Annual Report and Accounts 2018

Strong portfolio of games driving growth

Team17 is a leading video games label and creative partner for independent ("indie") developers. The team plays and makes games, helping independent developers from all backgrounds to bring quality gaming experiences to all players globally.

The Group supports award winning owned first party and third-party IP – through partnering with indie developers globally – in the development and publishing of games across multiple platforms typically for a fixed revenue share.

Team17 is a highly successful games publisher, focussed on maximising a game's commercial success and creating long term game franchises.

The Group focuses on premium, rather than free to play games, and its portfolio comprises over 100 games, including the iconic and well-established Worms franchise, as well as Overcooked and The Escapists.

Contents

Highlights of the year

- Published a number of major titles during the period, including Yoku's Island Express and Overcooked 2, which successfully launched in August 2018 to critical acclaim and was awarded Best Family Game at The Game Awards in December 2018.

- Successfully completed the Company's listing on AIM in May 2018, raising £107.5m and enabling **Team17** to enhance its profile whilst providing the ability to invest to drive future growth.

- **Team17's** sizeable back catalogue continues to perform strongly and underpin revenues, with key titles such as Worms and The Escapists continuing to launch new content, further demonstrating **Team17's** life cycle management expertise.

- As well as developing games in-house, **Team17** also partners with developers across the globe to bring games to market, having undertaken a comprehensive due diligence process. **Team17** is then able to deploy its expertise and skill set to maximise the potential success of games upon launch.

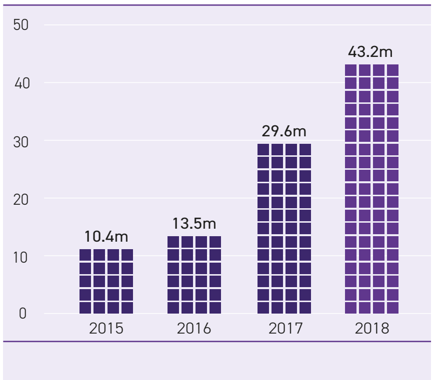
+46%
Group revenue was £43.2m

+18%
Gross profit was £19.8m

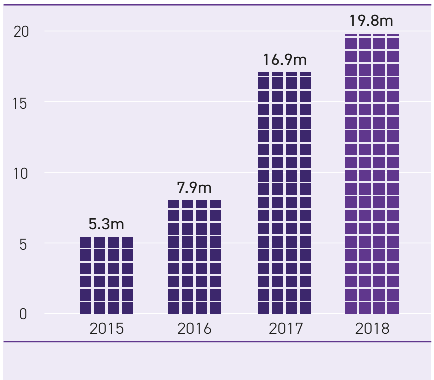
+18%
Adjusted EBITDA was £15.3m

46%
Strong margin, driven by third party sales

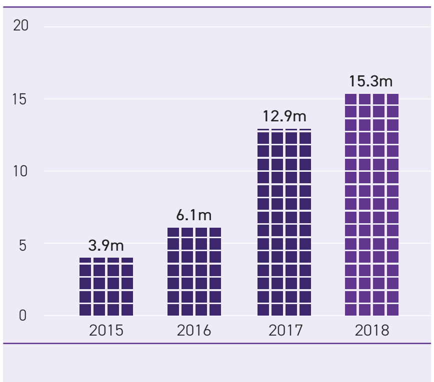
Revenue (£)



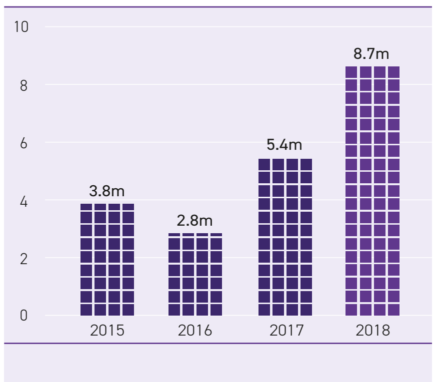
Gross profit (£)



Adjusted EBITDA (£)



Profit before tax (£)



At a glance

Product acquisiton

Identifying games

As well as games submitted by independent developers, **Team17** has a dedicated team tasked with identifying potential new partners.

100+

Team17 has now launched over 100 games, both developed internally and with partners.

IP & product incubation

Go-to-market execution

Team17

Uses the experience, skill-set and know-how of our commercial teams to enhance consumer awareness and "discoverability" on digital distribution platforms via bespoke marketing, public relations, social media engagement and community marketing.

Lifecycle management

Award nominations

140+

across Team17 portfolio in 2018.

Low risk model

All **Team17** investment is undertaken in a low risk manner, typically using milestone payments during the development process, alongside revenue share agreements payable post launch.

Quality Focussed

130+

employees in the internal creative development studio, providing essential resources including additional code, art, audio, design, quality assurance, usability, release management, cross platform development and support services.

