Sumo Group plc
Annual Report & Accounts 2019

REALISING OUR VISION >

STRATEGIC REPORT

GOVERNANCE

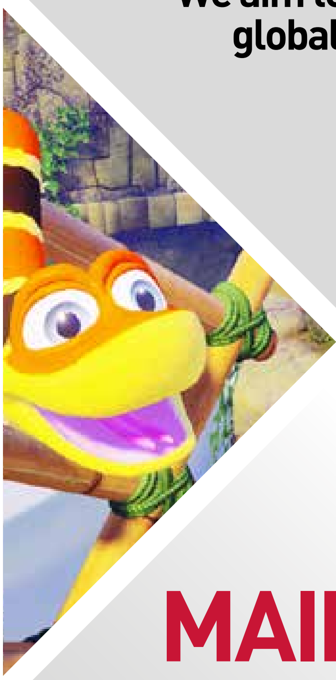
FINANCIAL STATEMENTS

CREATE

We aim to create ground-breaking games

BUILD

We aim to build on our global business



MAINTAIN

We aim to maintain our strong company culture

We are one of the UK's largest providers of creative and development services to the video games and entertainment industries, delivering end-to-end visual and development solutions from initial concepts to production and development and post-release support. We operate from ten studios around the globe.

DRIVEN

We are driven by our people

HIGHLIGHTS

REVENUE (2018: £38.7m)

£49.0m +26.6%

GROSS PROFIT (2018: £18.4m)

£23.9m +30.0%

ADJUSTED EBITDA* (2018: £10.2m)

£14.1m +37.5%

CONTRACTED OR NEAR CONTRACTED REVENUE

73%

(2018: 88%)

GROSS MARGIN

48.8%

(2018: 47.6%)

NET CASH (2018: £3.7m)

£12.9m

* 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.

WE CREATE GROUND-BREAKING GAMES

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

Ian Livingstone, Chairman

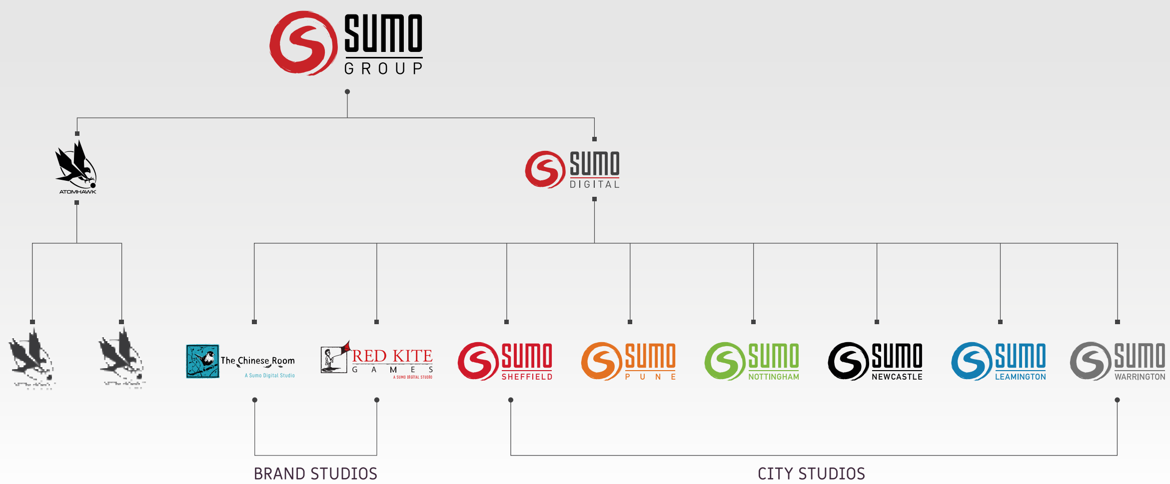
WE ARE GAMING

We are one of the UK's largest providers of creative and development services to the video games and entertainment industries.

COMPANY STRUCTURE

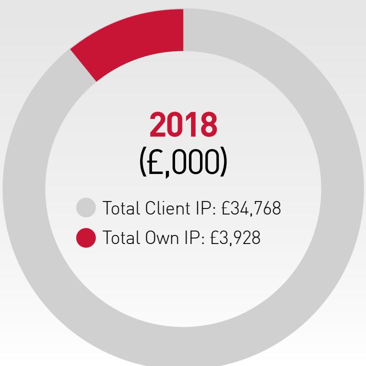
Together, our Sumo Digital and Atomhawk businesses deliver end-to-end visual and development solutions to the video games industry and beyond, from visual concept design and pre-production through to development, user-interface design, marketing and post-release support.

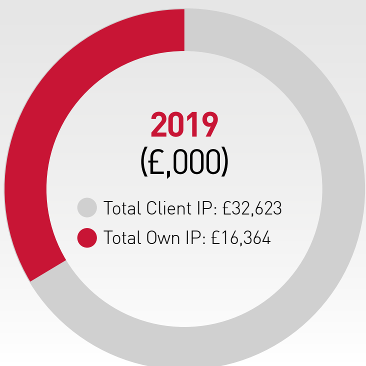
We now have ten studios operating in three countries.



REVENUE STREAMS

Our business model is evolving and, for the first time, we are distinguishing between revenue generated from work on Client-IP and that generated through work on Own-IP. This is explained fully in the Group Financial Review on pages 28 to 31.





OUR RELATIONSHIPS

We have developed deep relationships with some of the world's largest computer games publishers, developers, platform manufacturers and entertainment brands, including:

HIGHLIGHTS 2019

INCREASE IN TALENT

29%

from 592 to 766 people

OWN-IP REVENUE

£16.4m

2018: £3.9m

STUDIOS

10

from seven in the year

OUR YEAR IN REVIEW

JANUARY 2019

- Acquisition of Red Kite Games, a work-for-hire studio focused on engineering and code support services, adding 27 talented colleagues to the business, increasing technical/engineering capacity and providing access to a new talent pool in West Yorkshire.

FEBRUARY 2019

- Crackdown 3 for Microsoft launched.

MARCH 2019

- Sumo Digital opened a studio in Leamington Spa, dedicated to the fast-growing mobile game development market.
- Apple Arcade contract announced.

APRIL 2019

- Paul Porter, one of the co-founders of Sumo Digital, was appointed Chief Operating Officer of Sumo Group.
- Gary Dunn appointed as Managing Director of Sumo Digital.

MAY 2019

- Team Sonic Racing Launched

JULY 2019

- Sumo Digital and Red Kite Games announced a new partnership with 2K, a video games publisher managing some of the most creative and respected brands in the market today.
- Won the highly coveted Develop Star Award for 'Best Studio'.

AUGUST 2019

- Pass the Punch planned launch announced, a self-funded Own-IP "beat 'em up" title.

SEPTEMBER 2019

- Launched the much acclaimed Own-IP game Dear Esther on iOS, developed by The Chinese Room.
- Ian Livingstone, one of the founding fathers of the games industry was appointed Non-Executive Chairman.

OCTOBER 2019

- Sumo Digital established in Warrington; Sumo Digital's seventh UK and eighth global studio expanding the Group's capabilities by focusing on the delivery of high-end engineering and code support services to prestigious clients.
- Red Kite Games relocates to larger premises in Leeds City centre.

NOVEMBER 2019

- Tencent acquired c.10% shareholding in Sumo Group.
- Sumo Digital wins TIGA award for 'Best independent Studio'.

DECEMBER 2019

- Headcount reached 766 people.

WHY INVEST? WHAT WE OFFER

GROWTH POTENTIAL

The video games market is vast and fast growing with ever-increasing demand for new content.

The key growth drivers of the industry are considered to be cloud based platforms, Games as a Service ("GaaS") in-game monetisation, changes in consumer behaviour, free to play and mobile games, esports and the rise of Asia, particularly China. Six of the largest businesses in the world, Amazon, Apple, Facebook, Google, Microsoft and Tencent are actively driving growth.

Newzoo, the world's most trusted and quoted source for games market insights and analytics, expects the global market to grow from $152bn in 2019 to $196bn by 2022.

$152bn
value of the global market

2.5bn
gamers worldwide

See more on page 10

CAPABILITIES AND SCALE

Our competitive advantage lies in our scale, management systems, technology and our ability to attract the best creative talent, which enable us to offer creative, flexible co-development and full end-to-end solutions to publishers and other content developers.

We benefit creatively, commercially and financially from our proprietary technologies, which we have developed over many years, and our global talent base of over 750 people in three countries.

10
studios in three countries

766
people

See more on page 4

LOWER RISK BUSINESS MODEL

Whilst the Group's business model is evolving, it continues to be relatively low risk with high visibility, generating both cash and sustainable profit margins through long-term contracting, typically with milestone payments, which provides the opportunity for investors to gain lower risk exposure to the attractive video games sector.

Sumo Group is rarely directly exposed to the commercial success of a game and more often benefits from upside where royalties are in place. Our aim is to accelerate the Group's growth and increase margins, through the development of Own-IP games, either self-funded, co-funded or fully-funded, and through acquisition.

73%
Contracted or near-contracted development fees for 2020

£12.9m
Net Cash December 2019

See more on page 5

STRONG TRACK RECORD

Since its IPO in December 2017, the Group has delivered consistent revenue and Adjusted EBITDA* growth of over 20% year on year.

Since 2016 the Group has achieved a revenue CAGR of nearly 34% per annum. The increase in revenue has been 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%.

34%
Revenue CAGR since 2016 nearly

59%
Overall growth in people since IPO (2017)

See more on pages 22 to 27

* 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.

I am very pleased to introduce Sumo Group's Annual Report and Accounts, our third as a quoted company and my first as Chairman.

BUILDING A GLOBAL BUSINESS

SUMO TEAM
766

STUDIOS WORLDWIDE
10

GROSS PROFIT GROWTH
30%

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.

CONTRIBUTION TO GROUP REVENUE

33%

OWN-IP

In March we announced that The Chinese Room's fifth title, Little Orpheus, would be launched on Apple's new gaming service, Apple Arcade. We also announced that Sumo Digital was developing its own game, 'Spyder' which has now been launched on Apple Arcade.

In September 2019 we launched the much acclaimed Own-IP game, developed by The Chinese Room, Dear Esther on iOS.

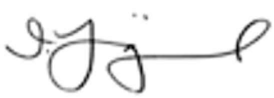
We view talent as a major asset and place a high value on our people. This is demonstrated in the investment that we make in creating positive working environments and in listening and responding to what our colleagues tell us. Sumo Newcastle and Atomhawk will shortly re-locate to brand-new studios fitted 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 of 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 this Annual Report details 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

OUR OPPORTUNITY

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.

THE MARKET

+10%
ON PREVIOUS YEAR

"UKIE" REPORTS UK MARKET FOR GAMES WAS VALUED AT
£5.7BN
IN 2018

$152.1 BN
IN 2019

$196BN
IN 2022

INCREASED DIGITAL DISTRIBUTION + MORE PLATFORMS & DELIVERY MODELS + BACKWARD COMPATABILITY HAS RESULTED IN SMOOTHING OF CONSOLE LIFE CYCLES = INCREASED DEMAND FOR HIGH QUALITY CREATIVE OUTPUT

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 cloud based platforms, Games as a Service ("GaaS") in-game monetisation, 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 content, including visual development concept art and marketing art, is likely to increase, as new consoles are launched, games become more complex, new cloud gaming services are launched and GaaS generates more workflow.

The video games market is strong and growing. The Association for UK Interactive Entertainment ("UKIE") reports that the UK market for games was valued at a record of £5.7bn in 2018, representing +10.0% growth on the previous year. Newzoo expects the global games market to grow from $152bn in 2019 to $196bn by 2022. Six of the largest businesses in the world, Apple, Microsoft, Google, Amazon, Facebook and Tencent are actively driving growth in our industry, so the demand for content has never been higher.

SUMO IS WELL POSITIONED TO BENEFIT FROM THAT DEMAND

UK GAMES MARKET

£5.7bn

in 2018 (+10%)

GLOBAL GAMES MARKET

$152bn

by 2019

GLOBAL GAMES MARKET EXPECTED TO BE WORTH

$196bn

by 2022

ESPORTS HAS AN ESTIMATED AUDIENCE OF

450m

DELIVERING VALUE

We have a relatively low risk, high visibility business model, which generates both cash and sustainable profit margins.

OUR SOURCES OF COMPETITIVE ADVANTAGE

- Strong partnerships with the world's best publishers
- International scale (time zone advantage)
- Award winning creative talent
- Proprietary technologies
- Ability to provide turnkey and end-to-end solutions
- Management systems
- Technology and creative solutions

WHAT WE DO

Our services

Flexible co-development and turnkey and end-to-end solutions for publishers and other developers spanning:

HOW WE USE OUR CONTRACT TYPES TO BALANCE RISK

Contract type	Game development (turnkey or co-dev)	Own-IP Game Revenues	Original concept creation developed in partnership with a third party
Funding	Publisher	Sumo or third party	Co-funded with or fully funded by partner
Control of IP	Publisher	Sumo	Publisher (Sumo may retain legal ownership)
Payment model	Milestone payments plus royalties as earned	Game sale revenues or guaranteed royalty (if funded by a third party)	Milestone payments plus royalties as earned
Accounting	• Development fees recognised using estimate of contract margin & percentage of completion • Royalties earned subject to IFRS15 recognition principles • Development costs expensed as incurred	• Recognise revenue as earned or guaranteed royalties as contractual obligation triggered • Capitalise development costs as intangible asset with regular impairment reviews (IAS 38)	• Development fees as for game development contract • Sumo investment expensed as incurred

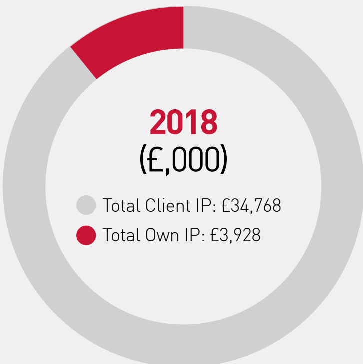
This table illustrates typical scenarios and does not refer to any specific contracts.

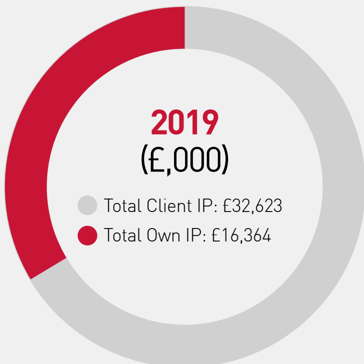
Our revenue model

We do not take significant principal risk on game development, and the majority of our revenues are generated through low risk development for publishers.

A small proportion of revenues are derived from own-IP projects, which provide scope for higher returns but greater exposure to risk.

Read more about the different contract types we use to balance our risk profile on pages 14 to 19.





OUR BUSINESS MODEL IN ACTION

CASE STUDY A

GAME DEVELOPMENT (TURNKEY OR CO-DEV)

