration Shares will be issued on the 12 month anniversary of the acquisition date. Further contingent consideration is due in respect of any pre-acquisition receivables collected within 12 months of the acquisition date, and the fair value of this consideration has been reflected in the transaction price.

Acquisition related costs amounting to £157,000 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 £1,457,000 is primarily related to growth, technical knowledge and market diversification. Other intangible assets had a fair value of £135,000.

Contribution to the Group results

Red Kite Games Limited generated a profit of £699,000 for the 11 months from acquisition. Revenue for the period was £2,794,000.

16. IFRS 16 ADOPTION IMPACT

In 2019, the Group has adopted new guidance for the recognition of leases (IFRS 16). 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 2019. Consequently, the comparative numbers are not restated.

The impact on the opening balance sheet at 1 January 2019 is set out below:

	Pre-IFRS 16 As at 31 December 2018 £'000	IFRS 16 adoption adjustments £'000	**Post-IFRS 16 As at 1 January 2019 £'000**
Non-current assets			
Goodwill and other intangible assets	22,378	-	22,378
Property, plant and equipment	2,496	4,981	7,477
Deferred tax asset	2,053	-	2,053
Total non-current assets	26,927	4,981	31,908
Current assets			
Trade and other receivables	25,172	(96)	25,076
Cash and cash equivalents	3,730	-	3,730
Total current assets	28,902	(96)	28,806
Total assets	55,829	4,885	60,714
Current liabilities			
Trade and other payables	(11,476)	(487)	(11,963)
Corporation tax payable	(810)	15	(795)
Total current liabilities	(12,286)	(472)	(12,758)
Non-current liabilities			
Lease liabilities	-	(4,490)	(4,490)
Total non-current liabilities	-	(4,490)	(4,490)
Total liabilities	(12,286)	(4,962)	(17,248)
Net assets	43,543	(77)	43,466
Equity			
Share capital & other equity	(22,478)	-	(22,478)
Retained earnings	66,021	(77)	65,944
Total equity	**43,543**	**(77)**	**43,466**

The adoption of IFRS 16 resulted in the recognition of a financial liability of £5,245,000 as at 1 January 2019. Offset against this, £268,000 of lease liability accruals were de-recognised at that date. The weighted average incremental borrowing rate applied to lease liabilities recognised at 1 January 2019 was 2.5%.

The lease liabilities at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	£'000
Operating lease commitments at 31 December 2018	**5,899**
Weighted average incremental borrowing rate	2.5%
Discounted operating lease commitments	5,298
Commitments on short life and low value leases	(53)
Lease Liabilities at 1 January 2019	**5,245**

The financial impact of adoption of IFRS 16 on the 2019 income statement is set out below:

	Pre-IFRS 16	IFRS 16 adoption adjustments		**Post-IFRS 16**
	Year ended 31 December 2019	Reversal of rent expense	Additional depreciation and interest	**Year ended 31 December 2019**
	£'000	£'000	£'000	£'000
Revenue	48,987	-	-	48,987
Direct costs	(32,409)	-	-	(32,409)
Video Games Tax Relief	7,350	-	-	7,350
Direct costs (net)	(25,059)	-	-	(25,059)
Gross profit	**23,928**	**-**	**-**	**23,928**
Operating expenses	(15,987)	986	(905)	(15,906)
Operating expenses – exceptional	(523)	-	-	(523)
Operating expenses - total	(16,510)	986	(905)	(16,429)
Group operating profit/(loss)	7,418	986	(905)	7,499
Finance cost	(164)	-	(149)	(313)
Finance income	253	-	-	253
Profit/(loss) before taxation	7,507	986	(1,054)	7, 439
Taxation	117	-	-	117
Profit/(loss) for the year attributable to equity shareholders	7,624	986	(1,054)	7,556

17. POST BALANCE SHEET EVENTS

On 12th March 2020 the World Health Organisation declared the Covid-19 outbreak to be a pandemic. This resulted in the UK government announcing on a series of restrictions to daily life. As a result, during March 2020, in close co-operation with our clients and with their consent, we have moved to working from home across the Group.

On 24th March 2020 the Group drew down from its existing revolving credit facility £10 million. Whilst there are no immediate or specific uses for these funds, the Directors consider this to be appropriate action, in the current exceptional circumstances, to support the Group's liquidity position and medium term growth plans in light of the ongoing pandemic.