Overcooked 2

45.9m

YouTube views in 2018.

Maximising

Long term enhanced revenue of games through dynamic price management, incremental downloadable content, promotional planning and strategic additional platform releases.

1995

First Worms game was launched and continues to contribute to revenues today.

team17

Our portfolio

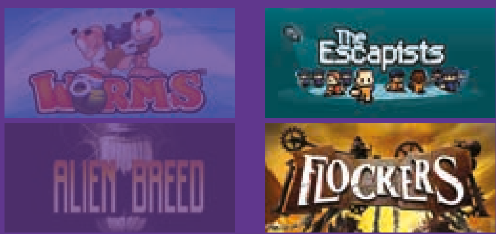
Business model and games portfolio

Team17 is a premium indie games developer and publisher focused on both developing and discovering high quality, genre defining games with mass market appeal, such as Overcooked. This is a key differentiator for our business with the larger publishers typically focused on fewer AAA titles, some of which are sequels to existing proven franchises.

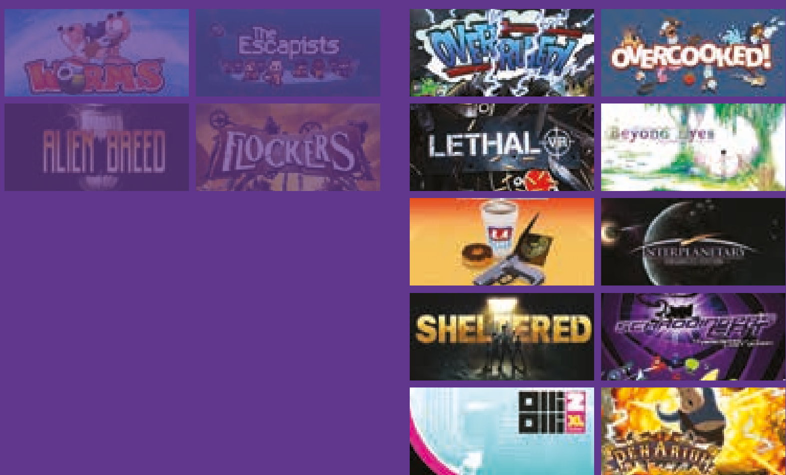
Below we give an overview of some of **Team17's** titles released since the company was founded in 1990.

Pre-2013

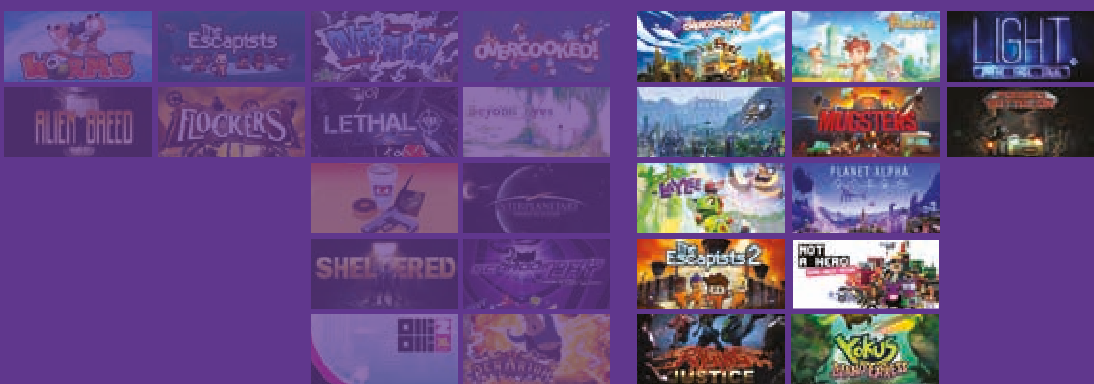
2013-2014



2015-2016



2017-2018



Case Study

Greenlight process and Life Cycle Management

Submission

Titles sourced via direct submission, relationships, trade events and internal research.

Curation

Process to review initial pitches. Emphasis placed on the game quality and the value Team17 can add to the quality and depth of the game experience.