Good development margin, low development risk, some potential upside post launch

2019 Key Metrics

Number of live contracts
8

Development revenue
£27.4m

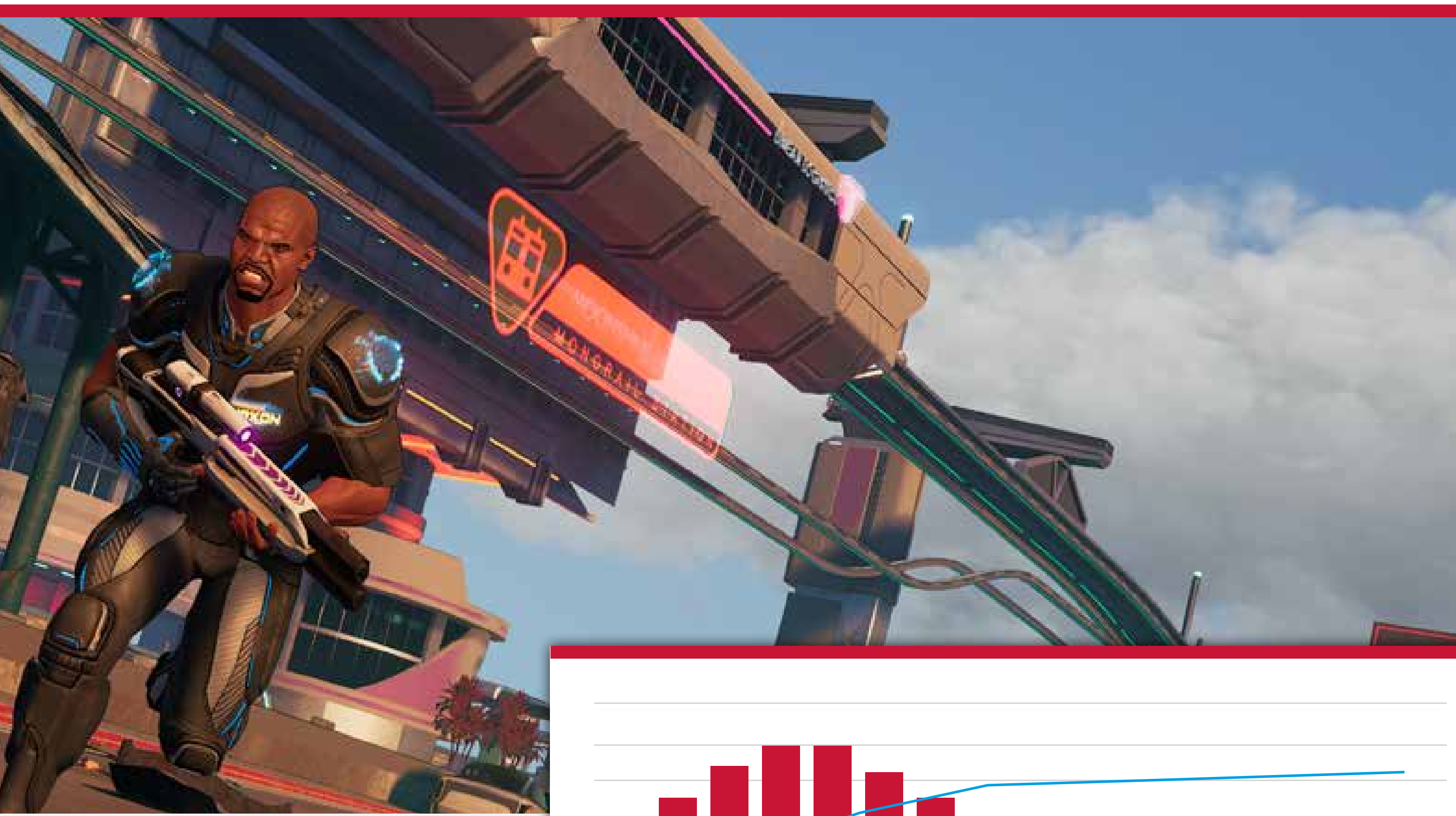
Royalty revenue
£1.3m

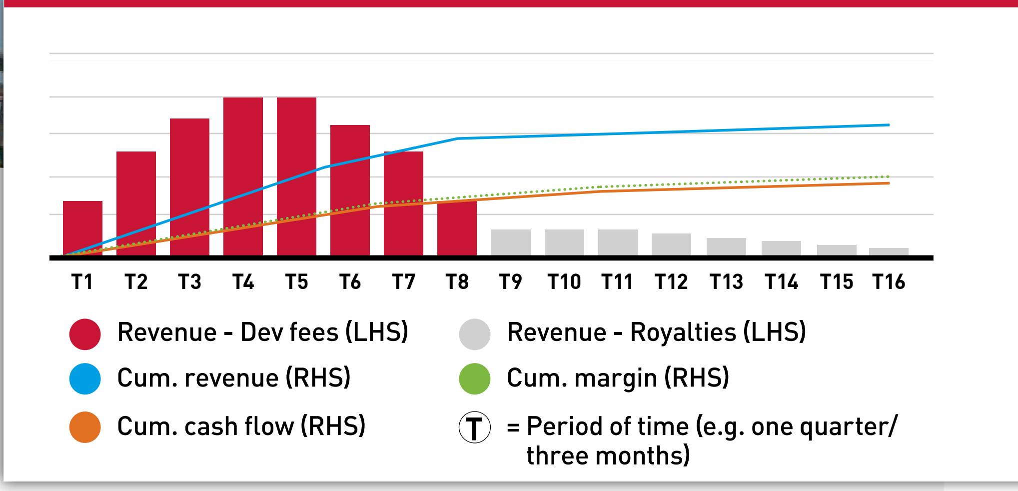
Accrued revenue > Billed revenue
£6.1m

01
A client generally originates the game concept and retains control of the IP at all times.

02
Sumo engages with the client to develop the game to an agreed specification and Sumo accrues a right to payment for development work as it is performed.

Agreed revenue for this single performance obligation to the client may contain elements which are fixed or variable.





03

Fixed development revenues are recognised using judgement and estimates on the overall development phase contract margin and percentage of contract completion at each period end.

- Cash receipts from publishers are non-refundable and scheduled broadly to follow the expected percentage of game completion.

04

Variable consideration, typically in the form of royalty receipts are recognised as revenue only when it is highly probable they will be received:

- Sumo's share of game sales in the form of royalties varies with contractual terms and ultimately depends on the game's success;
- The timing of royalty receipts is dependent on the publisher's launch date.

05

Development costs are expensed as incurred.

OUR BUSINESS MODEL IN ACTION

CASE STUDY B

OWN IP

No development margin, higher development risk, strong potential return on investment

2019 Key Metrics

Number of live development projects
3

Number of launched revenue generating titles
3

Own-IP game revenues
£0.4m

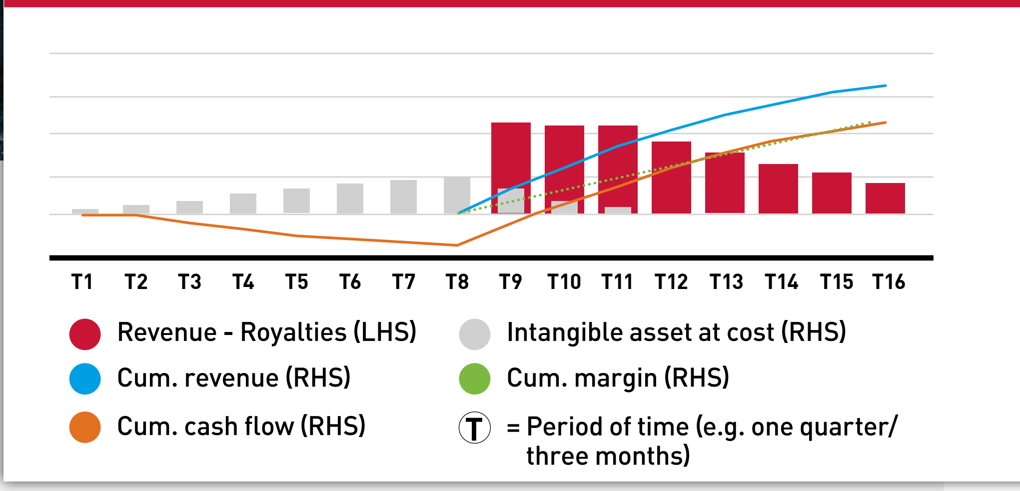
Intangible and WIP asset value
£1.1m

01
Where Sumo has created its own concept and IP it may choose to self-fund a game's development.

02
Sumo develops the game concept ready for launch using its own resources and retains control over the developed IP at all times.

03
This would typically happen on smaller games (c.£1.0m in cost), such as Snake Pass, launched in March 2017.

04
During the development phase, no development revenue is recognised. Sumo capitalises its development costs as an intangible asset with regular impairment reviews in accordance with IAS38.



05

Once the game is completed and launched, Sumo recognises game revenues as they are earned. The intangible asset is amortised as the game generates revenues and is subject to review for impairment at all times.

Or

01

Sumo may choose to use a third party to publish the game, transferring control of the developed IP to a third party publisher in exchange for consideration which may be fixed or variable.

02

Typically, such contracts include fixed guaranteed royalties from the publisher which would be recognised at the point at which the game is handed over to the publisher.

03

In this scenario the intangible asset would be derecognised at the point the game is handed over to the publisher.

04

Variable revenues are recognised in accordance with client sales after launch.

CASE STUDY C

ORIGINAL CONCEPT CREATION DEVELOPED IN PARTNERSHIP WITH THIRD PARTY

2019 Key Metrics

Number of contracts
Partially funded 3*
Fully funded 2

Development revenue
£16.8m

Royalty revenue
£nil

Sumo investment in development expensed
£1.3m

* Note: in 2019 one partially funded contract related to client originated IP, all other contracts in case study C are Group originated IP

Lower development margin, low development risk, strong potential return on investment

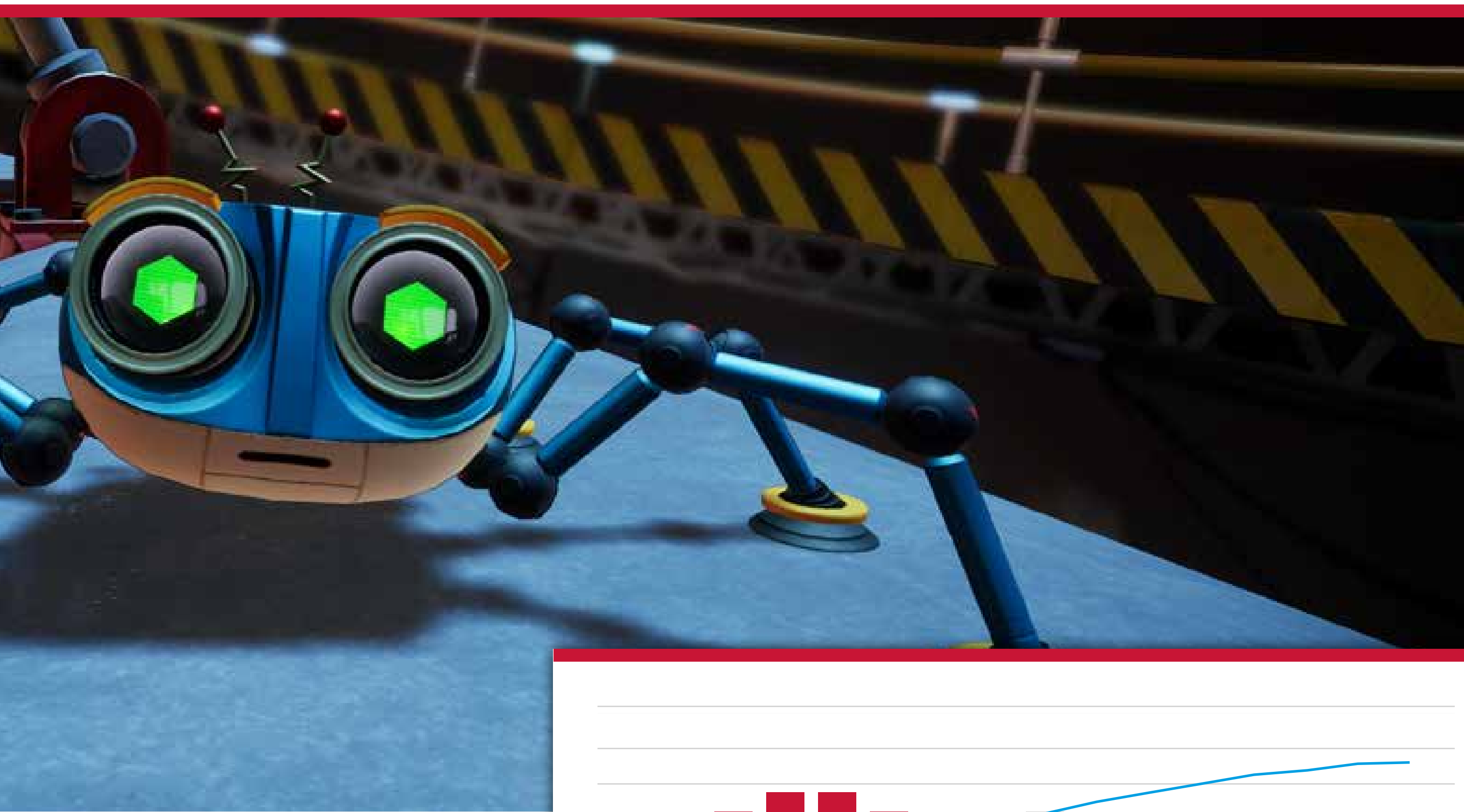
01
Some of Sumo's concept creations may have the potential to be developed into larger, more complex games.

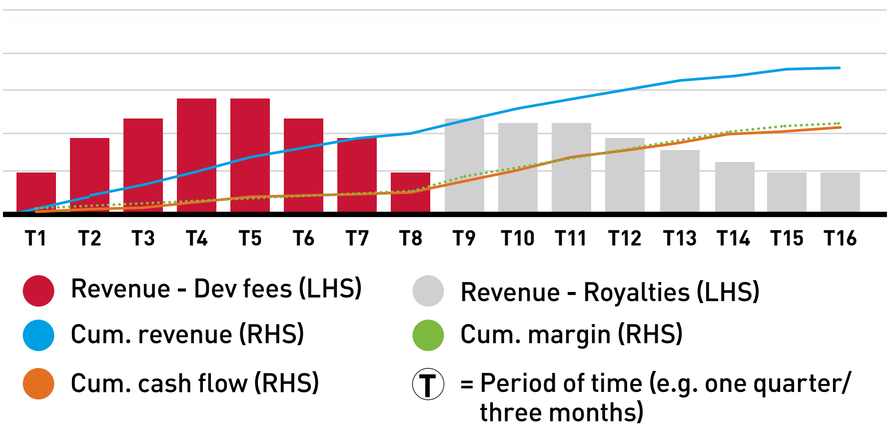
02
Sumo engages with the chosen development partner (the 'client') to fully fund or co-fund the development of the game to an agreed specification and Sumo accrues the right to payment for development work as it is performed.

03
Sumo originates the concept and agrees to transfer control of IP to the client as it is developed.

04
Agreed revenue for this single performance obligation to the client may contain elements which are fixed or variable.

- Fixed development revenues are recognised using judgement and estimates on the overall development phase contract margin and percentage of contract completion at each period end.





- Variable consideration, typically in the form of royalty receipts are recognised as revenue only when it is highly probable they will be received.
- Development costs are recognised as incurred.

05
Partial funding

- When a client is partially funding a game, contract margins during the development phase may be lower than those in a Client-IP game development contract, as the Group's investment in the game's development is expensed as incurred.
- In this scenario, any investment by Sumo in developing game IP would typically result in the receipt of a greater share of game royalties, reflecting the Group's share of the risk and reward of a game's development.
- Game sales in the form of royalties are recognised as revenue once it is highly probable that they will be received.

06
Full funding

- Contract margins during the development phase should be consistent with Case Study A. The Group's share of game royalties would typically be higher than in Case Study A, to reflect the investment in concept creation, albeit overall game royalties ultimately depend on the game's retail success.

£45.9m of the Group's £49.0m revenue from video games is related to development contracts similar to the illustrative case studies A and C.

DELIVERING GROWTH

We made strong progress against our strategy and have clear priorities to drive future growth.

Strategic objective	Progress during the year
DELIVER AND EXPAND	• Revenue growth of 26.6% • Adjusted EBITDA growth of 37.5% • Headcount increased by 29% • Two new studios opened taking the Group's total to 10 studios
IDENTIFY NEW STRATEGIC PARTNERS	• New contracts secured with Apple and 2K • Continue to sign contracts on major new projects with new clients • Tencent took a near 10% stake in the Group
ADD NEW REVENUE STREAMS	• Acquisition of Red Kite Games • Leamington Spa studio opened to focus on the development of games for the fast-growing mobile market
DEVELOP VALUABLE OWN-IP	• Revenue from Own-IP contributed 33% to overall Group revenues with 98% of that coming from low risk contracted development fees • Announced the planned launch of Pass the Punch, a self-funded Own-IP "beat 'em up" title, on PC, Nintendo Switch, Xbox One and PlayStation 4 • Launched the much acclaimed Own-IP game Dear Esther on iOS, developed by The Chinese Room

Read about our KPIs on page 31 and our Principal Risks & Uncertainties on pages 38 to 41

> **Our aim is to become a global leader in premium development and creative services to the video game and wider entertainment industries.**
>
> **Carl Cavers**
> Chief Executive Officer

Priorities for 2020

- Operating from multiple locations in three countries gives the capacity to achieve headcount growth targets and we are actively considering new locations both in the UK and abroad, as well as looking at potential acquisition opportunities
- Selective acquisitions, UK or overseas

- We are 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
- Selective acquisitions, UK or overseas

- Our newly opened Warrington Studio (October 2019) has expanded the Group's capabilities by focusing specifically on the delivery of engineering and code support services
- Selective acquisitions, UK or overseas

- Our strategy has been to move towards working more on Own-IP where we see longer term opportunities to earn higher returns on a relatively low risk basis, whilst retaining our focus on suitable Client-IP. Revenue from Client-IP is expected to continue to be the largest part of our total revenue with our overall revenue mix dependent on the opportunities presented.
- Selective acquisitions, UK or overseas

Strategy in action

As well as acquiring Red Kite Games, Sumo Digital opened two new studios in the year, taking its total to eight studios globally.

In March 2019, we opened a studio in Leamington Spa led by a highly regarded studio director and dedicated to the fast-growing mobile game development market. The studio has 20 people and is performing well.

In October 2019 we opened a studio in Warrington which has expanded the Group's capabilities by focusing on the delivery of high-end engineering and code support services to prestigious clients. Scott Kirkland, the Studio Director, is a BAFTA nominee with a 23-year track-record of innovation and leadership.

A YEAR OF GROWTH & PROFIT >

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.

Sumo Digital's eight studios are now working on 21 projects of which seven games or publisher partnerships have been announced.

Carl Cavers
Chief Executive Officer

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

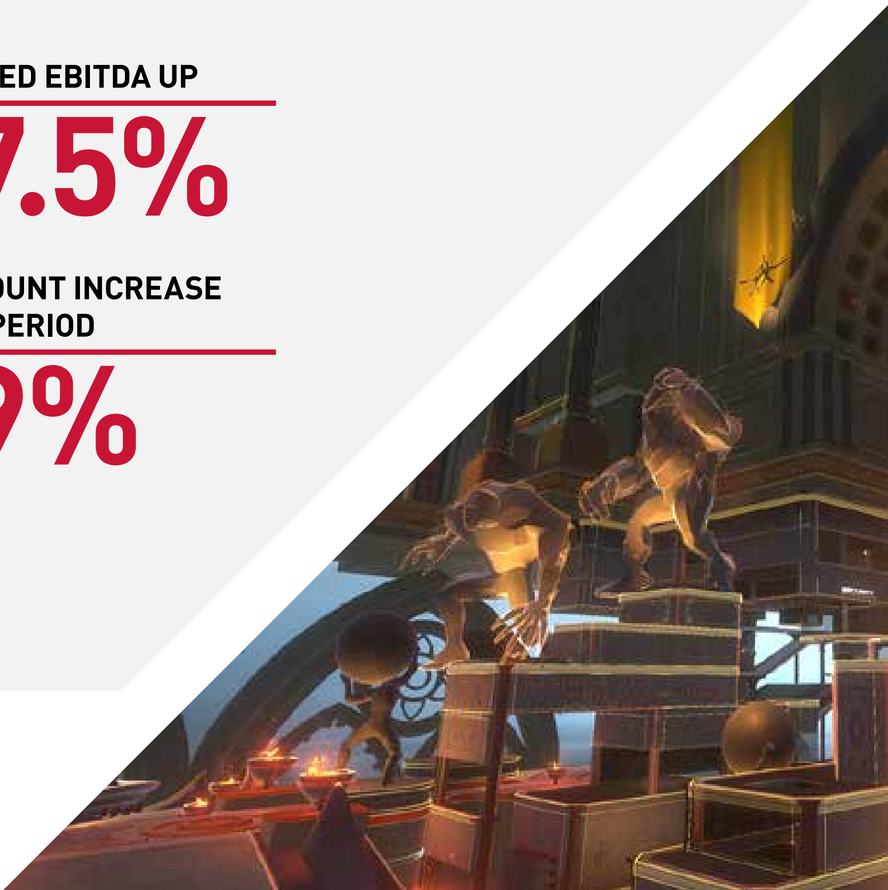
Atomhawk celebrated its tenth anniversary in 2019 with a year of sustainable growth and development. Both the UK and Canada teams grew in size and worked on more than 70 projects for circa 50 clients including 2K, Microsoft, EA, WB Games and Zenimax and other leading retail and leisure industry clients. 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.