Whilst the impact on the Group's results is difficult to predict, based on the measures taken to mitigate the disruption on the Group's operations and boost its liquidity, as well as the sensitivity analysis described in the Group's Going Concern review, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and do not expect an impairment to the Group's non-current assets as a result of the pandemic.

18. ALTERNATIVE PERFORMANCE MEASURES

	Audited year ended 31 December 2019	Deferred costs on Co-funded contracts	**Adjusted year ended 31 December 2019**
	£'000	£'000	**£'000**
Revenue	**48,987**	-	**48,987**
Gross profit	**23,928**	1,292	**25,220**

	Audited year ended 31 December 2018	Deferred costs on Co-funded contracts	**Adjusted Year ended 31 December 2018**
	£'000	£'000	**£'000**
Revenue	**38,696**	-	**38,696**
Gross profit	**18,403**	208	**18,611**

Adjusted Earnings Per Share

Basic adjusted earnings per share is calculated by dividing the adjusted earnings attributable to equity shareholders by the adjusted weighted average number of ordinary shares in issue at the reporting date. The adjusted weighted average number of shares differs from the statutory measure as it includes 950,000 nil cost options issued on IPO, of which only 500,000 were exercised during 2019 (2018: nil). The calculation of Adjusted earnings per share is based on Adjusted profit before tax presented below, after a pro-forma rate of tax of 19%.

Diluted adjusted earnings per share is calculated by dividing adjusted earnings by the total number of potential future shares, including all those in granted in respect of Share Option schemes where performance conditions have not yet been met.

When calculating diluted earnings per share, the number of shares is adjusted to assume conversion of 9,640,194 (2018: 9,581,278) of potentially dilutive options granted to employees, 1,162,791 (2018: nil) shares to be issued in respect of deferred consideration on acquisition and 1,450,000 (2018: 1,450,000) of warrants.

	Year ended 31 December 2019	Year ended 31 December 2018
Adjusted earnings per share		
Weighted average number of shares for the purposes of basic adjusted earnings per share	**146,410,409**	146,126,446
Fully dilutive potential number of shares	**158,239,287**	156,481,050
Basic AEPS (pence)	**6.99**	5.09
Diluted AEPS (pence)	**6.46**	4.75

A reconciliation of IFRS reported results to the unaudited underlying income statement is shown below.

	Year ended 31 December 2019			Year ended 31 December 2018 (Restated)		
	Reported	Adjustments	Underlying	Reported	Adjustments	Underlying
	£'000	£'000	£'000			
Revenue	48,987	-	48,987	38,696	-	38,696
Gross profit	**23,928**	**1,292**	**25,220**	**18,403**	**208**	**18,611**
Operating expenses excluding depreciation, amortisation and exceptional items	(12,846)	-	(12,846)	(11,379)	-	(11,379)
Investment in co-funded games expensed	1,292	(1,292)	-	208	(208)	-
Operating lease costs capitalised under IFRS 16	(986)	-	(986)	-	-	-
Share based payments	2,684	-	2,684	3,004	-	3,004
Adjusted EBITDA	**14,072**	**-**	**14,072**	**10,236**	**-**	**10,236**
Depreciation	(2,226)	905	(1,321)	(1,104)		(1,104)
Net finance costs	(60)	149	89	212	-	212
Investment in co-funded games expensed	(1,292)	1,292	-	(208)	208	-
Operating lease costs capitalised under IFRS 16	986	(986)	-	-	-	-
Amortisation of software	(213)	-	(213)	(163)	-	(163)
Adjusted profit before tax, share based payment charge, IFRS 16 adjustments, exceptional items and amortisation of customer contracts and customer relationships	**11,267**	**1,360**	**12,627**	**8,973**	**208**	**9,181**
Operating expenses – exceptional	(523)			(94)		
Share based payment charge	(2,684)			(3,004)		
Amortisation of customer contracts and relationships	(621)			(6,784)		
Profit/(loss) before taxation	**7,439**			**(909)**		

Financial calendar

Financial year end	31 December 2019
Announcement of full-year results	21 April 2020
Publication of Annual Report and Accounts	21 May 2020
Annual General Meeting	25 June 2020
Announcement of half-year results	Late September 2020
Publication of Interim Report	Mid October 2020
Financial year end	31 December 2020
Announcement of full-year results	April 2021
Publication of Annual Report and Accounts	May 2021