Commercial Analysis

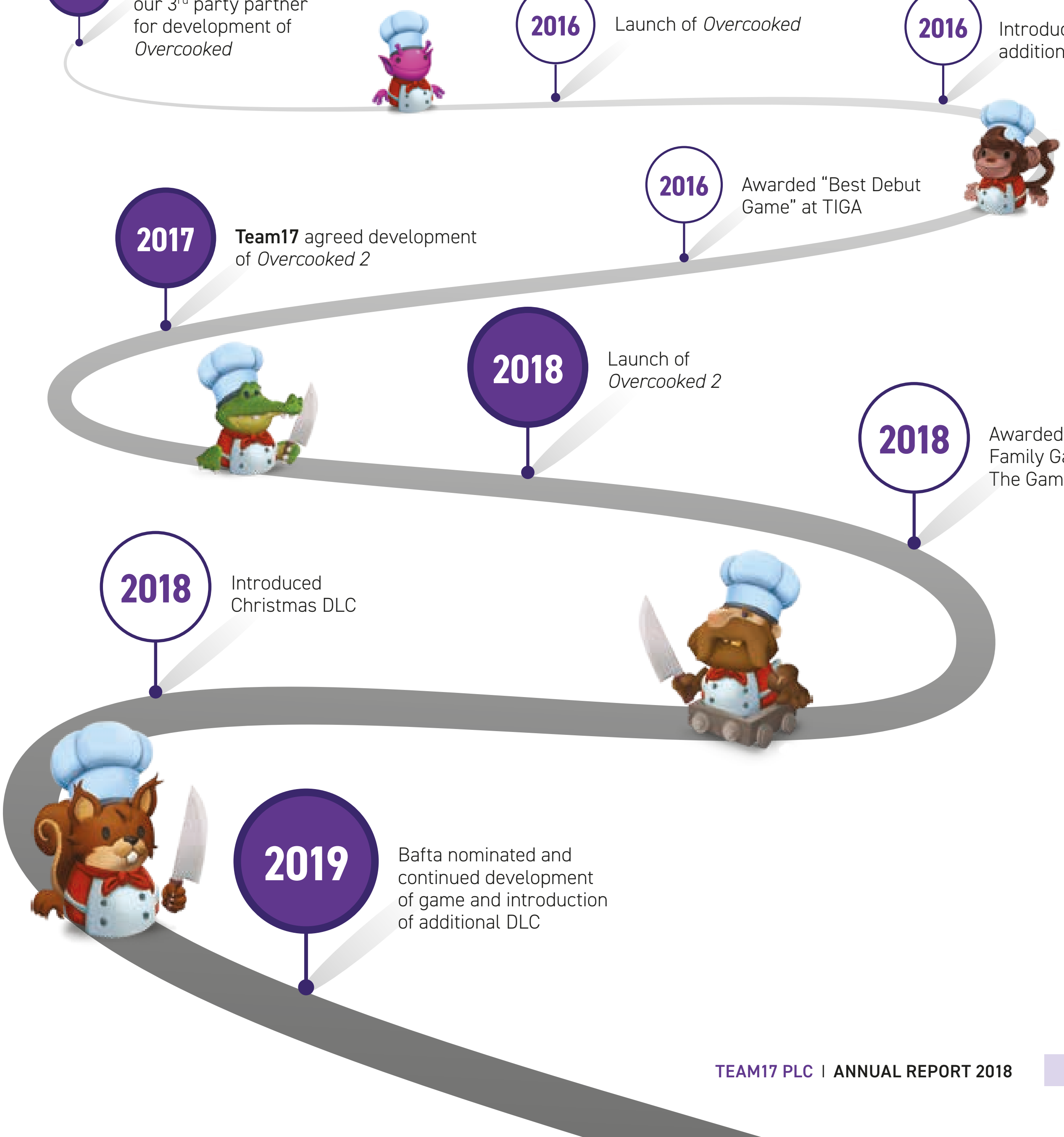
Commercial benchmarking and forecasting. Emphasis is placed on risk profiling and breakeven levels for all parties.

Production Viability

Production due diligence. Emphasis on developer capability to deliver detailed analysis of resources needed to bring the game to market.

Label IP signed

Development terms signed.



2016 Signed agreement with our 3rd party partner for development of *Overcooked*

2016 Launch of *Overcooked*

2016 Introduction of additional DLC

2016 Awarded "Best Debut Game" at TIGA

2017 **Team17** agreed development of *Overcooked 2*

2018 Launch of *Overcooked 2*

2018 Awarded "Best Family Game" at The Game Awards

2018 Introduced Christmas DLC

2019 Bafta nominated and continued development of game and introduction of additional DLC

Chairman and Chief Executive's Review

Debbie Bestwick MBE
Chief Executive Officer

Chris Bell
Non-Executive Chairman

Throughout the period we have continued to build on our strong track record, delivering record revenues of £43.2m up 46% and record gross profit up 18% to £19.8m.

Introduction

We are delighted to report our maiden full year results for the year ended 31 December 2018 following our admission to AIM in May 2018. Throughout the period we have continued to build on our strong track record, delivering record revenues of £43.2m up 46% (2017: £29.6m) and record gross profit up 18% to £19.8m (2017: £16.9m).