REVENUE UP
26.6%

ADJUSTED EBITDA UP
37.5%

REVENUE CAGR SINCE 2016 NEARLY
34%

HEADCOUNT INCREASE IN THE PERIOD
29%



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

FINANCIAL SUCCESS CONTINUES

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.

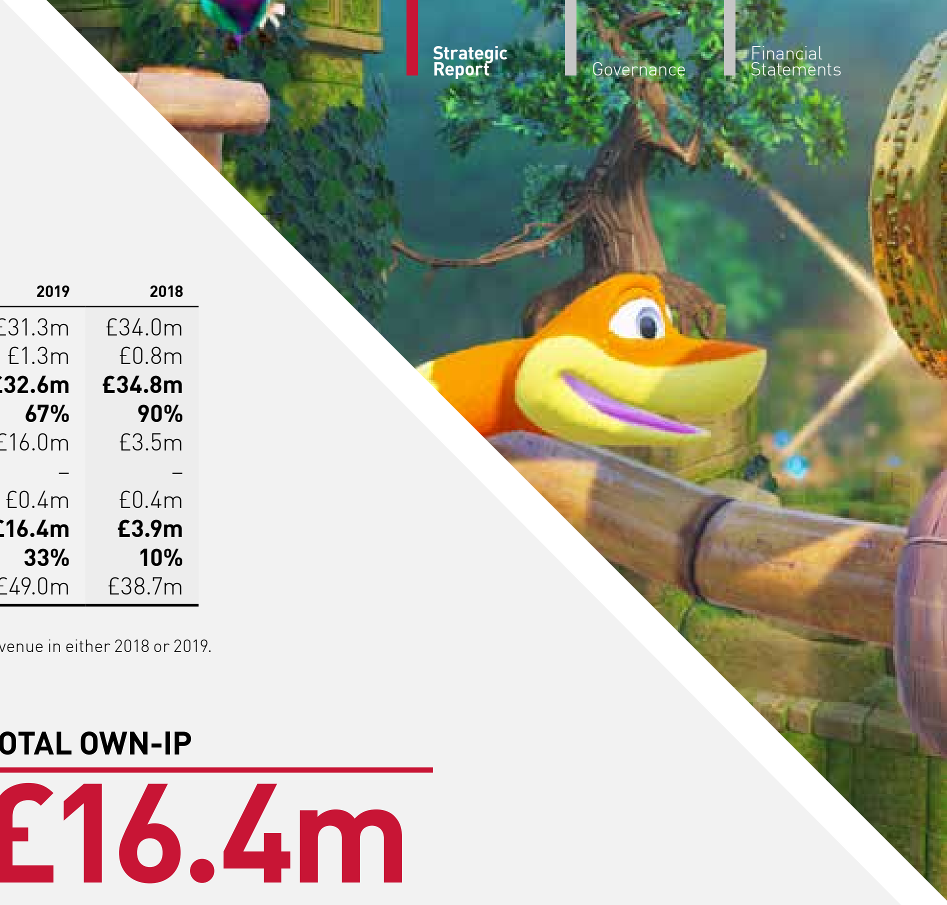
For the first time, we are disclosing revenue in more detail in order to improve the visibility of how much revenue is being generated from work on Own-IP. Historically we have disclosed our revenue under three categories: development fees, royalties and Own-IP. This disclosure has worked well when we 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. See table on page 29.

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%.



	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.

TOTAL CLIENT-IP

£32.6m

TOTAL OWN-IP

£16.4m

For the first time we are disclosing revenue in more detail specifically to improve the visibility of how much revenue is being generated from work on Own-IP.

David Wilton
Chief Financial Officer

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 30, 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 30.

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 30.

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.

Key performance indicators

GROSS MARGIN

48.9%

(2018: 47.6%)

ADJUSTED EBITDA

£14.1m

(2018: £10.2m)

OPERATING CASH FLOW

£14.4m

(2018 outflow of £6.4m)

HEADCOUNT

766

(2018: 592)

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.

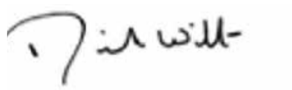
Dividend
In line with the strategy set out at the time of the flotation, the Directors intend to reinvest a significant portion of the Group's earnings to facilitate plans for future growth. Accordingly, the Directors do not propose a dividend at the present time but it remains the Board's intention, 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

OUR STAKEHOLDERS

The following disclosure describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 and forms the directors' statement required under section 414CZA of that Act.

Stakeholder group	Why it is important to engage
INVESTORS **Our major shareholders are listed on page 62 of this Annual Report and on our website.**	Continued access to capital is vital to the long-term success of our business. We create value for shareholders by generating strong and sustainable results that translate into growth in the Company's share price. We are seeking to attract an investor base that is interested in a long term holding in the Company.
COLLEAGUES **We now total 766 employees, predominantly based in the UK, but also in Pune, India and Vancouver, Canada.**	Our success is significantly dependent on and driven by the talent and commitment of our people. Sumo Group must be attractive to new employees and provide an environment in which everyone is happy to work and that supports their well-being. Recruiting and retaining the best talent is a source of sustainable advantage in our industry.
CLIENTS **Our clients include many of the world's most successful publishers of video games and game platform owners, as well as in other sectors such as film and product design.**	Clients entrust us with their intellectual property and to bring their visions to life. Their business models, games and hardware are continuously developing. We must stay current and evolve alongside this fast-moving market, to retain our position as a long-term partner for our clients.

Principal decisions

As described in more detail on page 22, during the year the Board decided to acquire Red Kite Games Limited and to relocate the business from Huddersfield to new premises in the centre of Leeds.

The Board approved the acquisition to enable the Group to make available the skills and experience of Red Kite to the Group's clients and the decision to move to a new, much larger studio was to enhance the working environment of the Red Kite employees and create capacity for further recruitment.

The Board also approved the lease of new, individually designed studios for the Sumo Newcastle Studio and Atomhawk. Given the vital importance of attracting and retaining talented employees to deliver the quality required by our clients, the Board aims to create a positive working environment.

How management and/or directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
Our programme for investor engagement is detailed on page 43 of our Corporate Governance Statement but during the period included: • frequent one-on-one investor meetings or calls with the CEO and CFO; • investor education days held at the Company's premises; • institutional investor conferences and presentations.	Our engagement related mainly to the areas of Company strategy and performance, as well as the dynamics of the video games industry. During 2019, specific discussions included the change in the Company's external auditor and Chairman of the Board, as well as general governance matters.	The feedback received is reported to the Board as described on page 43 and was taken into account in discussions on strategy. This assisted the Board in its assessment of the Audit Committee's recommendation to change auditor and its consideration of succession to the role of Chairman.
We discuss our workforce engagement activities on page 44. These take place at all levels across the business, using formal and less formal means, from our annual group-wide Employee Engagement Survey to daily individual project team catch-ups.	During 2020, we will use the insights gained from the Best Companies Survey, performed in 2019, as the focus of our workforce engagement activity. The survey measures engagement in eight categories, including leadership, personal growth, well-being and "giving something back". The 2019 survey results were similar to those recorded in earlier years, but the Board is committed to stepping up employees' personal development opportunities in 2020.	We have established a group to define and communicate our Mission, Vision and Core Values. A senior executive has been appointed to a new role targeting excellence across the organisation. His focus in 2020 is on addressing any issues arising from the employee survey. A well-being and learning and development portal will be launched in the year ahead and colleagues will be allocated specified time for personal development.
Many individuals across the Group are in regular contact with existing and potential new clients. This happens as a matter of course, as we work on specific projects. In addition to this, our teams meet and engage with clients regularly, at major industry events, by responding to requests for proposals and whilst pitching our ideas.	Every client is different, but all focus on the quality and flexibility of the services that we provide.	In 2019, an experienced individual was appointed to the role of Partnerships Director with the remit to build and reinforce relationships with existing and prospective clients.

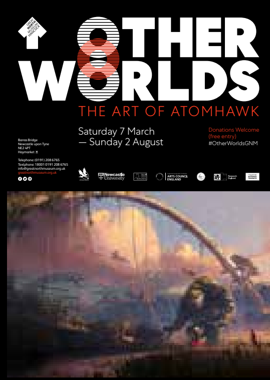
OUR STAKEHOLDERS

Stakeholder group	Why it is important to engage
SUPPLIERS **We have a relatively small number of suppliers, including those who provide commodity items such as computer hardware and utilities. In addition, we require licences to be able to carry out development work on video game platforms (such as Playstation and Xbox).** **We work with a number of organisations that provide us with distributed development capabilities to support and supplement our in-house resources.**	Our suppliers are important in enabling us to provide a high quality of service to our clients. We must work closely with game platform owners to maintain our licences to develop on their platforms.
COMMUNITY **We operate in a number of communities around the UK and in India and Canada and aim to have a positive impact on those communities.**	It is increasingly important to all our stakeholders that we support local communities and provide opportunities to individuals within them.

CASE STUDY

The Schools engagement programme

In our first year, 360 children took part. The programme gave them the opportunity to experience the video games industry and to pitch their own video game ideas to an expert panel. Approximately 50 girls who had not previously considered a career in the industry said they would do so after taking part.



CASE STUDY

The art of Atomhawk

A comprehensive activity plan of engagement with local schools and the community was planned in 2020 around a five-month exhibition held at The Great North Museum: Hancock focusing on Atomhawk's work and the process of creating concept art. The Exhibition ran successfully for a short time until it was closed due to COVID-19.

How management and/or directors engaged	The key topics of engagement and the feedback obtained	Impact of the engagement including any actions taken
Our technology and development teams maintain consistent dialogue with platform owners. Our distributed development team identify and qualify suitable organisations. We then agree suitable working arrangements and legal terms with these suppliers.	These include general business relationship matters, technology developments and ways of working.	We are establishing a smaller group of premium suppliers of development services with whom we have strong relationships.
We launched a schools engagement programme in Sheffield in 2019, which is being expanded to Brighton in 2020, and have plans to add other locations in the future. We have a long-standing relationship with Special Effect, a UK charity which helps physically disabled people play video games and works with developers to create specialised game control devices and improving game accessibility. In March 2019, 20 girls from a local school attended an event at our Sheffield studio to introduce them to the games industry. They spent time with our developers and the services team, gaining insight into career options in video games. Atomhawk has partnerships and/or regular engagement with local schools and higher education institutions, in the UK and Canada. The local children's hospital in Sheffield is one of Sumo's supported charities.	Engaging with young students gave the business an insight into how the video games industry is viewed by the students and their teachers. Working with local museums to showcase Atomhawk's work raises awareness of the role of art in video games and will highlight the viability of a career in art and design as well as shining a spotlight on a North East business success story.	See the case studies above. One of the students has been invited to pitch his game idea to our IP creation committee. One of the students will be returning in 2020 to undertake a work experience placement, with our event igniting her desire to explore a career in the video games industry further.

OUR STAKEHOLDERS

THE ENVIRONMENT

There is increasing interest from all stakeholder groups of the environmental impact of businesses and we understand the increasing importance that sustainable business practices will play in our ability to grow successfully and maintain profitability over the long term.

While our activities are largely office-based and do not involve any energy-intensive processes or generate significant waste, the business can take, and is taking, actions to reduce its environmental impact. We have commenced a process as part of our focus on Environmental, Social and Governance to identify the key areas to be addressed (see page 37).

Actions taken to date to reduce environmental impact:

- Replacement of fluorescent lights with LED panels as standard during studio refurbishment programmes.
- Cycle to work scheme offered
- A monthly alternative travel prize draw to win £100, to encourage greener travel to and from work.
- Energy-efficient IT and facilities equipment is prioritised during replacement and upgrade programmes.
- Videoconferencing software and instant messaging used across the business to help limit business travel for internal meetings and that enables some employees to work from home.
- At our largest site in Sheffield, staff who volunteer to car share with colleagues are eligible to use priority parking spaces and we offer electric car charging.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

KEY AREAS OF IMPACT

Recruitment & retraining | Client relationships | Investor support

IT & technology | Growing market

ENVIRONMENT

Energy consumption
Travel
Consumables
Waste

SOCIAL

Employees:
diversity, LGBT, disability, development, well-being
Community:
education, charities

GOVERNANCE

QCA code, Modern Slavery Act, Criminal Finances Act, Supplier payment, Bribery Act, Whistleblowing, S172 Companies Act

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 (based on the above) in 2020 and beyond.

EFFECTIVELY MANAGING OUR RISKS

As part of the Group's structured risk management process, the Board regularly consider those risks that might adversely affect performance of the Group and monitors mitigating actions being taken. These risks were considered again by the Board in preparing this Annual Report.

The items referred to below are regarded as the key risks for the Group. These are not the only risks that might affect the Group's performance, but the Board believes that they are currently the most significant and specific to the Group's business.

The risk relating to mergers and acquisitions has been removed since last year. While the Board is aware of the risk inherent in making acquisitions, it believes that this is mitigated through the thorough due diligence processes that it follows to the extent that this is no longer one of the Group's principal risks.

Risk	Description and mitigation	Change in level of risk from prior year
COVID-19	At the time of writing (April 2020) the COVID-19 pandemic has created an unprecedented and constantly changing challenge to all businesses with no clear end point. Whilst Sumo has a relatively low risk, high visibility business model, which is adaptable to home-working, we believe the risks to the Group posed by the COVID-19 pandemic are as follows: **Liquidity risk** • Elements of the potential disruption highlighted below could impact the Group's ability to convert project milestone progress to cash as forecast. • Slow-down in business development activity may reduce future forecast cash flow, however this would likely be mitigated by a slow-down in recruitment activity **Risk of loss of efficiency** • The short-term disruption of moving people from studios to working from home • Lower productivity at home due to poorer connectivity, less communication between team members and possible family distractions • Initial disruption due to change in working practices especially project management controls and management systems suitability • The demotivational effect of general anxiety and concern • The need to establish new client communication channels with clients who are also working remotely and understanding how they will review milestone deliverables **Risk of loss of projected capacity** • Team members being incapacitated or having to care for other family members • The slow-down in recruitment which is likely to be partially offset by lower attrition • We may also lose some capacity when we revert back to studio working which is likely to be on a phased basis **Risk in winning and mobilising new projects** • Cancelled trade events and no face to face meetings although this may be mitigated by some publishers making quicker decisions • Some publishers slowing down in contracting new projects • Practical challenges in planning and starting projects **Risk in IT & security due to** • A possible breach of IT security through remote working, although stringent steps have been taken to mitigate this risk • The IT team being less able to respond promptly to regular hardware and software problems as efficiently due to remote nature of working • Loss of capacity in the IT team due to illness	New risk

Risk	Description and mitigation	Change in level of risk from prior year
COVID-19 (CONTINUED)	**Mitigating activities** The challenges presented by the virus are predominantly on the supply side. However, our IT systems are sufficiently flexible to enable remote working by most of our people. During March, in close co-operation with our clients and with their consent, we have moved to working from home across the Group. There was some disruption and loss of efficiency as we migrated the project teams from our ten studios, but we expect this disruption and reduced efficiency to diminish as we re-calibrate our project management controls and internal management systems. Despite the cancellation or postponement of major trade events and the severe travel restrictions we and our clients have in place to protect the health of our people, we are continuing to see business development opportunities on major new projects with both existing and new clients. We are actively mitigating the loss of face time through the increased use of telephony and video conferencing. The Group drew down £10m from its existing revolving credit facility on 24th March 2020 as an extra safeguard to support the Group's liquidity position and medium term growth plans in light of the ongoing pandemic.	
STRATEGIC **DEPENDENCE ON A CONCENTRATED CLIENT BASE**	In the year ended 31 December 2019, the Group generated the majority of its revenue from four clients who each accounted for at least 10 per cent. of total revenues. This included revenue from multiple projects with different entities within each client's group. The loss of any of the key clients could have a material impact on the Group's financial results. The Group is reliant on the long-term commercial success of its clients. The performance of such clients will have a significant bearing on the success of the Group in terms of the requirement for future games to be developed and released, however their performance cannot be guaranteed. Underperformance of the Group's clients could have a material adverse effect on the Group's business, operations, revenues or prospects. **Mitigating activities** The Group looks to mitigate such risks through having strong relationships with some of the world's largest publishers who have a strong track record of launching successful games and by attracting new customers. 2019 has also seen the introduction of new clients to our customer base, which reduces the Group's reliance on these top four clients. The milestone delivery structure of our long-term contracts allows us to identify and address any potential issues with clients promptly during the course of the contract, reducing the risk of a breakdown in relationships.	Risk remained the same

Risk	Description and mitigation	Change in level of risk from prior year
STRATEGIC **PORTFOLIO RISK AND META-CRITIC QUALITY RISK**	When the Group takes on lower budget projects with lower quality output requirements to fill downtime this could lead to the Group's reputation for quality being undermined. The Group's order book is driven by its reputation; therefore, this could lead to an inability to obtain future work on high quality, big budget projects. It could also negatively impact motivation. The Group's change in business model, with increased reliance on revenues from royalties and co-development/investment could also be a risk to the Group. **Mitigating activities** The Group has in place a portfolio risk tool to help mitigate this risk.	New risk
STRATEGIC **BREXIT**	There are significant uncertainties in relation to the detailed consequences of the United Kingdom's exit from the European Union, in particular as to what the impact will be on the fiscal, monetary and regulatory landscape in the UK, including inter alia, the UK's tax system, the conduct of cross-border business and export and import tariffs. There is also uncertainty in relation to how, when and to what extent these developments will impact on the economy in the UK and the future growth of its various industries and on levels of investor activity and confidence, on market performance and on exchange rates. Although it is not possible to predict fully the effects of the UK's exit from the European Union, any of these risks could have a material adverse impact on the financial condition, profitability and share price of the Company. **Mitigating activities** The senior leadership team has compiled a Brexit report that outlines the Group's ongoing risk assessment. External consultation has been sought where appropriate. The Board also receives regular updates of the paper with progress against the plan of action and any changes to the perceived risks. The Group has updated its hedging policy to ensure that sufficient hedging arrangements are in place to reduce uncertainty and currency risk in our foreign currency contracts to an acceptable level. We have identified all of our employees who might be directly affected by Brexit (approximately 50) and we are providing them with information and guidance on the position as and when it is available.	Increased risk
OPERATIONAL **ABILITY TO RECRUIT AND RETAIN SKILLED PERSONNEL**	The Company's operational and financial performance is dependent upon its ability to attract and retain effective personnel. **Mitigating activities** We monitor our retention and recruitment levels on a weekly basis in line with the Group's growth targets to ensure we take swift action when targets are not met. An annual review of remuneration packages is conducted to ensure that we remain competitive within the industry. The Group has introduced an employee share plan to align the interests of the broader workforce with those of shareholders. Formal feedback channels for employees include the annual satisfaction survey, appraisal programme and during the induction and exit processes. We use the results to make changes to the way we work, improving the level of employee engagement and satisfaction. The Group has hired a Talent Acquisition Manager who has introduced and improved systems for recruitment and on-boarding and the Group's attrition rates have decreased. In addition, the Group has begun to formalise succession planning, starting with the members of the Operating Board. Taking recruitment and retention as a whole, we believe this risk has decreased.	Decreased risk

Risk	Description and mitigation	Change in level of risk from prior year
OPERATIONAL **IT SECURITY**	A breach of IT security, unauthorised copying or software piracy could result in loss of business and reputational damage for the Group, as well as associated negative financial impacts to revenue and costs. Unauthorised copying of the Group's own intellectual property games, or games produced by the Group for which the Group may be entitled to revenue-based royalties, could have an adverse effect on the Group's ability to generate revenues and profits. Complete protection cannot be guaranteed, and an IT security breach could cause significant disruption to the Group's operations. **Mitigating activities** Our project work is protected by copy protection technology intended to prevent piracy. We conduct robust testing on our systems and software, including penetration testing by external consultants. The implementation of action plans that arise from the results of testing is monitored by the Board. Disaster recovery plans have been developed to ensure the business can recover from any interruptions with minimal impact.	Risk remained the same
OPERATIONAL **STABILITY OF IT SYSTEMS**	Due to the Group's high dependence on its IT systems and infrastructure, any failure, disruption or damage to the network or systems could lead to significant business interruption. Disruption and inability to conduct "business as usual" could lead to reputational damage, financial losses and the inability of the Group to generate revenues going forward. **Mitigating activities** We have an experienced and dedicated IT team, and use external consultants where we need to, ensuring we have a good balance of skills and experience in the team. Back-up servers are used, and server disaster recovery plans are in place to provide data resilience. Infrastructure is regularly monitored and updated by the IT team. Business continuity plans are in place for our main operations, including plans being developed at a Studio and project level.	Risk remained the same
FINANCIAL **DEVELOPMENT WORK PRIOR TO CONTRACT**	As part of business generation activity, work is sometimes completed in advance of a formal contract being in place with the customer. While this is common practice in the industry, it creates the risk that costs attributable to the development work cannot be recovered if the contract does not materialise or the scope of the contract renders some of the work obsolete. This would have an adverse impact on profit generation for the Group. **Mitigating activities** The Group has implemented a new contract approval process. The Group has good relationships with publishers and a strong track record of contracts moving into the production phase.	New risk

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

Carl Cavers
20 April 2020

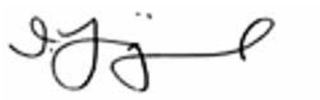
DELIVERING LONG TERM VALUE GROWTH

The Board remains committed to effective corporate governance as the basis for delivering long-term value growth and for meeting shareholder expectations for proper leadership and oversight of the business. As the Chairman of the Board, I am responsible for corporate governance within the Group and the Board is committed to maintaining a sound ethical culture that feeds our risk management and decision making. We believe that having good corporate governance is the best way to pursue medium to long-term success for Sumo Group plc and our stakeholders. To this end, since our IPO in 2017, we have adopted the code published by the Quoted Companies Alliance (QCA code) as our benchmark for governance matters and believe that we are in full compliance at the date of this report.

My role as Chairman of the Board remains separate to, and independent of, that of the Chief Executive and we both have clearly defined responsibilities. These, along with the terms of reference for all the Committees of the Board, can be found on the Investor Relations section of the Sumo Group plc website.

This section of the annual report outlines how we have applied the principles of the QCA code during the year. We will review and update our approach as the Group continues to grow and will update the Corporate Governance statement in the AIM rule 26 section of the Company's website.

Additional information is contained in the Directors' statement in respect of Section 172 of the Companies Act on pages 32 to 36.



Ian Livingstone
Chairman
20 April 2020

QCA CODE PRINCIPLES

Principle 01

Establish a strategy and business model which promote long-term value for shareholders

Our strategy and business model are discussed in the Chief Executive's review on pages 22 to 27.

The Company provides creative and development services to the video games and entertainment industries, delivering full-service visual and development solutions. We work with some of the largest video game producers in the world on long-term, high-value contracts, as well as launching our own smaller, independent games.

Our growth targets will principally be achieved through:

- The organic growth of our contracted development fees model
- Targeted acquisitions aimed at bringing on board talent and intellectual property to grow the Sumo group.

Principle 02

Seek to understand and meet shareholder needs and expectations

The Group is committed to engaging with our shareholders to ensure that our strategy and business model are understood. The Board believes that the disclosures in this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Executive Directors of the company are in frequent contact with the Company's shareholders and brief the Board on shareholder issues. In 2019 we held investor roadshows and briefings, hosted investor days at our Sheffield Studios and held frequent one to one meetings and calls with investors and potential investors.

The Company's largest shareholder is Perwyn Bidco (UK) Limited. Under the terms of the Relationship Agreement entered into at the time of the Company's admission to AIM, Perwyn has the right for an observer to attend Board meetings.

The Chief Executive Officer and Chief Financial Officer are primarily responsible for contact with our shareholders. To request any meetings or ask questions please contact investors@sumogroupplc.com.

Any reports from analysts that refer to the Company or cover the video games sector are circulated to the Board to support their understanding of the views of the investment community.

Zeus as the Company's joint broker and Belvedere as financial PR advisers provide both attributable and anonymised feedback directly to the Board from shareholder meetings and events such as the investor day. An update on investor sentiment and shareholding changes is provided at every Board meeting.

The Chairman and the other non-executive directors will always make themselves available to meet shareholders. The Annual General Meeting (AGM) is also an opportunity for dialogue between the directors and our shareholders. At the 2019 AGM, all resolutions proposed by the Board were passed by shareholders.

The business to be conducted at the 2020 AGM is set out in a separate Notice of Annual General Meeting.

Principle 03

Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that the long-term success of the Group relies on our customers and employees. Engaging with these key stakeholders strengthens our relationships and helps us make better business decisions to deliver our commitments. The Board received regular updates on wider stakeholder engagement feedback and closely monitors and reviews the results of the annual Best Companies Employee Engagement survey.

The Directors' statement under Section 172 of the Companies Act on pages 32 to 36 contains information about engagement with stakeholders in addition to investors, clients and employees.

Employees

Without our dedicated and skilled employees we would not be able to operate at the level that we do, and as a result we are committed to employee engagement and making changes based on the feedback received to continue to develop Sumo Group as a great place to work.

Employees are given many opportunities to provide feedback through our employee engagement survey, the annual appraisal process and the twice-yearly roadshows carried out by the Operating Board.

Over the past year we have:

- Continued to promote share plans that allow our employees to become shareholders of the business
- Invested considerable resources in a number of our studios to improve the working environment
- Continued the work of our Diversity Steering Group aimed at increasing diversity within the Company and the wider industry
- Completed our annual employee engagement survey to keep informed on the major issues that our employees want us to change
- Hosted two company-wide road shows with our Operating Board giving employees the opportunity to ask questions and raise issues

Clients

The Group is in regular dialogue with existing and potential clients at all levels in order to understand and respond to their current and future requirements.

Principle 04

Embed effective risk management, considering both opportunities and threats, throughout the organisation

Risk

As described in the letter from the Chairman of the Audit and Risk Committee on page 52 to 53 of these accounts, the Board is committed to ensuring that risk management is embedded within the business and is part of the way we work.

Internal control

The Board has ultimate responsibility for the Group's system of internal control and reviewing its effectiveness. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- Close management of the day-to-day activities of the group by the Executive Directors
- Preparation and approval of budgets and regular monitoring of actual performance against budget
- Detailed monthly reporting of performance against budget
- Continually updated profitability and cashflow forecasts to reflect actual performance and revised outlook as the year progresses
- A Group Internal Auditor focussing on risk-based audits and with a direct reporting line to the Chairman of the Audit and Risk Committee
- Strengthened finance function that has implemented additional processes, policies and systems that enhance the financial and operational control environment
- Risks assessments on important areas such as the Criminal Finances Act
- A risk register that is maintained by the Group Internal Auditor and reviewed quarterly by the Operating Board and twice yearly by the Audit and Risk Committee
- A treasury policy that is reviewed annually by the Board.

Principle 05

Maintain the board as a well-functioning, balanced team led by the chair

The composition of our Board is detailed on pages 48 to 49 of these accounts.

Part of the role of the Board's Nomination Committee is to keep the composition of the Board under review as the Company's business evolves. The Board is satisfied that it has a suitable balance between independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational.

During the year, the Board conducted an assessment of its performance and more detail is provided below.

Principle 06

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Directors details and biographies are on pages 48 to 49. The Board considers that they have sufficient skills and experience to execute their duties and responsibilities effectively.

As part of the 2018 Board performance assessment, each Board member provided information on their individual skills and experience in areas relevant to the Group's business. This exercise indicated a high level of capability and also provided insight on additional areas that could form part of the specification for any future appointees to the Board. The assessment identified the desirability for additional industry and operational experience on the Board. As a result of this, Paul Porter joined the board as Chief Operating Officer in April 2019.

The Board receives regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. All Directors are allowed to obtain independent advice in furtherance of their duties, if necessary, at the Company's expense.

On appointment, Directors new to the Group will receive a full and tailored induction.

Principle 07

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board carried out its second performance assessment towards the end of the year. This process was similar to that used in 2018, which was designed by a third-party consultant with considerable experience of Board reviews and tailored to the Group's specific circumstances. It comprised:

- A questionnaire completed by every Board member and the Company Secretary covering Board and Board Committee structure, processes, agendas and priorities. The questions also sought each Board member's assessment of their individual performance and allowed members to give feedback on each other.
- A Board discussion facilitated by the Company Secretary of the outputs of the questionnaire and skills matrix

The process identified a number of actions that the Board believes will contribute to improving performance, and these will be implemented during 2020 (to the extent not already in place by the end of 2019), including:

- Ensuring greater focus in Board meetings on developments within the video games industry and on the games created by the business
- Facilitate more contact between the Board and the members of the Operating Board
- Continue the work of the Nomination Committee in ensuring that there is robust succession planning in place for senior roles
- Consider whether the number of Board meetings held each year creates the right balance between governance and strategy setting an operation execution.

Principle 08

Promote a culture that is based on ethical values and behaviours

The Board aims to lead by example in this area and do what is in the best interests of the Group. The processes in place by which it makes decisions and that are documented in the terms of reference for its committees; the requirement for regular disclosure of other interests and the Company's share dealing code all require high standards of behaviour.

The Company's employment policies, such as those applying to Whistleblowing and Anti-bribery and Corruption, assist in embedding a culture of ethical behaviour. The Board is also supportive of the community and charitable projects undertaken by the business that are described in the Section 172 statement on pages 32 to 36.

Principle 09

Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The Board currently meets at least 8 times each year in accordance with its scheduled meeting calendar. This schedule may be supplemented by additional meetings as and when required. The attendance by each Board member at scheduled meetings is shown in the Board biographies on pages 48 to 49.

The Board and its committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place.

The Board makes decisions for the Group through a formal schedule of matters reserved for its decision. Any specific actions arising are agreed by the Board or relevant Committee and then followed up by the Company's management.

Board Committees

The Board is supported by the Audit and Risk, Nomination and Remuneration committees. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties.

A detailed report of the composition, responsibilities and key activities of the Audit and Risk Committee is set out in the Audit and Risk Committee Report and for the Remuneration Committee in the Directors' Remuneration Report.

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

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

During the year the Nominations Committee was involved in the appointment of Ian Livingstone as Chairman of the Board in September 2019 and Paul Porter, co-founder of Sumo Digital, as a Director in April 2019.

Operating Board

To monitor operational performance across the group and ensure effective decision-making, an Operating Board has been established. Details of membership of this board is set out in this Annual Report. The Operating Board typically meets shortly before each PLC Board meeting to ensure that executives are able to provide the most up to date information to the PLC Board.

Principle 10

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Communicating to stakeholders

The Board communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all the Company announcements and presentations) is also available to shareholders, investors and the public on our corporate website, www.sumogroupplc.com.

Company performance information is communicated with employees through the internal newsletter and the Operating Board roadshows, within the limitations imposed by adherence to the Company's public company disclosure obligations.

PROVEN CAPABILITY

NC

IAN LIVINGSTONE CBE

Non-Executive Chairman of the Board (70)

Appointment date:
November 2017

Experience:
45 years in the games industry. Co-founder and former Joint Managing Director of Games Workshop; former Executive Chairman of Eidos plc; former Chairman of Playdemic Ltd.

External appointments:
Ian holds non-executive roles with industry body UKIE and with not-for-profit organisations National Citizen Service Trust, Aspriations Academies Trust, Creative England and the Livingstone Foundation. He is a non-executive director of a number of independent video games businesses Midoki, Antstream, Flavourworks, Fusebox, Playmob and The Secret Police. Ian is also a founding partner of Hiro Capital LLP.

Skills brought to the Board:
Industry knowledge and experience, strategy

Sector experience:
Games industry development and publishing, strategy, acquisitions, business models and funding

Number of Board meetings attended: 8

Number of Remuneration Committee meetings attended: 4*

Number of Audit and Risk Committee meetings: 2*

Number of Nomination Committee meetings attended: 2

* Attended prior to becoming Chairman of the Board

CARL CAVERS

Co founder & Chief Executive Officer (52)

Appointment date:
November 2017

Experience:
Co-founder of Sumo Digital in 2003, growing the business before a trade sale to Foundation 9. Carl then led a management buy-out with Northedge Capital in 2014, followed by a secondary buy-out with Perwyn in 2016. This was followed by the flotation of Sumo Group plc on AIM in 2017. Carl received TIGA's coveted Most Outstanding Individual Award in 2015 and he holds an honorary doctorate from Sheffield Hallam University

External appointments:
Board member of TIGA

Skills brought to the Board:
Business leadership, strategy, M&A, organic growth, client relationships, contracts and negotiations

Sector experience:
Over 25 years extensive experience in the video games industry having held senior roles previously at Gremlin Interactive and Infogrames.

Number of Board meetings attended: 8

AC NC RC

ANDREA DUNSTAN

Independent Non-Executive Director (60)

Appointment date:
September 2018

Experience:
Four years as Chief People Officer for Premier Farnell plc until January 2017. Prior to this, Andrea worked as an executive HR Director for numerous quoted companies, including Wincanton plc, AstraZeneca plc and Barclays Bank plc.