Team17 is a leading video games label and creative partner for independent ("indie") developers, focused on the premium, rather than free to play market, and creating games for the PC home computer market, the video games console market and the mobile and tablet gaming markets. Alongside developing the Company's own games in house ("first-party IP"), Team17 also partners with independent developers across the globe to add value to their games in all areas of development and production alongside bringing them to market across multiple platforms for a fixed percentage share of revenues ("third-party IP"). Since foundation in 1990, we have launched over 100 games, including the iconic *Worms* franchise, the *Overcooked* franchise, *The Escapists* franchise, *Yooka-Laylee* and *Yoku's Island Express*, making Team17 one of the most prolific developers and partners of games for the indie market.

We have delivered a solid performance in 2018 through a combination of strong sales from both first-party and third-party IP (Note 3). Our internal studio were also the creators of *Overcooked 2*, which was released in 2018, and saw our resources fully utilised by a third-party label partner to create a full sequel of a franchise for the first time. Importantly, our significant back catalogue portfolio continues to underpin growth, with £22.3m of revenues derived from this channel in 2018 (2017: £15.7m) with the remainder comprising of newly launched games.

Our stock market listing last year was a key milestone for the Company, and we were delighted with the level of support seen from investors throughout our successful IPO on AIM in May 2018. The oversubscribed placing raised £107.5m, of which £45.1m was used to repay debt and the remainder distributed to existing shareholders leaving Team17 in a strong cash position. Our entry onto AIM has allowed the Company to retain our independence and enhance our profile whilst also providing the ability to incentivise both current and future employees.

On behalf of everyone at Team17 we'd like to thank all of our label partners and shareholders for their support and contribution to our journey thus far.

Business Model

Founded in 1990, we announced our Games Label in 2013 with the first game launched in 2014. Our Games Label focuses on premium, high-quality games, continually striving for innovation in gameplay and created by talented partners from around the globe. Through working with Team17, our partners have access to our award-winning development and commercial resources, helping them to compete at a much higher level than they would otherwise be able to do alone with limited budgets and resource.

We focus on the global independent gaming market. The games market continues to experience strong growth due to the adoption of digital distribution and reduced barriers to entry driven by middleware gaming engines creating more accessible development tools for smaller development teams. Additionally, there is increased accessibility for customers through digital distribution platforms such as Steam, the Epic Games store, PlayStation, Xbox, Nintendo, Google and Apple stores.

We have adopted a comprehensive process for identifying creative ideas and talent via our '*greenlight process*'. Games, sourced across a number of channels (including desk research, existing relationships, direct submission and crowdfunding), are comprehensively evaluated for commercial and product quality viability. Upon signing a title, we provide funding and value-added resources to our partners, with any payments contingent on achieving mutually agreed milestones to deliver the highest quality games possible within budget.

The strength and depth of our skill set enables us to support our partners through all stages of game creation and franchise building. We have long established credentials in successfully building franchises and bringing high quality games to market. We have cultivated experienced teams across all areas of the business and refined the best approach across all disciplines required to deliver quality games. As such, our expertise is broad and includes:

- *Market leading code, art, audio and design capabilities* – to ensure the game is developed to the highest possible quality for the broadest audience within budget
- *Marketing, PR and community services* – leveraging our experience and network to grow audiences and maximise visibility across key influencers in target markets
- *Sales and life cycle management* – tactically implementing promotions and events to maximize sales revenues alongside retaining value over the life cycle of the game
- *Release management* – we have one of the highest multi-platform pass rates in the industry
- *Cross platform development* – maximizing revenues through coordinated development and release of games across multiple platforms to garner platform support and increase return on investment
- *QA, usability and localization* – our internal resource provides access to a robust quality assurance team and usability suite whose key focus is to broaden the audience for our games as well as test to ensure we minimize the chances of errors or glitches being uncovered post-launch

Managing the life cycle of games ensures they continue to contribute revenues to the business as part of our back catalogue. The back catalogue, which comprises of titles released in previous financial years, is continually supplemented by new game releases. Successful games such as Worms, *The Escapists* and *Overcooked* have continued to contribute significant revenues to the business long after their initial release and have spawned successful sequels.

As the games industry has evolved with the digital era, the lifecycle has also extended significantly, with a game's success no longer pegged to boxed retail sales in the first week of launch. Franchises can be built and grown over a number of years in the digital world, and we are proud of our success in creating a number of leading franchises, and our ability to maintain strong pricing of our games in industry wide traditional discount sales windows.

The access we and our partners have to these core resources enables us to continue to deliver high quality games. This is independently recognised around the world with over 140 nominations and awards across our label in 2018. We are able to deliver an end-to-end solution to our label partners and support them all the way from concept to launch, and post-launch through lifecycle management and franchise building.

Games development and launches

We continued to see strong momentum of games launched across 2018. In September 2018, we announced the launch of *PLANET ALPHA*, the 100th game we have launched since founded in 1990.