External appointments:
- Non-executive director and chair of Remuneration Committee of Macfarlane Group plc
- Non-executive director and chair of Remuneration Committee of TI Fluid Systems plc
- Executive Council member and Chair of Remuneration Committee of Salford University

Skills brought to the Board:
HR strategy, organisational development, remuneration

Sector experience:
Distribution and logistics, pharmaceuticals, finance

Number of Board meetings attended: 8

Number of Remuneration Committee meetings attended: 7

Number of Audit and Risk Committee meetings: 4

Number of Nomination Committee meetings attended: 2

AC Audit Committee

NC Nominations Committee

RC Remuneration Committee

Chair of Committee

AC NC RC

MICHAEL SHERWIN

Independent Non-Executive Director (61)

Appointment date:
December 2017

Experience:
Nine years as Chief Financial Officer of Vertu Motors plc (until March 2019). Extensive retail, transactional and public market experience, including nine years as Group Finance Director of Games Workshop PLC and three years as a non-executive director of Plusnet plc, an AIM listed internet service provider. Michael qualified as a chartered accountant with Price Waterhouse where he held positions in the UK, Paris and Sydney

External appointments:
- Non-executive director of Williams Motor Co. (Holdings) Limited

Skills brought to the Board:
Financial reporting, corporate governance, investor relations, M&A

Sector experience:
Consumer goods, internet service provider, motor vehicle

Number of Board meetings attended: 8

Number of Remuneration Committee meetings attended: 7

Number of Audit and Risk Committee meetings: 4

Number of Nomination Committee meetings attended: 2

DAVID WILTON

Chief Financial Officer (57)

Appointment date:
November 2017

Experience:
Big four qualified chartered accountant with more than 30 years post qualification experience as CFO, Non-Executive Director and Consultant after many years in corporate finance, primarily in mid cap M&A with Rothschilds. David has held roles in both plc and private equity backed companies including as Group Finance Director of WYG plc and as Non-Executive Director and Chair of the Audit Committee of Sweett Group plc

External appointments:
- None

Skills brought to the Board:
Financial management, M&A and investor relations

Sector experience:
Broad range with focus on people/professional services

Number of Board meetings attended: 8

PAUL PORTER

Co founder and Chief Operating Officer (48)

Appointment date:
April 2019

Experience:
Paul has over 25 years' experience in developing video games and co-founded Sumo Digital in 2003. He started his career as a self-taught programmer and released his first game in 1991. Prior to founding Sumo Digital, Paul was Studio Head for Infogrames Sheffield and Head of Core Technology at Gremlin Interactive. He was appointed Chief Operating Officer of Sumo Group plc in April 2019. Prior to this he was Managing Director of Sumo Digital

External appointments:
- None

Skills brought to the Board:
Video games development, business leadership, client relationships and negotiations

Sector experience:
Extensive experience in the video games industry

Number of Board meetings attended: 6*

* Attended all meetings held after appointment to the Board

PROVEN MANAGEMENT POTENTIAL

1

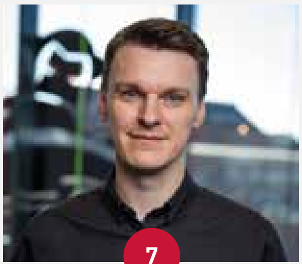
CARL CAVERS
Co founder &
Chief Executive Officer (52)

2

DAVID WILTON
Chief Financial Officer (57)

3

PAUL PORTER
Co founder &
Chief Operating Officer (48)



4 ANDY STEWART
Group Director of Finance (37)

Joining date:
October 2018

Experience:
Andy has held a number of senior finance positions in the technology and telecommunications sectors, including FTSE listed businesses such as Experian and BT and also three years as the Financial Controller at Plusnet. He started his career at PwC, qualifying as a chartered accountant in 2008.
The majority of his nine years at PwC was spent in its M&A Advisory practice, delivering complex financial due diligence projects to an array of different clients and sectors. His time at PwC also included two years in its Madrid office, working on pan-European and global deals

Skills brought to the Board:
Finance operations, control and governance, financial insight and reporting, M&A (due diligence and integration)

Sector experience
Technology, telecommunications, professional services

5 STEVEN WEBB
General Counsel and Company Secretary (57)

Joining date:
December 2017

Experience:
After qualifying as a solicitor with Norton Rose, Steven spent a number of years in private practice specialising in corporate and commercial law, before moving to his first Company Secretary role with Kalon Group plc in 1994. He became Company Secretary and General Counsel of Yorkshire Water plc (later re-named Kelda Group plc) in 1997 and spent 16 years in the same role at Premier Farnell plc from 2000. Steven was also a member of the Board of Governors of Leeds Beckett University for six years, including time as Deputy Chairman and Chairman

Skills brought to the Board:
Corporate governance, M&A (UK, US, Germany, India, China), commercial negotiation, strategy development

Sector experience
Manufacturing, utility, distribution

6 STEVE SHREEVES
Group Director of IT (50)

Joining date:
September 2018

Experience:
Following his first role programming Computer Numerical Controlled manufacturing equipment, Steve served in the Royal Air Force for 12 years as an Electronics Technician working on everything from airfield radars to satellite communications After leaving the RAF he joined Premier Farnell as a network engineer and, over 18 years there, progressed to Global Head of IT Operations, leading a team of approximately 100 IT staff across the world

Skills brought to the Board:
Strong technical background in all elements of IT, experience in management of global teams and IT strategy definition and implementation

Sector experience
Armed forces, distribution

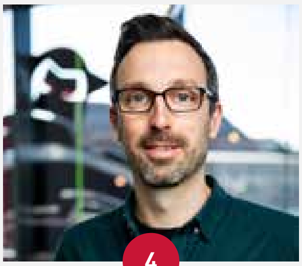
7 TIM WILSON
Managing Director – Atomhawk (39)

Joining date:
February 2015

Experience:
Having graduated from Warwick University, Tim had an 11 year career in the Marketing and Communications sector, holding account management and planning roles working for brands including Virgin Money, Vodafone, Natural History Museum and World Rowing. He joined Atomhawk as Head of Operations in 2015, playing a key role in the expansion of the studio's growth of headcount, revenue and international footprint. He was appointed as Managing Director in September 2018 and oversees the Atomhawk studios in Gateshead and Vancouver

Skills brought to the Board:
Strategy development, brand planning, operational management, agency-model experience, M&A

Sector experience
Video games, retail, tourism, leisure, sport, finance, B-2-B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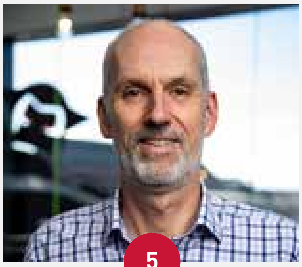
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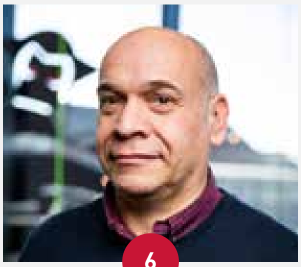
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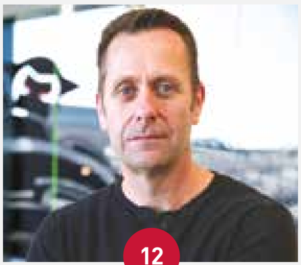
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12 DARREN MILLS

Co founder & Director of Excellence & Integration (50)

Joining date:
May 2003

Experience:
Darren has 25 years' experience in developing video games, including co-founding Sumo Digital in 2003. Darren started his career in the TV industry and moved over to the games industry in 1995 starting at Gremlin in Sheffield in the Art department and rising to Studio Art Director for Infogrames Sheffield House. After co-founding Sumo in 2003 Darren took on the Art Director role for the studio and founded the Pune Studio in India in 2007.
He was appointed Studio Director of the Sheffield Studio in January 2016 and began his current role in February 2020.

Skills brought to the Board:
Video Games Development, Business Leadership, Client Relationships and Studio Growth & Development.

Sector experience:
Extensive experience in the video games industry

8 DEAN TROTMAN

Commercial Director (44)

Joining date:
January 2019

Experience:
Dean began his Games Industry career fresh from University, joining Codemasters Software as Acquisitions Manager in 1997. This was followed by 14 years as Commercial Director at SEGA Europe, responsible for introducing multiple new partnerships, projects, licences, and content as well as the best-practice porting of high-profile Japanese IP

Skills brought to the Board:
Developer and Publisher Relations, Commercial Negotiation, Franchise Development, Games Publishing

Sector experience
Gaming industry

9 GARY DUNN

Managing Director – Sumo Digital (51)

Joining date:
October 2017

Experience:
After a 12 year career in Telecomunications, Gary joined the games industry in 2002, becoming Executive Producer for the Colin McRae Rally Franchise, being promoted to the Codemasters board after only three months, Gary was responsible for all internal and external development. Gary joined SEGA in 2005, and led the integration of both Creative Assembly and Sports Interactive into the company, notably growing the former from 60 to 300 staff. Gary returned to Codemasters in 2013, running the development for the company once more, including the F1 and DiRT Franchises. Gary ran his own Consulting practice for three years before joining Sumo

Skills brought to the Board:
Game development leadership, acquisition and integration of games companies, games publishing

Sector experience
Telecommunications, video games

10 RICHARD IGGO

Marketing Director (47)

Joining date:
November 2018

Experience:
Richard has over 20 years of games industry experience, having begun his career with Virgin Retail in 1994 before moving to Gremlin Interactive in 1998. From there, he progressed to Infogrames, relocating from the UK to the United States in order to manage Epic Games' Unreal brand. He then built and executed successful marketing strategies for other US employers including Telltale Games. After 17 years away, Richard returned to the UK having worked on some of the world's biggest entertainment properties to lead Sumo's global marketing and PR activity in support of recruitment, brand awareness and self-published games.

Skills brought to the Board:
Corporate and consumer communications, marketing strategy development and execution, branding

Sector experience
Marketing, PR, publishing, manufacturing, digital distribution

11 KAREN MCLOUGHLIN

Group Director of HR (48)

Joining date:
May 2005

Experience:
Karen began her career in the video games industry in 1996 at Gremlin Interactive, where she gained extensive experience in a gaming and software development environment. In 2005, as Sumo Digital was expanding, Karen joined as Office Manager in Sheffield. In 2011, she was promoted to HR Manager for Sumo Digital, moving into her current role of Group Director of HR in January 2018. Karen is a CIPD qualified HR professional.

Skills brought to the Board:
HR leadership, acquisition, integration, TUPE transfer, organisational change, employee relations, talent management

Sector experience
Public sector, video game development

AUDIT AND RISK COMMITTEE REPORT

Dear shareholder,

I am pleased to present the Audit and Risk Committee Report describing our work during the past year. Following the Committee's establishment in December 2017, we have had a successful second year that saw improvements in the Group's risk management activities and the re-naming of the Committee as the Audit and Risk Committee to reflect the importance of its role in monitoring and managing risk.

Committee Governance

The Audit and Risk Committee consists of two independent non-executive directors and I chair the Committee as one of the independent non-executive directors. I am a qualified chartered accountant and was the Chief Financial Officer of another listed company until my retirement in March 2019.

The other independent non-executive director also has considerable experience in senior operational roles and is deemed to have the necessary ability and experience to understand financial statements.

The Committee meets at least four times a year. Additionally, private meetings are held with the external auditor and the Group Internal Auditor at which management are not present.

Key responsibilities

The terms of reference of the Committee are available on the Sumo Group plc Investor Relations website. In accordance with these, the Committee is required, amongst other things, to:

- Monitor the integrity of the financial statements of the Group and external announcements of the results
- Advise on the clarity of disclosures and information contained in the Annual Report and Accounts
- Ensure compliance with applicable accounting standards and review the consistency of methodology applied
- Review the adequacy and effectiveness of the Group's internal controls and risk management system
- Oversee the relationship with the external auditors, reviewing their performance and independence, and advising the Board on their appointment and remuneration
- Consider the effectiveness of the Group's internal audit function and monitor management responsiveness to their findings and recommendations

The Committee reports to the Board on all of these matters. The key work undertaken by the Committee during the year under review and up to the date of this Annual Report is detailed below.

Internal audit

Following the recruitment of a Group Internal Auditor in June 2018 the function is now embedded within the Group and improvements have been made in establishing a formal policy framework, in particular for the management and approval of Group expenditure, as well as a three-year audit plan. The internal audit programme in place supports the introduction and improvement of key controls and policies. During the year an Internal Audit visit was performed in Pune, India, to validate the internal control environment in this important, but remote, Group studio.

Internal control and risk management

The Audit and Risk Committee supports the Board in reviewing the risk management methodology and the effectiveness of internal control.

This year the Group has strengthened the approach to risk assessment and monitoring, including regular reviews of the risk register and continuing with quarterly Operating Board risk review meetings. The direct engagement of the Operating Board has been a key area of progress, ensuring that the "tone from the top" on matters of risk is appropriately framed. This is coordinated by the Group Internal Auditor who reports on principal risks and mitigation actions to the Committee.

External audit
The Audit and Risk Committee makes recommendations to the Board regarding the appointment and remuneration of the Group's external auditor and satisfies itself that they maintain their independence regardless of any non-audit work performed by them. The Committee reviews its formal policy governing the performance of non-audit work annually. Following this review, during the year the Committee determined that the auditor should not provide taxation advisory services to the Group and Deloitte LLP were appointed to provide tax advice. The auditor is permitted to provide non-audit services which are not, and are not perceived to be, in conflict with auditor independence, providing it has the skill, competence and integrity to carry out the work and is considered to be the most appropriate to undertake such work in the best interests of the Group. All assignments are monitored by the Committee, and a summary of all fees paid to the auditor is set out in Note 10 on page 90 of these financial statements. The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements in this regard. The Company's previous auditor, Grant Thornton, provided taxation advisory services during the year. The cumulative expenditure on these, and any other non-audit services provided was monitored by the Committee, in addition to the Committee receiving confirmation from Grant Thornton regarding the application of their professional independence safeguards.

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

Whilst the Audit and Risk Committee has not adopted a formal policy in respect of the rotation of the external auditor, during the year the Committee performed a thorough review of the Group's current and future requirements from its auditor. In September 2019 the Group appointed Ernst & Young LLP as the new external auditor following a tender process led by the Committee. There is an active, ongoing dialogue between the Committee and the external auditor to ensure that there is a clear roadmap of actions to improve the effectiveness and efficiency of the external audit process.

Significant reporting issues and judgements
At the request of the Board, the Audit and Risk Committee considered whether the 2019 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. The Committee was satisfied that, taken as a whole, the 2019 Annual Report is fair, balanced and understandable.

The Audit and Risk Committee assesses whether suitable accounting policies have been adopted and whether appropriate estimates and judgements have been made by management. The Committee also reviews accounting papers prepared by management, and reviews reports by the external auditor. The significant reporting matters and judgements the Committee considered during the year included:

- The appropriateness of the Group's approach to the application of IFRS 15 (Revenue recognition) to its portfolio of customer contracts. The Committee considered and reviewed the key financial assumptions underpinning the reporting of revenue, with particular emphasis on contracts entered into or renewed around the 31 December year-end, and royalty income. The Committee was satisfied that the treatment of revenue was compliant with IFRS 15 and was applied consistently across the Group's contractual income (see the Financial Review and Note 2 to the financial statements).
- The accounting presentation of Video Games Tax Relief Credits within direct costs. The Committee reviewed the Group's ongoing treatment of these receipts, and continues to be of the opinion that this approach best reflects the substance and nature of these Credits.
- Accounting for the acquisition of Red Kite Games Limited. The Committee reviewed the accounting for the acquisition during the year and satisfied itself regarding the associated disclosures.
- The application of IFRS 16 'Leases'. The Committee reviewed the key financial assumptions underpinning the impact of the adoption of IFRS 16 and the associated disclosures (see Note 28 to the financial statements).
- Testing of goodwill and other intangible assets for impairment. The Committee reviewed the assumptions and calculations underlying the impairment review and was satisfied that no impairment is appropriate (see Note 13 to the financial statements).
- Accounting for taxation. The Committee reviewed the corporation tax accounting, including the recoverability of deferred tax balances, and the associated disclosures (see Notes 11 and 21 to the financial statements).
- Accounting for share based payments. The Committee reviewed and confirmed the assumptions underlying the accounting for share based payments.

In March 2020, after the period-end and during the preparation of these financial statements, the COVID-19 global pandemic began. The Committee was immediately consulted concerning the Group's operational response to the outbreak, in particular the establishment of home-working throughout the business, and it considered the IT and other risks associated with this move and the mitigation actions put in place.

The Committee also considered the FCA request, issued in March 2020, for the postponement of the issue of preliminary financial statements as a result of the COVID-19 outbreak. The Committee worked alongside the executive team and the Group's auditor and other advisers to ensure that the final stages of the Group audit were comprehensively completed, and to review the assessment of the consequences of the disruption on current trading. The Committee reviewed and challenged the Group's revised going concern assessment and associated disclosures within the basis of preparation note to the financial statements.

Michael Sherwin
Chair of the Audit and Risk Committee
20 April 2020

DIRECTORS' REMUNERATION REPORT

Dear shareholder,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

I chair the Remuneration Committee as an Independent Non-Executive Director and Michael Sherwin, who is also an independent Non-Executive Director, is the other member of the Committee. We are supported by Steven Webb as Company Secretary.

The aim of this report is to provide shareholders with information to understand our remuneration strategy and its linkage to the Group's financial performance.

In preparing the report, we have taken account of the guidance issued by the Quoted Companies Alliance ("QCA"), as the Company has chosen to apply the Corporate Governance Code published by the QCA.

Responsibilities

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

The Remuneration Committee met seven times during the year and has six meetings scheduled for 2020.

During the year FIT Remuneration Consultants ("FIT") provided the Committee with external remuneration advice, including on all aspects of remuneration policy for Executive Directors. FIT also provided advice to the Company in relation to a review of Executive incentive plans. The Remuneration Committee is satisfied that the advice received was objective and independent. FIT received a fee of £30,907 plus VAT for their advice during the year to 31 December 2019. FIT is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

Our performance in 2019

As summarised in the Chairman's statement, 2019 was another successful year for the Group, both in terms of delivering the expected financial results and progressing on strategic targets. This is reflected in the pay out-turns below. The Group has also grown significantly during the year and has ambitious plans to continue to do so in an industry in which competition for key talent is intensifying. The Committee has taken these factors into account in its approach to Executive remuneration.

Key pay out-turns for 2019

Each of the Executive Directors received an annual bonus based on financial and strategic measures described in more detail later in this report. During the year, David Wilton exercised the option over 500,000 shares granted to him at the time of the Company's IPO.

Looking forward to 2020

The key terms of the remuneration policy are set out on pages 55 to 61 and the key components of Executive packages are summarised as follows:

- Base salary, pension and benefits positioned competitively to the market in which the Company operates.
- Annual bonus – an annual bonus with performance criteria based on a mixture of profit-based and personal objectives as set by the Remuneration Committee.
- Long-term incentive plan (LTIP) – share-based awards with three-year performance criteria. Following the review of Executive incentive plans carried out by the Committee, it is intended to commence annual LTIP awards during 2020 as an important retention mechanism.