Our portfolio grew strongly in 2018 with 12 new launches comprising seven new IP games alongside four additional platform games to existing franchises and one sequel game. Additionally, we continued to release new paid and free downloadable content ("PDLC", "FDLC") at optimum points during the lifecycle to further enhance the value and extend the life cycle of games that form part of the back catalogue.

We have a solid pipeline of games scheduled for release in 2019 and have already launched three games in January: *Genesis Alpha One*, launched on PlayStation 4, Xbox One and on PC exclusively via the Epic Games store; *My Time at Portia*, released on PC via Steam and the Epic Games store; and The Escapists 2 Pocket breakout for mobile.

Across our internal studio and label partners we are working on a number of additional releases to be announced later in 2019. We only announce games at the optimal time in order to maximize awareness and commercial success for the Group and the game, with detail on some game launches planned for 2019 already in the public domain:

- *My Time at Portia* launched out of early access in January 2019 on Epic's Game store and Valve's Steam store, achieving number one globally on Steam. The console versions will launch in April 2019
- *Hell Let Loose*, the 100-person WW2 simulation shooter, will launch later in 2019
- *Golf with your Friends franchise* ("GWYF"), joined the label in February 2019. Our team and creative developers will be working to grow this franchise further in 2019

Market dynamics

The video games market continues to see significant growth and opportunities, with a recent report from gaming analytics firm, Newzoo, estimating the market will be valued in excess of $180bn by 2021. Advances in technology – both for games developers and players alike – have contributed to this overall growth, along with the ability for indie developers to realise ideas and launch games.

In late 2018, Epic announced the launch of the Epic Games store, a new digital distribution platform selling to PC gamers. The Epic Games store offers significant opportunities for developers with the platform offering 88% of revenues derived from games sales.

The trend of gamers accessing games via digital distribution platforms continues to gain momentum. New games launched on the leading PC digital distribution platform, Steam, numbered 7,918 in 2018, versus 560 in 2013.

Due to greater access to development tools, we continue to see a large number of games submitted by developers for assessment as part of our greenlight process, but as ever our focus is on quality over quantity.

Outlook

We are delighted with the progress the Group has made in 2018, delivering record revenue growth and completing a very successful IPO. As stated at the time of listing, we have invested in both commercial and creative talent within the business as we seek to capitalize on the strong demand for our label resources.

We have made an encouraging start to 2019 and remain well placed for future growth, both through new proprietary games launches, as well as in supporting independent developers through our games label. We remain focused on leveraging our back catalogue and our life cycle management initiatives.

Therefore, the Group looks forward to another successful year and is confident it can continue to deliver shareholders value in 2019 and well beyond.

Debbie Bestwick MBE
Chief Executive Officer

Chris Bell
Non-Executive Chairman
4 April 2019

Chief Financial Officer's Review

Jo Jones
Chief Financial Officer

The financial results for 2018 reflect a year of continued financial progress and an exciting period of operational change for the Company.

Introduction
The financial results for 2018 reflect a year of continued financial progress and an exciting period of operational change for the Company. We delivered our successful AIM IPO of the business in addition to launching an array of new titles during the year.

On 23 May 2018, Team17 successfully completed its IPO on AIM, raising £107.5m. As part of this transaction the Lloyds Development Capital ("LDC") private equity and Directors loans were repaid in full leaving the Group debt free. A new ultimate holding company, Team17 Group Plc was incorporated during the period and all activity within Team17 Holdings Limited transferred to this new company.

Results
Revenue growth in the year to 31 December 2018 was strong, increasing 46% to £43.2m (2017: £29.6m) and building on the trend seen in previous years. The mix of releases in 2018 was heavily weighted towards third-party IP, driven by the particularly strong performance from Overcooked 2, resulting in third-party sales representing 74% of total revenues, a greater proportion than ever before (2017: 50% of total revenue).

Gross profit also grew strongly in the period, up 18% to £19.8m (2017: £16.9m). Gross margins were 46%, 11pts lower than 2017 when we saw launches of The Escapists 2 and a number of other first-party IP titles, which carry a higher margin for Team17.

Reported operating profit grew by 11% to £9.9m (2017: £8.9m) despite being impacted by one-off costs relating to the IPO. Excluding these one-off costs, operating expenses for the year were £7.3m (2017: £5.9m) with the increase in costs primarily due to the normalisation of directors remuneration which was previously heavily dividend based.

Adjusted EBITDA grew by 18% to £15.3m (2017: £12.9m) illustrating the strong underlying profit growth of the business during the year. The adjusted EBITDA figure includes add backs for exceptional costs of £2.6m related to the IPO, £0.4m of share based payment charges and a £0.3m catch-up charge resulting from a revision in the basis of calculating depreciation on capitalised development costs.

Net Finance costs were £1.3m in the period (2017: £3.6m) and relate to interest on the loan notes previously held by the Directors of the Company and LDC. These were repaid in full at the IPO and hence will not be a cost to the Company going forwards.