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

Andrea Dunstan
Chair of the Remuneration Committee
20 April 2020

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

Our overall remuneration policy is to:

Be consistent and principled	• maintain a consistent Executive compensation strategy, based on clear principles and objectives
Link pay to strategy	• support the Company's strategy and its execution
Align with shareholders' interests	• closely align executive reward with shareholder returns
Be competitive	• ensure that the organisation can attract, motivate and retain high-calibre talent to enable it to compete successfully in an international market
Link pay to performance	• provide the opportunity for executives and other colleagues to receive competitive rewards for performance, aligned to the sustained success of the overall Group, paying what is commensurate with achieving these aims
Reflect the internal landscape	• operate broadly-based incentives to recognise talented performers throughout the Group and take account of pay and conditions for all employees in the Group when setting Executive remuneration • the Committee has regard to pay structures across the wider Group when setting the remuneration policy for Executive Directors. In particular, the general base salary increase for the broader workforce is considered when determining the annual salary review for the Executive Directors. While participation in the Group's long-term incentive plans is limited to those employees considered to have the greatest potential to influence overall levels of performance, the Group encourages equity ownership at all levels through our use of a tax-advantaged Share Incentive Plan ("SIP")
And be clear	• be easy to understand and supported by clear communication

It has these elements:

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

DIRECTORS' REMUNERATION REPORT

CONTINUED

The table below provides more detail on the key features of our remuneration policy and how it will operate in 2020:

Element	Policy	Purpose and link to strategy
BASE SALARY	Positioned competitively in line with the market. The Committee reviewed the salaries of the Executive Directors' during March 2020 and considered increases that the Committee believed were appropriate and recognised strong performance by the business and the individuals since IPO. As part of this review, the Committee took account of the evolving senior talent landscape in the sector, as evidenced by recent hires of senior managers brought into the Group. With effect from 1 April 2020, Executive Directors' salaries are therefore as follows: • CEO £300,000 (2019/20: £270,000) • COO £252,000 (2019/20: £220,000) • CFO £239,000 (2019/20: £220,000) However, subsequent to this review, as part of the Company's overall response to COVID-19, the Executive Directors offered to defer implementation of the agreed increases until a later point in 2020. The date of change to the new 2020 salaries from those for the prior year will be reported in the next Directors' Remuneration Report, to be published in 2021.	To provide an appropriate level of fixed cash income to recruit and retain talent through the provision of competitively positioned base salaries. It is critical to the success of the business that it can recruit talented individuals at all levels.

DISCRETIONARY ANNUAL BONUS	Maximum opportunity for Executive Directors is 100% of base salary.
	• Performance is measured over one financial year.
	• Weightings and targets are reviewed and set at the start of each financial year.
	• For 2020, 70% of the bonus will be based on pre-bonus Adjusted EBITDA performance with the remaining 30% based on the achievement of strategic objectives.
	• Malus and clawback provisions apply in the case of:
	  • a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company; or
	  • action or conduct, which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct.
		Designed to motivate Executive Directors to focus on annual goals and milestones which are consistent with the Group's longer-term strategic aims. Forms part of the significant weighting of overall remuneration to variable elements with stretching performance measures.
		
		Payment is dependent on achieving profitable growth and strategic objectives that are essential to deliver the strategy.
		
		As part of its normal overall assessment of the business before confirming any bonus payments for the year, the Remuneration Committee will consider the success of the steps taken by our executive team in relation to the current COVID-19 pandemic.

Element	Policy	Purpose and link to strategy

LONG-TERM INCENTIVE PLAN (LTIP)	• As disclosed in the Admission Document, a nil-cost option was granted to the CFO on Admission over 500,000 shares and this was exercised in June 2019
	• Our Executive Directors received awards at or shortly after IPO which have the performance conditions listed on page 60 to 61. Going forwards, the Committee intends to make regular, annual awards under the LTIP.
	• Annual LTIP awards to Executive Directors will be made automatically each year on the fourth dealing day following announcement of annual results, using the average of share prices for the preceding three dealing days to calculate the number of award shares
	• In 2020, the Committee intends to make awards over shares worth 100% of salary to the Executive Directors (reflecting the agreed new salaries from 1 April 2020), which will vest subject to absolute TSR growth over a three-year period, with a threshold of 10% cumulative annual growth (at which 20% of any award will vest) and full vesting at a cumulative annual growth rate of 30%.
	• Malus and clawback provisions apply in the case of:
	  • a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company; or
	  • action or conduct, which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct.
		To ensure that the CFO, who had joined the Company shortly before Admission, has a significant interest in the Company's performance aligned with shareholders.
		
		Aligns the interests of the Executive Directors with shareholders over the long-term.
		
		Incentivises delivery of stretching financial targets that will provide value to shareholders.
		
		Acts as a retention mechanism for key talent.
		
		Further element of variable pay with stretching performance measures.

PENSION	• Executive Directors are entitled to receive pension contributions from the Company which are equal to 5% of the base salary (in line with the range of 3-5% available to other employees) delivered as:
	  • money purchase benefits; or
	  • a cash equivalent
	Not included as salary for the purposes of annual bonus or LTIP awards.
		To recruit and retain the right people to deliver the strategy.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Element	Policy	Purpose and link to strategy
BENEFITS	The Executives are entitled to a standard Director benefits package including a car allowance, private medical expenses insurance and life assurance cover. Executive Directors can also participate in the SIP on the same basis as other employees.	To recruit and retain the right people to deliver the strategy.
TERMINATION	Information on the service contracts for Executive Directors and letters of appointment for Non-Executive Directors is provided below. On a termination, the Company would be obliged to meet its contractual obligations, but would apply a robust approach to the relevant individual mitigating any losses.	Honour contractual commitments while not paying more than is necessary.

Recruitment remuneration arrangements

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

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

Communication with Shareholders

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

Executive Director contracts and loss of office payments

Both the CEO and CFO entered into service agreements on 15 December 2017, which became effective upon Admission. The COO entered into a new service agreement on 8 April 2019 to coincide with his appointment as a director. The agreements require a notice period of one year from the Company and from the Executive. It is the Committee's intention that any future service contracts will be subject to similar notice periods.

Other than payment of salary and benefits in lieu of notice, the Directors' service agreements and letters of appointment do not provide for benefits on termination of employment.
Outstanding awards made under the LTIP would normally lapse on an Executive leaving employment. However, there are specific rules of the plan dealing with the treatment of awards on leaving. In summary, if an Executive were a 'good leaver', he or she may be entitled to retain his or her award, although, for unvested awards:

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

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

Terms and conditions for Non-Executive Directors

Non-Executive Directors do not have service contracts but appointment letters setting out their terms of appointment. Ian Livingstone was appointed on 20 November 2017 and Michael Sherwin on 21 December 2017. Andrea Dunstan was appointed on 24 September 2018. The appointments may be terminated on one month's notice by either party.

The Board considers that Andrea Dunstan and Michael Sherwin are independent Non-Executive Directors.

The Non-Executive Directors receive an annual base fee reflecting their respective time commitments and do not receive any benefits in addition to their fees, nor are they eligible to participate in any pension, bonus or share-based incentive arrangements.
The table of emoluments on page 60 shows the fees received by each Non-Executive Director for the year.

The fees to be paid to Chairman and Non-Executive Directors in 2020 are as follows:

- Ian Livingstone - £98,000
- Michael Sherwin - £50,000 (representing £45,000 base fees plus a £5,000 fee as Senior Independent Director)
- Andrea Dunstan - £45,000

These fee levels are considered appropriate by the Board and reflect:

- An increase from 2019 levels in line with the normal percentage increase for employee salaries at Sumo
- A consolidation of taxable expenses which were previously paid separately (and which will not be paid going forwards)
- Each of our two remaining independent Non-Executive Directors chairing major Board committees (for which separate fees are not paid)
- The importance of the Senior Independent Director role at Sumo.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Directors' remuneration

Name of Director	Fees/basic salary (2018) £'000	Benefits (2018) £'000	Benefits (2018) £'000	LTIP £'000	Pension (2018) £'000	**2019 total £'000**	2018 total £'000
C Cavers	263 (240)	19 (19)	173 (180)	–	13 (11)	**468**	450
D Wilton	217 (194)	15 (13)	141 (157)	–	11 (9)	**384**	373
P Porter*	165 (n/a)	22 (n/a)	106 (n/a)	–	8 (n/a)	**301**	n/a
Non-Executive							
K Beaty	80** (95)	–	–	–	–	**80**	95
I Livingstone	69 (56)	–	–	–	–	**69**	56
M Sherwin	42 (40)	–	–	–	–	**42**	40
A Dunstan	42 (11***)	–	–	–	–	**42**	11
Aggregate	**878 (636)**	**56 (32)**	**420 (337)**	**–**	**32 (20)**	**1,386**	**1,025**

* Part-year only – appointed April 2019
** Part-year only – retired from Board September 2019
*** Part-year only – appointed September 2018.

Annual bonus plan

The table below summarises performance and outturns for the Executive Directors under the 2019 Annual bonus. The maximum bonus opportunity for 2019 was 100% of base salary.

	Threshold	**Target**	**Maximum**	**Actual**	**Outturn**
Adjusted pre- bonus EBITDA (70% of max)	£11.2m*	£17.6m	£20.8m	£17m	60% of maximum
Strategic objectives (30% of maximum)	See commentary below				74.0% of maximum
				Carl Cavers	64% of salary
				Paul Porter	64% of salary
				David Wilton	64% of salary

* Any payments for performance below Adjusted EBITDA target require Remuneration Committee judgement

The strategic objectives set for the Annual bonus plan were aligned with the four strategic priorities: deliver and expand; new strategic partners; Own-IP and acquisitions, with equal weighting applied to each area. As noted earlier in this Annual Report, the company has grown significantly during the year, has acquired new clients, made significant progress on exploiting its own intellectual property and has established an acquisition approach that has led to Red Kite Games joining the group. The bonus payments referred to above reflect this excellent performance.

Long-term incentive plan (LTIP)

The tables below summarise the awards made to Executive Directors under the plan

Nil-cost awards with no performance conditions as at 31 December 2019

Award date	Interest as at 31/12/18	Granted in the year	Vesting in the year	Lapsed in the year	Exercised in the year	Interest as at 31/12/19	Vesting period ending
D Wilton							
21 December 2017	500,000	–	500,000	–	500,000	–	21 June 2019

The share price at the date of exercise was 140.69 pence per share, creating a gain on exercise of £703,450

Nil-cost awards with performance conditions as at 31 December 2019

Award date	Interest as at 31/12/18	Granted in the year	Vesting in the year	Lapsed in the year	Exercised in the year	Interest as at 31/12/19	Vesting period ending
C Cavers							
9 March 2018	1,200,000	–	–	–	–	1,200,000	31 December 2020
P Porter							
9 March 2018	873,435	–	–	–	–	873,435	31 December 2020
D Wilton							
9 March 2018	885,000	–	–	–	–	885,000	31 December 2020

Performance conditions	2018 award (35% cumulative adjusted EPS and 65% TSR)
Cumulative adjusted EPS Adjusted EPS, as defined in the LTIP Rules, excludes share-based payment costs and amortisation	Cumulative adjusted EPS for the years ended 31 December 2018, 2019 and 2020 Threshold (8.75% of maximum vesting): 17.83p Mid-range (21% of maximum vesting): 18.77p Maximum: (35% of maximum vesting): 20.65p
Absolute TSR growth Annualised growth in Total Shareholder Return	Threshold (nil vesting): 10% p.a. Mid-range: (35% of maximum vesting) 20% p.a. Maximum: (65% of maximum vesting) 30% p.a.

Performance attainment between the levels shown above produces payments on a pro-rata basis

The shares comprised in these awards are held in a joint ownership arrangement with the Sumo Group plc employee benefit trust. The charge for share-based payments appears as Note 20 to the accounts.

Share Incentive Plan (SIP)

The table below summarises the shares acquired by Executive Directors under the plan as at 31 December 2019.

	Matching shares 31/12/19	Free Shares 31/12/19	Partnership Shares 31/12/19
C Cavers	752	200	2257
P Porter	409	200	1228
D Wilton	752	200	2257

The value of matching shares awarded to Executive Directors in 2019 (calculated using 3-month average share prices to 31.12.19 – 159p) were:
C Cavers: £652
P Porter: £650
D Wilton: £652

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report together with the audited Group financial statements of the Parent Company (the 'Company') and the Group for the year ended 31 December 2019.

Business review and future developments

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

Results and dividends

The Group recorded revenue in the year of £49.0m (2018: £38.7m) and profit after tax of £7.6m (2018: £0.6m loss).
No dividends have been paid or are proposed.

Events after the balance sheet date

These are disclosed in Note 29 of the Financial Statements.

Financial risk management

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

Directors and their interests

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

• Carl Cavers	appointed 20 November 2017
• David Wilton	appointed 20 November 2017
• Ian Livingstone	appointed 20 November 2017
• Michael Sherwin	appointed 21 December 2017
• Andrea Dunstan	appointed 24 September 2018
• Paul Porter	appointed 9 April 2019
• Ken Beaty	appointed 20 November 2017, resigned 26 September 2019

All the current Directors will stand for election or re-election at the forthcoming AGM.

The Directors who held office during the year and as at 31 December 2019 had the following interests in the Ordinary Shares of the Company:

Name of Director	Number
Carl Cavers	4,650,116
Paul Porter	4,503,924
David Wilton*	335,709
Ian Livingstone	2,153,287
Michael Sherwin	20,000
Andrea Dunstan	20,000

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

In addition to the interests in Ordinary Shares shown above, the Group operates a long-term incentive plan (the 'LTIP') for senior executives, under which awards may be granted over shares in the Company. The maximum number of Ordinary Shares which could be issued to Directors in the future under such awards at 31 December 2019 is shown below:

Name of Director	Number
Carl Cavers	1,200,000
David Wilton	885,000
Paul Porter	873,435

The market price of the Company's shares at the end of the financial year was 181.50 p (on 31 December 2018: 118.5 p) and the range of market prices during the year was between 122.50p and 182.00p.

Directors' indemnities and insurance

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

Significant shareholdings

As at 20 April 2020, the Company has been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, or was made aware through the IPO process of the following notifiable interests in 3% or more of its voting rights:

Perwyn Bidco (UK) Limited	26,170,961	17.38%
Mount Emei Investment Limited (Tencent)	15,000,000	9.88%
BlackRock Inc	14,395,963	9.49%
Swedbank Robur Fonder AB	9,028,477	5.95%
Liontrust Investment Partners LLP	8,000,000	5.27%
Premier Miton Group plc	7,584,602	4.99%
Schroder Investment Management	6,500,000	4.28%
Aghoco 1337 Limited (as Trustee of the Sumo Group plc Employee Benefit Trust)	4,618,735	3.04%

Employees

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

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

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

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

Notice of Annual General Meeting
A Notice of AGM, with explanatory notes, is made available to all shareholders.

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

Going concern basis
The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Group financial review, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities including projected compliance with covenants. Financial projections have been prepared to December 2022 which show positive earnings and cash flow generation and project compliance with banking covenants at each testing date.

Since these projections were prepared, the COVID-19 situation has created an unprecedented and constantly changing challenge to all businesses. The process of monitoring the impact of the pandemic on the Group's financial performance and liquidity is ongoing. The Group has applied sensitivities to its financial projections based on all reasonably possible downside scenarios to illustrate the potential impact from 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.

Furthermore, on 24th March 2020 the Group drew down from its existing revolving credit facility £10 million, repayable on 30 November 2022, as an extra safeguard to support the Group's liquidity position and medium-term growth plans in light of the ongoing pandemic.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis of accounting in preparing the annual Group financial statements.

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

Disclosure of information to auditor
The Directors of the Company at the date of the approval of this report confirm that:

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

Independent auditor
Ernst & Young LLP were appointed as independent auditor on 2 September 2019 following the resignation of Grant Thornton LLP.