Treatment of IPO and acquisition costs
£3.3m of costs were borne in relation to the IPO and raising of new finance. The accounting of these costs is governed by IFRS 3 and accordingly £0.7m was charged to equity and £2.6m through the income statement.

Corporation Tax
The effective tax rate for the company was 17% (2017: 18%). This has been impacted by the non-deductible costs borne in relation to the IPO and loan note interest offset by a catch up in VGTR (Video Games Tax Relief) accounting reflecting the fact the Group is making use of the tax credits available to it.

Amortisation of capitalised development costs
During the year the group has revised its approach to the recognition of recoupable costs within its Intellectual Property and its amortisation of development costs – adopting an 85% reducing balance approach in the case of the latter (previously straight line) and retaining the former within capitalised development costs (previously derecognised when 'recovered' from the third party) and amortising in line with all other development costs. This ensures the costs continue to be written off over a two-year period but more accurately reflects the sales curve of the game. This revision in accounting estimate is accounted for as at 31 December 2018 and then prospectively. The net impact of this adjustment was £0.3m. EBITDA does not include an add back for amortisation of games

ordinarily as this is booked as a cost of sale item within the accounts, however, due to their prior year and catch up nature these costs have been reflected in the presentation of adjusted EBITDA.

Balance Sheet and Cash

The balance sheet is dominated by the intangible assets arising from the earlier LDC transaction in 2016. These comprise net book values of £21.1m and £17.8m for goodwill and brands respectively which are subject to regular review. The remaining £2.7m net book value of intangible assets relates to capitalised development costs on titles launched within the last two years. As mentioned above, these have been subject to a revision in accounting estimation in this financial year resulting in a £0.3m movement to the carrying value at 31 December 2018.

Trade and other receivables were £8.1m (2017: £6.8m) with the increase reflecting the higher December 2018 revenue figures.

Current liabilities are £8.0m (2017: £7.4m), the growth in accruals and deferred income within this category is a function of revenue growth and represents higher royalty payments due to our third-party development partners at the end of the year.

Non-current liabilities are £3.3m (2017: £45.2m) and predominantly relate to deferred tax; the loan notes and interest thereon held at 31 December 2017 (£38.0m and £3.5m respectively) were repaid in full at the time of the IPO.

Cash and cash equivalents closed at £23.5m (2017: £8.4m). Operating cash conversion was once again strong at 107% (2017: 107%) for the year reflecting the ongoing cash generative nature of the business model.

Share Issues

At the time of Team17's IPO, Debbie Bestwick was granted options over 972,272 shares and 141,892 options were granted to Jo Jones on 18 December 2018. These options are exercisable on 23 May 2021 and 30 October 2021 respectively. The Group is in the process of implementing a Deferred Bonus Share Plan for its senior management team and an All Employee Share Incentive Plan. Both will be funded via the Employee Benefit Trust and will not represent a dilution of shares.

Dividend

As laid out in the Company's strategy at the time of the IPO, it is the Group's intention to utilise the cash it generates to further invest in the business and its future growth. As such, Directors do not propose a dividend at this time.

Jo Jones
Chief Financial Officer
4 April 2019

The below table highlights the strong financial performance of the Group:

£m	FY18	FY17	Growth
Revenue	43.2	29.6	46%
Gross profit	19.8	16.9	18%
Gross profit margin	46%	57%	(11pts)
Operating profit	9.9	8.9	11%
Adjusted EBITDA*	15.3	12.9	18%
Profit before tax	8.7	5.4	62%
Profit after tax	7.2	4.4	64%
Basic and diluted EPS**	6.1 pence	4.3 pence	42%
Basic and diluted adjusted EPS***	8.1 pence	4.9 pence	65%
Operating cash conversion****	107%	107%	0pts

* Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation of brands and impairment of intangible assets (excluding capitalised development costs), exceptional items, share based payment costs and one-off amortisation accounting estimation change relating to prior periods. Exceptional items are those items believed to be exceptional in nature by virtue of their size and or incidence. Exceptional items are detailed in note 6 and adjusted EBITDA in note 12 to the consolidated financial statements.

** The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Team17 Group plc divided by the weighted average number of shares in issue (Note 11 to the consolidated financial statements). The weighted average number of shares takes into account treasury shares held by the Team17 Employee Benefit Trust.

*** Adjusted earnings per share is calculated by dividing the adjusted profit after tax by the weighted average number of ordinary shares in issue since listing on AIM adjusted for the dilutive effect of share options (Note 11 to the consolidated financial statements).

**** Operating cash conversion is defined as cash generated from operating activities as per the statement of cash flows, divided by EBITDA including the add back of amortisation of development costs (not normally included in EBITDA).