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

By order of the Board

Steven Webb
Company Secretary
20 April 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union or United Kingdom Generally Accepted Accounting Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Steven Webb
Company Secretary
Sumo Group plc
Unit 32 Jessops Riverside
Brightside Lane
Sheffield
S9 2RX

Registered number: 11071913
20 April 2020

INDEPENDENT AUDITOR'S REPORT

to the members of Sumo Group plc

Opinion

In our opinion:

- Sumo Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sumo Group plc which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2019	Balance sheet as at 31 December 2019
Consolidated statement of comprehensive income for the year ended 31 December 2019	Statement of changes in equity for the year ended 31 December 2019
Consolidated balance sheet as at 31 December 2019	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year ended 31 December 2019	
Consolidated cash flow statement for the year ended 31 December 2019	
Related notes 1 to 30 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Sumo Group plc

Overview of our audit approach

Key audit matters	• Consideration of the potential impact of COVID-19 on Going Concern • Recognition of contract revenue • Accounting treatment for Video Games Tax Relief (VGTR) credits
Audit scope	• We performed an audit of the complete financial information of 4 components and audit procedures on specific balances for a further 2 components. • The components where we performed full or specific audit procedures accounted for 99% of Group profit before tax and exceptional items, 99% of Revenue and 99% of Total assets.
Materiality	• Overall group materiality of £380,000 which represents 5% of Group profit before tax and exceptional items

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Consideration of the potential impact of COVID-19 on Going Concern The Group's Annual Report and Accounts are prepared on the going concern basis. This basis is dependent on a number of factors, including the Group's financial performance, the Group's continued access to bank borrowing facilities and the Group's ability to continue to operate within its facility limits and financial covenants. The COVID-19 pandemic is of an unprecedented scale and has severely impacted the UK economy. There is a significant degree of uncertainty about the further spread of the virus and it's continuing impact upon the Group. The Directors have concluded that no material uncertainty over Going Concern exists as even under their most severe stress test there is sufficient liquidity and no projected breach of covenants. *Refer to the Audit Committee Report (page 52), Basis of preparation note 2 (page 77) and Post balance sheet event disclosure note 29 (page 107).*	In light of the COVID-19 pandemic the audit partner and other senior members of the audit team spent a significant amount of time performing the following procedures: • We obtained from management their latest financial models that support the Board's assessment and conclusions with respect to the statement of Going Concern. • We discussed with management the critical estimates and judgements applied in their latest financial models so we could understand and challenge the rationale for the factors incorporated into these financial models and the sensitivities applied as a result of COVID-19. • We inspected the financial models provided to assess their consistency with our understanding of the operations of the group and tested the mathematical integrity of the models. • We agreed any key assumptions including visibility of development revenue to underlying supporting information and fact patterns where and as appropriate whilst considering any contra indicators. • We subjected the financial models to additional stress testing to confirm the Board have considered a balanced range of outcomes in their assessment of the potential impact of COVID-19 on the group. This included a reverse stress test. • We considered the appropriateness of the disclosures made by the Group in respect to the potential impact of COVID-19 on the current and future operations of the group as a non-adjusting post balance sheet event. We draw attention to the basis of preparation disclosures in Note 2 of the financial statements, which describe the economic and social disruption the group is facing as a result of COVID-19 and how the directors remain satisfied that the going concern basis is appropriate and note 29 which describes the potential impact of this post balance sheet event.	We reported to the Audit Committee that, based on our testing performed we believed that the going concern assumption adopted in the 2019 financial statements remains appropriate after considering the Directors' base case updated for COVID-19 and the results of reverse stress testing. We confirmed that the Directors disclosure in Note 2 appropriately describes both the risks associated with Sumo's ability to continue to operate as a going concern and Note 29 describes events arising in the post balance sheet period.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate revenue recognition The Group has reported revenues of £49.0m (FY18: £38.7m). We assessed revenue recognition as a fraud risk as revenue forms the basis for certain of the Group's key performance indicators including Adjusted EBITDA performance, both in external communications and for management incentives. We identified two specific risks of fraud and error in respect of inappropriate revenue recognition given the long-term nature of the Group's contracts as follows: • Inappropriate timing of recognition of revenue, including estimation of stage of completion of long-term development contracts • Inappropriate measurement of variable consideration in respect of royalty income *Refer to the Audit Committee Report (page 52); Accounting policies (page 77); and Note 4 of the Consolidated Financial Statements (page 86)*	**Walkthrough of controls** We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of management's key controls. **Inappropriate timing of recognition of revenue, including estimation of stage of completion of long-term development contracts** We evaluated management's determination of whether the nature of the Group's contracts results in the provision of a good or service at a point in time or over a contractual term through review of a sample of contracts. For products and services where revenue is earned over a contractual term, we tested a sample of transactions to ensure the amount of revenue recognised in the year and the amount accrued or deferred at the balance sheet date were accurately calculated based on progress of the contract against milestones and challenge of the cost to complete. **Inappropriate measurement of variable consideration in respect of royalty income** We evaluated management's accounting policy for variable consideration for consistency against the requirements of IFRS 15. We challenged the key assumptions in estimating the level of variable consideration recognised. **Management Override** We performed certain specific journal entry testing procedures at full and specific scope locations to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms. **Disclosure** We also considered the adequacy of the Group's disclosures relating to revenue recognition in notes 3 (critical accounting estimates and judgments) and note 4 (segmental reporting). We performed full and specific scope audit procedures over this risk area in 5 locations, which covered 99% of the risk amount.	Based on procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year in accordance with IFRS 15.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Sumo Group plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting treatment for Video Games Tax Relief (VGTR) credits The Group benefits from Video Games Tax Relief which is a creative industry tax relief. The income statement credit for 2019 is £7.4m (2018: £5.8m). There is no predominant treatment for financial reporting of VGTR credits. The directors have determined that it is appropriate to present the credits in accordance with the requirements of IAS 20 'Accounting for Government Grants and disclosure of Government Assistance' as opposed to IAS 12 'Income Taxes' This is presented in the income statement as a reduction of operating costs as opposed to a credit in the taxation line. *Refer to the Audit Committee Report (page 52); Accounting policies (page 77); and Note 6 of the Consolidated Financial Statements (page 89)*	We have walked through and assessed the appropriateness of the Group's accounting treatment and challenged the assumptions regarding predominant treatment within the assessment. We have reviewed the disclosures in the notes to the financial statements and the presentation in the income statement. The group's accounting policy for VGTR credits is shown in Note 2 to the financial statements and related disclosures are included in Note 6.	Based on the results of our work, we agree with management's conclusion that no predominant treatment exists for presentation VGTR credits and have concluded that management's accounting policy is reasonable based on the requirements of IAS 20 *Government Grants and Disclosure of Government Assistance and IAS 12 Income Taxes*.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 12 reporting components of the Group, we selected 6 components covering entities in the UK and India which represent the principal business units within the Group.

Of the 6 components selected, we performed an audit of the complete financial information of 4 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 2 components ("specific scope components"), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99% of the Group's Profit before tax and exceptional items, 99% of the Group's Revenue and 99% of the Group's Total assets. For the current year, the full scope components contributed 90% of the Group's Profit before tax and exceptional items, 99% of the Group's Revenue and 97% of the Group's Total assets. The specific scope components contributed 9% of the Group's Profit before tax and exceptional items and 2% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Of the remaining 6 components that together represent 1% of the Group's Profit before tax and exceptional items none are individually greater than 1% of the Group's Profit before tax and exceptional items. For these components, we performed other procedures including analytical review to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. All of the audit procedures for full scope components were performed directly by the primary audit team. For the 1 specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

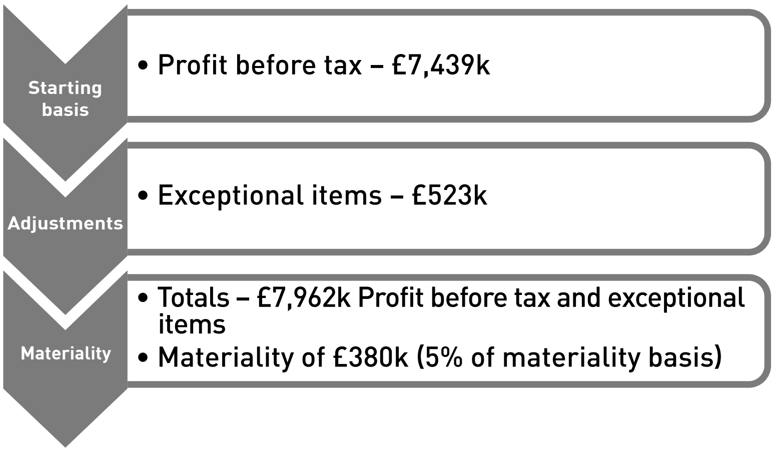
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £380,000, which is 5% of Profit before tax and exceptional items. We believe that Profit before tax and exceptional items provides us with a materiality basis that is appropriately focussed on the users of the financial statements.

We determined materiality for the Parent Company to be £380,000 which is the same as the Group.



During the course of our audit, we reassessed initial materiality and no changes were required.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £190,000. We have set performance materiality at this percentage due to this being our first year as auditor.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Sumo Group plc

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £39,000 to £143,000.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £19,000, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 63 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Morritt
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
20 April 2020

Notes:
1. The maintenance and integrity of the Sumo group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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	4	**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	7	**(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	13	**(834)**	(6,947)
Depreciation	14	**(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 IFRS 16	28	**986**	–
Exceptional items	7	**(523)**	(94)
Group operating Profit/(loss)		**7,499**	(1,121)
Finance cost	8	**(313)**	(99)
Finance income	9	**253**	311
Profit/(loss) before taxation		**7,439**	(909)
Taxation	11	**117**	304
Profit/(loss) for the year attributable to equity shareholders		**7,556**	(605)
Profit/(loss) per share (pence)			
Basic	12	**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.

The notes on pages 77 to 108 form part of these Group financial statements.

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)

The notes on pages 77 to 108 form part of these Group financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December 2019

	Note	2019 £'000	2018 (Restated) £'000
Non-current assets			
Goodwill and other intangible assets	13	**23,975**	22,378
Property, plant and equipment	14	**11,715**	2,496
Deferred tax asset	21	**2,512**	2,053
Total non-current assets		**38,202**	26,927
Current assets			
Trade and other receivables	16	**23,732**	25,172
Corporation tax receivable	16	**703**	–
Cash and cash equivalents	17	**12,890**	3,730
Total current assets		**37,325**	28,902
Total assets		**75,527**	55,829
Current liabilities			
Trade and other payables	18	**14,246**	11,476
Corporation tax payable		**–**	810
Total current liabilities		**14,246**	12,286
Non-current liabilities			
IFRS 16 lease liabilities	19	**6,524**	–
Total liabilities		**20,770**	12,286
Net assets		**54,757**	43,543
Equity			
Share capital	24	**1,506**	1,501
Share premium	24	**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

The Group financial statements on pages 72 to 108 were approved by the Board of Directors on 20 April 2020 and were signed on its behalf by:

Carl Cavers
Director

David Wilton
Director

The notes on pages 77 to 108 form part of these Group financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Note	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	28	–	–	–	–	–	–	–	(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	27	–	–	–	–	–	–	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**

The notes on pages 77 to 108 form part of these Group financial statements.

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		**(117)**	(304)
Finance income		**(253)**	(311)
Finance costs		**313**	99
Operating profit/(loss)		**7,499**	(1,121)
Depreciation charge	14	**2,226**	1,104
Amortisation of intangible assets	13	**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	13	**(824)**	(513)
Purchase of property, plant and equipment	14	**(3,272)**	(1,740)
Acquisition of subsidiary – net of cash acquired	27	**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

The notes on pages 77 to 108 form part of these Group financial statements.

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.

The Group financial statements present 12 months results for the year ended 31 December 2019, and were approved by the Directors on 20 April 2020.

The Company financial statements are on pages 109 to 114.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

Basis of preparation

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

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

Going concern

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

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position, are described in the Chairman's statement on page 8, the description of our business model and strategy on pages 12 to 21 and the Chief Executive's review on pages 22 to 27.

The principal risks and uncertainties affecting the Group and a summary of the steps taken to mitigate these risks are described on pages 38 to 41.

Critical accounting assumptions and key sources of estimation uncertainty and judgement affecting the results and financial position disclosed in this annual report are discussed in Note 3 to the accounts.

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

As set out in the Directors report, 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;

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

- 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 as set out on page 38, 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 these 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 IFRS 16 is presented in Note 28.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

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 30 and the Consolidated Income Statement.

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

Foreign currency

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

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

Classification of instruments issued by the Group

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

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

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

Property, plant and equipment

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

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

Impairment

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

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

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

Post-employment benefits

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

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

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 28 provides a disclosure of the impact of IFRS 16.

Operating lease payments

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

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

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that it arises on:
- the initial recognition of goodwill where the initial recognition exemption applies;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset in respect of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Video Game Tax Relief

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

Cash and cash equivalents

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

Trade and other receivables
Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses. This assessment is performed on a collective basis considering forward-looking information.

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

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

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

Exceptional costs
The Group presents as exceptional costs on the face of the income statement, those significant items of expense, which, because of their size, nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period. This facilitates comparison with prior periods and trends in financial performance more readily. Such costs include professional fees and other costs, directly related to the purchase of businesses and to restructuring within the group. Further information is provided in Note 7.

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

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

Shares to be issued
Deferred shares represent deferred consideration on the acquisition of a subsidiary and have been classified as equity instruments. The shares are measured at fair value through OCI. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the equity instruments.

Retained earnings
Retained earnings includes all current and previous periods retained profits.

Direct costs
Included within direct costs are all costs in connection with the development of games, including an allocation of studio management costs. Video Games Tax Relief is presented within direct costs as it is directly related to the level of expenditure incurred. See Note 6.

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

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 12)

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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES CONTINUED

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 13 to the Financial statements.

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;

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

- 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 IAS20. See Note 6.

4. SEGMENTAL REPORTING

The trading operations of the Group are only in video games development and are all continuing. This includes the activities of Sumo Digital Limited, Mistral Entertainment Limited, Sumo Video Games Private Limited, Cirrus Development Limited, Sumo Digital (Genus) Limited, Sumo Digital (Atlantis) Limited, Atomhawk Design Limited, 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 £'000	Year ended 31 December 2018 £'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 £'000	2021 £'000
Revenue expected to be recognised	**29,058**	7,552

4. SEGMENTAL REPORTING CONTINUED

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 £'000	Year ended 31 December 2018 £'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:

	Note	**2019 £'000**	2018 £'000
Contract assets – amounts recoverable on contracts	16	**9,847**	11,310
Contract liabilities – advances for game development	18	**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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

5. EMPLOYEES AND DIRECTORS

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

	Year ended 31 December 2019	Year ended 31 December 2018
Management (Directors)	**3**	5
Non-executives (Directors)	**4**	3
Development	**615**	464
Administration	**76**	80
	698	552

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

	Year ended 31 December 2019 £'000	Year ended 31 December (Restated) 2018 £'000
Wages and salaries	**27,327**	21,390
Share-based payments	**2,684**	3,004
Defined contribution pension cost	**1,116**	713
Social security costs	**2,588**	2,034
Other employee health benefits	**376**	14
	34,091	27,155

Key management compensation

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Salaries and other short-term employee benefits	**1,354**	1,005
Post-employment benefits	**32**	20
	1,386	1,025

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

The total remuneration of the Directors of the Company was £1,386,000 (2018: £1,025,000). The highest paid Director received total emoluments of £468,000 (2018: £439,000).

The number of Directors in respect of whose qualifying services shares were received or receivable during the year was:

	Year ended 31 December 2019	Year ended 31 December 2018
Number of Directors	**1**	0

The share price at the date of exercise was 140.69 pence per share, creating a gain on exercise of £703,450.

6. DIRECT COSTS (NET)

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 (Restated) £'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 £'000	Year ended 31 December 2018 (Restated) £'000
Exceptional items	**523**	94
Employee benefit expense (Note 5)	**34,091**	27,155
Depreciation charges (Note 14)	**2,226**	1,104
Amortisation and impairment charges (Note 13)	**834**	6,947
Operating lease payments	**200**	1,230

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. FINANCE COST

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Fair value movement on foreign exchange forward contracts	**97**	–
IFRS 16 lease interest	**149**	–
Bank and other interest	**67**	99
Finance costs	**313**	99

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

9. FINANCE INCOME

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
IFRS 15 financing income	**244**	309
Interest income	**9**	2
Finance income	**253**	311

10. AUDITOR'S REMUNERATION

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Fees payable to Company's auditor and its associates for the audit of financial statements	**55**	30
Fees payable to Company's auditor and its associates for other services:		
The audit of subsidiary financial statements	**145**	69
Audit related assurance services	**–**	7
Taxation compliance services	**–**	27
Taxation advisory services	**–**	54
Other assurance services	**–**	20

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

11. 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 £'000	Year ended 31 December 2018 (Restated) £'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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

12. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue.

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.

13. GOODWILL AND OTHER INTANGIBLE ASSETS

	Software £'000	Intellectual Property £'000	Customer contracts £'000	Customer relationships £'000	Goodwill £'000	Total £'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 27)	–	–	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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer hardware £'000	Right of use asset £'000	Total £'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 27)	–	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 27)	–	–	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.

15. INVESTMENTS

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

		Proportion held		
	Class of share capital held	By Parent Company	By the Group	Nature of Business
Project Republica Topco Limited	Ordinary	100%	100%	Holding company
Project Republica Bidco Limited	Ordinary	–	100%	Holding company
Sumo Digital Holdings Limited	Ordinary	–	100%	Holding company
Sumo Digital Group Limited	Ordinary	–	100%	Holding company
Sumo Digital Entertainment Limited	Ordinary	–	100%	Holding company
Sumo Digital Limited	Ordinary	–	100%	Video game development
Sumo Digital (Genus) Limited	Ordinary	–	100%	Video game development
Cirrus Development Limited	Ordinary	–	100%	Video game development
Aghoco 1337 Limited	Ordinary	–	100%	Employee benefit trust trustee
Mistral Entertainment Limited	Ordinary	–	100%	Video game development
Sumo Video Games Private Limited	Ordinary	–	100%	Video game development
Sumo Games Development Limited (formerly Riverside Games Limited)	Ordinary	–	100%	Video game development
Atomhawk Design Limited	Ordinary	–	100%	Visual design
Atomhawk Canada Limited	Ordinary	–	100%	Visual design
The Chinese Room Limited	Ordinary	–	100%	Video game development
Riverside Games Limited (formerly Aghoco 1788 Limited)	Ordinary	–	100%	Dormant
Aghoco 1789 Limited	Ordinary	–	100%	Dormant
Aghoco 1790 Limited	Ordinary	–	100%	Dormant
Red Kite Games Limited	Ordinary	–	100%	Video game development
Red Kite Games Development Limited	Ordinary	–	100%	Video game development

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

Company	Country of Incorporation	Address
Sumo Video Games Private Limited	India	MCCIA Trade Tower, B Building, 205-206, Senapati Bapat Rd, Chattushringi, Gokhalenagar, Pune, Maharashtra 411016
Atomhawk Canada Limited	Canada	Suite 678, 999 Canada Place, Vancouver, British Columbia, V6C 3E1

At the start of 2019, 17% of the share capital of Project Republica Topco Limited was owned by the Group's founder shareholders. These shares were subject to put and call options to be satisfied by shares in Sumo Group plc, held by an employee benefit trust, the Sumo Group plc Employee Benefit Trust, which was set up on 13 December 2017. During 2019 these options were exercised by the founding shareholders. As a result subsidiaries are now wholly owned by the Parent company.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

16. TRADE AND OTHER RECEIVABLES

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts falling due within one year:		
Trade receivables not past due	**5,316**	5,387
Trade receivables past due	**470**	558
Trade receivables past due and impaired	**2**	8
Less provision for trade receivables	**(2)**	(8)
Trade receivables net	**5,786**	5,945
Prepayments	**1,643**	850
Other debtors	**–**	542
VGTR recoverable	**5,729**	6,288
Contract assets – amounts recoverable on contracts	**9,847**	11,310
Work in progress on self-published titles	**727**	237
Total trade and other receivables	**23,732**	25,172
Corporation tax receivable	**703**	–
Total receivables	**24,435**	25,172

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

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

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Euro	**–**	–
United States Dollar	**1,413**	111
	1,413	111

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

	2019 £'000	2018 £'000
At beginning of period	**8**	19
Provision for receivables impairment	**–**	–
Receivables written off during the year as uncollectable	**–**	–
Unused amounts reversed	**(6)**	(11)
At 31 December	**2**	8

The creation and release of provision for credit losses have been included in Operating Expenses in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and therefore no provisions for credit losses have been recorded. The Group contracts with clients with very low credit risk and the history of credit losses has been negligible, as demonstrated by the tables above. With this in mind, there is not considered to be any significant degree of judgement in the calculation of credit loss provisions.