Principal Risks and Uncertainties

Effectively managing our risks

Team17 Group plc is operating in a competitive and dynamic growth market and as such faces a number of strategic and operational risks. Senior management actively manage the Group's risk register which is regularly reviewed by the Board. The identified risks are up-to-date with the Company's operations and wider environment. The risks are appropriately scored and the mitigations are evaluated and tested.

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

Strategic

Market growth and disruption – the Group operates in a dynamic industry that has seen consistent growth over many years and increasing levels of competition as the number of new games released grows year on year. This competition is multifaceted, ranging in size, sophistication and capability from large competitors to independent games developers who choose to self-publish. Slower than expected market growth or a failure to remain competitive would adversely affect the Group's performance.

- The Company has longevity and an entrenched position in the industry today. Its portfolio approach, rigorous *greenlight process* and active lifecycle management of its games provide the Company with confidence that it will continue to release popular games and optimise their commercial success.

Technological change – the industry has seen some major shifts over the past few years with the shift to digital distribution along with the development of middleware such as Unity and Unreal. Ongoing technological change in both the development and distribution of games is to be expected and the Group will need to adapt quickly to these changes in order to remain competitive.

- The Group has a track record of being one of the first to market across new platforms and distribution channels. The Group invests in upskilling its workforce to be at the forefront of technological developments. It is therefore able to anticipate changes in technology and delivery and be agile and adaptable in order that it can react swiftly to changes as they emerge and exploit these as opportunities.

Dependence on concentrated customer base – the Group serves a small number of customers who utilise their proprietary distribution platforms to provide the Group's games to end consumers. Any adverse changes in the status of the Group's relationship with its customers could negatively impact financial performance.

- As a result of developing a commercially successful games portfolio over a long period, the Group has developed heavily entrenched partnerships with its customers over more than 20 years that deliver commercial value on both sides. The Group will continue to invest in these relationships to ensure enduring partnerships that grow and prosper.

Dependence on key titles to generate significant share of Group revenue – The Group has historically been reliant on a subset of successful titles to generate a large share of its revenues. Should the Group fail to competently manage the lifecycle of its core games this may adversely affect it financial results.

- The Group has expanded its portfolio of successful titles over recent years and a core part of its strategy is focussed on continuing to do this in the future. It has a track record of developing franchises with long lifecycles and multiple follow on titles – its *greenlight process* is directed at identifying future titles with this same potential.

Operational

The ability to recruit and retain key and skilled personnel – The achievement of the Group's business plan is dependent on the availability of key skills and experience across its workforce. Loss of key personnel could adversely affect and impact the Group's ability to meet its strategic ambitions.

- Although there will inevitably be some level of staff turnover, the Board believes that the variety of work available for staff along with its strong collaborative environment, high quality leadership and competitive benefits packages make Team17 a place where talented individuals want to build their careers. The Group also has a proactive approach to recruitment and is particularly focussed on partnering with a number of academic institutions providing a graduate intake each year. The Group is proud of how it continues to successfully develop staff internally and also maintains a succession plan to mitigate the impact should any key personnel choose to leave.

IT security – The business is dependent on the security, integrity and operational performance of the system and products it offers. A security breach could significantly impact the business and its ability to execute on its plans.

- The Group regularly reviews its IT and security provisions and invests to ensure they are industry leading and in line with best practice.

Intellectual property – The core assets of the Group are the intellectual property it owns and that of the third-party developers on whose behalf it publishes. Any infringement to this intellectual property by unauthorised third parties may prove damaging and adversely impact the Group's performance.

- The Group legally protects its own- and third-party partner intellectual property. It also proactively scans for any potential infringements and rigorously challenges these where appropriate.

Financial / Economic

Currency risk – The Group's cost base is predominantly in Pounds Sterling (GBP) whilst its revenue is generated globally, with the largest share being received in US Dollars (USD). As such there is a risk that the Group's financial performance could be adversely affected by unfavourable movements in foreign exchange.

- While the longer-term risks of transacting globally cannot be avoided, the Group continually reviews its foreign exchange exposure and where appropriate puts in place forward contracts to minimise exposure where possible. Pricing in different markets can also be flexed if required to minimise margin pressure.

Brexit – There is significant uncertainty around the impact of the UK's decision to leave the European Union but it is likely to result in change to the UK's economic relationships with other countries and may impact the Group's ability to hire new staff from European Union countries which may deplete the available talent resource pool.

- The Group remains proactive in monitoring legislative changes to its industry and is preparing accordingly for any detrimental impact of Brexit.