17. CASH AND CASH EQUIVALENTS

	2019 £'000	2018 £'000
Cash and cash equivalents		
Cash at bank and in hand	**12,890**	3,730

The following amounts were held in foreign currencies:

	2019 £'000	2018 £'000
British Pound	**11,890**	3,437
Canadian Dollar	**128**	59
United States Dollar	**463**	102
Indian Rupee	**395**	125
Euro	**14**	7
	12,890	3,730

18. TRADE AND OTHER PAYABLES

	2019 £'000	2018 (Restated) £'000
Trade payables	**3,103**	4,639
Contract liabilities	**394**	512
Tax and social security	**1,114**	605
Other payables and accruals	**8,819**	5,720
IFRS 16 lease liabilities	**816**	–
	14,246	11,476

The fair value of IFRS 16 lease liabilities reflects the net present value of minimum future lease payments. The fair value of other financial liabilities approximates their carrying value due to short maturities.

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

	2019 £'000	2018 (Restated) £'000
British Pound	**13,714**	11,355
Euro	**179**	8
United States Dollar	**104**	97
Indian Rupee	**205**	–
Australian Dollar	**8**	–
Canadian Dollar	**36**	16
	14,246	11,476

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

19. 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 £'000	31 December 2018 £'000
Right of use assets		
Leased land and buildings	6,791	–
Motor vehicles	29	–
	6,820	–

These are included within "Property, plant and equipment" in the Consolidated Statement of Financial Position.

	31 December 2019 £'000	31 December 2018 £'000
Lease liability		
Current	816	–
Non-current	6,524	–
Amount repayable		
Within one year	816	–
In more than one year but less than two years	948	–
In more than two years but less than three years	849	–
In more than three years but less than four years	829	–
In more than four years but less than five years	810	–
In more than five years	3,088	–

	%	%
Average interest rates at the balance sheet rate		
Lease liability	2.5	–

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	–

20. SHARE-BASED PAYMENTS

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

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).

The Sumo Group plc Long Term Incentive Plan (the 'LTIP')

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

The Group has made awards to certain Directors and employees.

The vesting of most of these awards is subject to the Group achieving certain performance targets under the LTIP, as set out in the Directors' Remuneration Report and are based on the Group meeting the adjusted earnings per share (AEPS) and (in some cases) total shareholder return (TSR) conditions in the following weightings:

Performance condition	**Tier 2-4 participants Proportion of award**	Tier 1 participants Proportion of award
Cumulative AEPS	**100%**	35%
Cumulative TSR	**–**	65%

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**

Options over 3,708,435 shares are subject to both the AEPS and TSR performance conditions and the remainder are subject only to the AEPS performance condition.

The estimate of the fair value of the services received in return for the awards is measured based on the Black Scholes models. The aggregate of the estimated fair values of the awards at 31 December 2019 shown above is £0.95. The fair value of the TSR award takes into account the likelihood of achieving the performance conditions.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 1.3 years (2018: 1.2 years).

The weighted average fair value of options granted during the year was £1.39 (2018: £0.90).

All options have an exercise price of £nil.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

For awards granted in the current year, the inputs into the Monte Carlo and Black Scholes models are as follows:

	AEPS condition 31 December 2019
Share price at grant date	**£1.27 to £1.60**
Exercise price	**£nil**
Expected volatility	**–**
Expected life	**3 years**
Expected dividend yield	**–**
Risk-free interest rate	**–**
Fair value per option	**£1.26 to £1.60**

Expected volatility was determined using the median volatility of comparator sector companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Share Incentive Plan (SIP)

The Group operates an all-employee share ownership plan. Under the SIP, the Group has made awards of matching shares to certain employees which are conditional on length of service.

Details of the maximum total number of ordinary shares subject to conditional share awards outstanding at 31 December 2019 is shown below.

	31 December 2019 Number of conditional shares
At 1 January 2019	**86,087**
Granted in the year	**24,455**
Lapsed/forfeited in the year	**(2,391)**
At 31 December 2019	**108,151**

The estimate of the fair value of the services received in return for the conditional share awards is measured based on a Black Scholes model. The aggregate of the estimated fair values of the awards at 31 December 2019 shown above is £1.69, before taking into account the likelihood of achieving non-market-based performance conditions.

For awards granted in the 2019 year, the inputs into the Black Scholes model are as follows:

	31 December 2019
Share price at grant date	**£1.28 to £1.67**
Exercise price	**£nil**
Expected volatility	**–**
Expected life	**3 years**
Expected dividend yield	**–**
Risk-free interest rate	**–**
Fair value per option	**£1.28 to £1.67**

Expected volatility was determined using the median volatility of comparator sector companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

21. 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 £'000	2018 £'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)

22. COMMITMENTS AND CONTINGENCIES

Capital Commitments

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Contracted for but not provided in the financial statements	**–**	94

Operating lease commitments

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Within 1 year	**–**	955
Later than 1 year and less than 5 years	**–**	2,604
After 5 years	**–**	2,340
	–	5,899

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

The Group also leases various plant and machinery and vehicles, with terms between 6 months and 4 years. The lease expenditure charged to the income statement during the year is disclosed in Note 7.

23. FINANCIAL RISK MANAGEMENT

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

Market risk

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

Currency risk

The Group contracts with certain clients in Euros and US Dollars and manages this foreign currency risk using forward foreign exchange contracts which match the expected receipt of foreign currency income. There is no significant exposure to currency fluctuations for the Group.

Liquidity risk

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

The Group policy throughout the period has been to ensure continuity of funding. Short-term flexibility is achieved by revolving working capital facilities.

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

At 31 December 2019	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Borrowings	**–**	**–**	**–**	**–**
Forward foreign exchange contracts	**–**	**–**	**–**	**–**
Trade and other payables	**14,246**	**948**	**2,488**	**3,088**

At 31 December 2018	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	–	–	–	–
Forward foreign exchange contracts	–	–	–	–
Trade and other payables	11,476	–	–	–

Interest rate risk

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

Sensitivity to interest rate fluctuations

As the Group has no debt at the balance sheet date there is minimal interest rate risk and therefore sensitivity to interest rate disclosures have not been made.

Credit risk

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

The Directors consider that certain of the Group's trade receivables were impaired for the period ended 31 December 2019 and, accordingly, a provision of £2,000 has been recognised. See Note 16 for further information on financial assets that are past due.

23. FINANCIAL RISK MANAGEMENT CONTINUED

Summary of financial assets and liabilities by category

The carrying value (being the same as the fair value) of financial assets and liabilities recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Financial assets		
Trade and other receivables	**5,786**	6,487
Amounts recoverable on contracts	**9,847**	11,310
VGTR recoverable	**5,729**	6,288
Corporation tax receivable	**703**	–
Cash and cash equivalents	**12,890**	3,730
	34,955	27,815
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	**(13,430)**	(11,476)
IFRS 16 lease liabilities	**(7,340)**	–
	(20,770)	(11,476)
Net financial assets and liabilities	**14,185**	16,339
Non-financial assets and liabilities		
Plant, property and equipment	**11,715**	2,496
Goodwill	**22,851**	21,379
Other intangible assets	**1,124**	999
Prepayments and accrued income	**1,643**	850
Work in progress on self-published titles	**727**	237
Corporation tax payable	**–**	(810)
Provisions for deferred tax	**2,512**	2,053
	40,572	27,204
Total equity	**54,757**	43,543

Capital management policies and procedures

The Group's capital management objectives are:

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

24. SHARE CAPITAL

	Ordinary shares 0.01	Total Share Capital £'000	Share Premium £'000
At 31 December 2018	150,068,507	1,501	40,994
Issue of shares in the year	536,530	5	611
At 31 December 2019	**150,605,037**	**1,506**	**41,605**

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

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 at 31 December 2018).

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

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

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

The merger relief reserve represents the difference between the fair value and nominal value of shares issued on acquisition of a Group subsidiary.

The foreign currency translation reserve represents the exchange differences on retranslation of foreign operations.

25. RELATED PARTY TRANSACTIONS

Identity of related parties

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

There were no related party transactions during the year.

Key management compensation is disclosed in Note 5.

26. CONTINGENT LIABILITIES

The Company is party to a Group Overdraft Facility of £3,000,000 and a Revolving Credit Facility with Clydesdale Bank plc of up to £10,000,000, together with certain subsidiary companies. No amounts were drawn down at 31 December 2019. On 24th March 2020 the Group drew down from its existing revolving credit facility £10 million (see Note 29).

27. 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 £1.6 million, as Red Kite had £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 provisional book and fair values of the assets and liabilities acquired are set out below:

	Book value recognised at acquisition £'000	Fair value adjustments £'000	Fair value £'000
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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

28. 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**

28. IFRS 16 ADOPTION IMPACT CONTINUED

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 £'000	Reversal of rent expense £'000	Additional depreciation and interest £'000	**Year ended 31 December 2019 £'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**

29. 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. The potential impact of this on the Group is considered more fully on page 38.

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.

30. ALTERNATIVE PERFORMANCE MEASURES

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

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 £'000	**Adjustments £'000**	**Underlying £'000**	Reported £'000	Adjustments £'000	Underlying £'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)		

PARENT COMPANY BALANCE SHEET

as at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investments – shares in subsidiary undertakings	3	**94,563**	92,511
Deferred tax	4	**117**	–
		94,680	92,511
Current assets			
Trade and other receivables	5	**36,657**	40,482
Cash and cash equivalents		**5,003**	87
		41,660	40,569
Current liabilities			
Trade and other payables	6	**325**	337
Corporation Tax payable		**–**	33
		325	370
Net current assets		**41,335**	40,199
Total assets less current liabilities			
Net assets		**136,015**	132,710
Capital and reserves			
Called up share capital	7	**1,506**	1,501
Share premium	7	**41,605**	40,994
Merger relief reserve		**590**	590
Shares to be issued	7	**1,514**	–
Retained earnings		**90,800**	89,625
Total shareholders' funds		**136,015**	132,710

The Company loss for the year was £260,000 (2018: profit of £30,000).

The Company financial statements on pages 109 to 114 were approved by the Board of Directors on 20 April 2020 and were signed on its behalf by:

Carl Cavers
Director

David Wilton
Director

The notes on page 111 to 114 form part of these Company financial statements.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Shares to be issued £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2017	1,450	36,121	–	–	87,017	124,588
Profit for the year	–	–	–	–	30	30
Total comprehensive income for the year	–	–	–	–	30	30
Transactions with owners:						
Issue of shares	50	4,873	–	–	–	4,923
Reserve on issue of shares during acquisition of subsidiary	–	–	590	–	–	590
Share-based payments transactions	–	–	–	–	2,579	2,579
SIP share issue and SIP reserve	1	–	–	–	(1)	–
Balance at 31 December 2018	**1,501**	**40,994**	**590**	**–**	**89,625**	**132,710**
Loss for the year	**–**	**–**	**–**	**–**	**(260)**	**(260)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(260)**	**(260)**
Transactions with owners:						
Issue of shares	**5**	**611**	**–**	**–**	**–**	**616**
Share-based payments transactions	**–**	**–**	**–**	**–**	**1,435**	**1,435**
Shares to be issued in respect of acquisition of a subsidiary	**–**	**–**	**–**	**1,514**	**–**	**1,514**
Balance at 31 December 2019	**1,506**	**41,605**	**590**	**1,514**	**90,800**	**136,015**

The notes on pages 111 to 114 form part of these Company financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

Sumo Group plc (the 'Company') is registered in England and Wales as a public limited company. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

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

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

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

- The following paragraphs of IAS 1 "Presentation of Financial Statements"
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 11 (cash flow statement information); and
  - 134-136 (capital management disclosures)
- IFRS 9 "Financial Instruments: Disclosures";
- IAS 7 "Statement of Cash Flows";
- IAS 24 (paragraphs 17 and 18a) "Related Party Disclosures" (key management compensation); and
- IAS 24 "Related Party Disclosures" – the requirement to disclose related party transactions between two or more members of a group.

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

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

Company profit and loss account

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The Company's loss for the year was £260,000 (2018: profit of £30,000) There are no material differences between the profit after taxation in the current and prior year and its historical cost equivalent. Accordingly, no note of historical cost profits and losses has been presented.

Dividend distribution

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

Investment in subsidiary undertakings

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

Taxation

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

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

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

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

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

Provisions

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

Share-based payments

The parent company has granted rights to its equity instruments to the employees of its subsidiaries. The share-based payment charge is recorded in profit or loss of the subsidiary company in respect of these arrangements. The parent company has recorded these transactions within cost of investment with the credit recorded within equity.

Share capital

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

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses. This assessment is performed on a collective basis considering forward-looking information.

Trade and other payables

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

Critical accounting estimates and judgements

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

2. REMUNERATION OF DIRECTORS AND AUDITORS

Details of Directors' remuneration are shown in the Directors' Remuneration Report of the Group financial statements. Details of auditor remuneration are shown in Note 10 of the Group financial statements.

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£'000
Cost and carrying amount	
At 31 December 2017	89,932
Share options granted to subsidiary employees	2,579
At 31 December 2018	92,511
Share options granted to subsidiary employees	2,052
At 31 December 2019	**94,563**

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS CONTINUED

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

	Class of share capital held	Proportion held By Parent Company	Proportion held By the Group	Nature of Business
Project Republica Topco Limited	Ordinary	100%	100%	Holding company
Project Republica Bidco Limited	Ordinary	–	100%	Holding company
Sumo Digital Holdings Limited	Ordinary	–	100%	Holding company
Sumo Digital Group Limited	Ordinary	–	100%	Holding company
Sumo Digital Entertainment Limited	Ordinary	–	100%	Holding company
Sumo Digital Limited	Ordinary	–	100%	Video game development
Sumo Digital (Genus) Limited	Ordinary	–	100%	Video game development
Cirrus Development Limited	Ordinary	–	100%	Video game development
Aghoco 1337 Limited	Ordinary	–	100%	Employee benefit trust trustee
Mistral Entertainment Limited	Ordinary	–	100%	Video game development
Sumo Video Games Private Limited	Ordinary	–	100%	Video game development
Sumo Games Development Limited (formerly Riverside Games Limited)	Ordinary	–	100%	Dormant
Atomhawk Design Limited	Ordinary	–	100%	Visual design
Atomhawk Canada Limited	Ordinary	–	100%	Visual design
The Chinese Room Limited	Ordinary	–	100%	Video game development
Riverside Games Limited (formerly Aghoco 1788 Limited) *	Ordinary	–	100%	Dormant
Aghoco 1789 Limited *	Ordinary	–	100%	Dormant
Aghoco 1790 Limited *	Ordinary	–	100%	Dormant
Red Kite Games Limited	Ordinary	–	100%	Video game development

At the start of 2019, 17% of the share of Project Republica Topco Limited was owned by the Group's founder shareholders. These shares were subject to put and call options to be satisfied by shares in Sumo Group plc, held by an employee benefit trust, the Sumo Group plc Employee Benefit Trust, which was set up on 13 December 2017. During 2019 these options were exercised by the founding shareholders.

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

Company	Country of Incorporation	Address
Sumo Video Games Private Limited	India	MCCIA Trade Tower, B Building, 205-206, Senapati Bapat Rd, Chattushringi, Gokhalenagar, Pune, Maharashtra 411016
Atomhawk Canada Limited	Canada	Suite 678, 999 Canada Place, Vancouver, British Columbia, V6C 3E1

4. DEFERRED TAX

	2019 £'000	2018 £'000
Losses	**117**	–

The tax credit recognised in the company income statement for the year was £125,000 (2018: charge of £33,000)

5. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	**36,624**	40,463
Prepayments and accrued income	**33**	19
	36,657	40,482

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Trade payables	**23**	36
Amounts owed to Group & related entities	**261**	262
Accruals	**41**	39
	325	337

7. SHARE CAPITAL AND RESERVES

Details of movements in shares are set out in Note 24 to the Group financial statements. Details of shares to be issued in respect of the acquisition of a subsidiary are set out in Note 27 to the Group financial statements.

8. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption included in FRS101 Reduced Disclosure Framework to not disclose details of transactions with Group undertakings, on the grounds that it is the parent company of a Group whose accounts are publicly available.

Directors' transactions

Details of the Directors' interests in the ordinary share capital of the Company are provided in the Directors' Report.

9. CONTINGENT LIABILITIES

The Company is party to a Group Overdraft Facility of £3,000,000 and a Revolving Credit Facility with Clydesdale Bank plc of up to £10,000,000, together with certain subsidiary companies. The amounts drawn down at 31 December 2019 were £nil.

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**

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