Board of Directors

Debbie Bestwick MBE
Chief Executive Officer
Debbie Bestwick is an industry leader with over 30 years in the games industry and is one of the founding members of Team17. Initially leading Team17's Sales and Marketing department, Debbie went on to become responsible for all of the commercial and legal aspects of the business, working globally with top tier games distributors, publishers, developers, and licence partners. Debbie became joint CEO in 2009 and sole CEO in 2010, leading the company through its 2011 management buy-out and subsequent sale of a minority stake to LDC in 2016. Debbie was awarded an MBE for services to the video games industry in 2016, joint winner of the Entrepreneur of the Year UK Disruptor category in 2017 and was awarded the inaugural Outstanding Contribution to the UK Games Industry at the 2017 Golden Joystick Awards. Previously Debbie has been honoured with the Hall of Fame award at the European Women in Games Conference 2015 and MCV Person of the Year award in 2015. Debbie was central to establishing the games and incubator model which has become a key growth driver for Team17.

Chris Bell
Non-Executive Chairman
Chris joined the Board of Directors in 2018, prior to Team17's IPO on AIM. Since 2015, Chris has been Senior Independent Director for The Rank Group Plc, where he also serves on both the Audit Committee and the Nominations Committee. Chris is Non-Executive Chairman of three AIM-listed companies: XL Media plc, TechFinancials, Inc and OnTheMarket plc, all of which he took to market and on which he serves on key governance committees. He is also a Non-Executive Director at AIM-listed Gaming Realms plc. Chris joined Ladbroke Group plc in 1991, becoming Managing Director of its Racing Division in 1995. In 2000, he became Chief Executive of Ladbrokes Worldwide and joined the Board of the rebranded Hilton Group plc, becoming Chief Executive of Ladbrokes plc, following the sale of the Hilton International Hotel division, until 2010. He has also served as Non-Executive Director at Spirit Pub Company plc (from 2011 to 2015) and as Senior Independent Director at Quintain Estates and Development plc (from 2010 to 2015). Prior to joining Ladbrokes plc (formerly Hilton Group plc and Ladbrokes Group plc), Chris held senior marketing positions at Allied Lyons plc.

Board of Directors continued

Jo Jones
Chief Financial Officer
Jo joined Team17 as Chief Financial Officer in October 2018. Prior to her appointment, Jo worked for 10 years at Experian plc, across a number of senior finance roles. Jo's most recent role at Experian was Finance Director of Service, Solutions, Technology & Transformation where she worked closely with Experian's UK Chief Information Officer and Chief Transformation Officer. Prior to that Jo was Finance Director of Decision Analytics & Marketing Services and Commercial Finance Director for UK and Ireland. Jo has also held a number of finance roles with The Sytner Group Ltd, including Divisional Financial Controller for Daimler Chrysler and Lexus. She qualified as a chartered accountant with KPMG.

Penny Judd
Non-Executive Director
Penny joined the Team17 Board in 2018 in advance of the successful IPO on AIM. Penny has over 30 years of experience in Compliance, Regulation, Corporate Finance and Audit and is currently Chair of AIM-listed Plus500 Ltd. Penny is also a Non-Executive Director of Alpha Financial Markets Consulting plc and AIM-listed TruFin plc, (which she took to market), where she serves as Chairman of the Audit Committee of both companies. Penny was, until June 2016, a Managing Director and EMEA Head of Compliance at Nomura International plc, a position she held for three years. Prior to this, Penny worked at UBS Investment Bank for nine years and held the position of Managing Director, EMEA Head of Compliance. Penny also acted as Head of Equity Markets at the London Stock Exchange and qualified as a Chartered Accountant.

Jennifer Lawrence
Non-Executive Director
Jen was appointed Non-Executive Director in February 2019. Jen has a wealth of experience, having held the role of HR Director with Costcutter Supermarkets Group since August 2016, working with the executive team responsible for the successful financial and operational running of the business. With over 900 people employed nationwide, Jen is responsible for ensuring the employment base is aligned with delivering strategic objectives. Prior to joining Costcutter, Jen held HR roles with TDX Group, Boots and Boots Opticians. Jen is chair of Team17's remuneration committee.

Corporate governance

The Board is committed to effective and robust corporate governance and has progressed the Company's corporate governance since Admission.

The Board has agreed to apply the QCA Code. The disclosures required by the QCA Code can be found at https://www.team17group.com/aim-rule-26/corporate-governance. A copy of the QCA Code is available from the QCA website www.theqca.com

The Board

Full biographies of the Directors can be found on pages 11 to 12. At the date of this report, the Board comprises two Executive Directors and three independent Non-Executive Directors, one of which is the Non-Executive Chairman.

Debbie Bestwick was appointed as a Director under a service contract dated 17 May 2018. This contract may be terminated by 6 months' notice by either party.

Jo Jones was appointed as a Director under a service contract dated 23 October 2018. This contract may be terminated by 6 months' notice by either party.

Christopher Bell was appointed as Chairman under a letter of appointment dated 1 May 2018. Such appointment may be terminated by 3 months' notice by either party.

Penny Judd was appointed as a Non-Executive Director under a letter of appointment dated 1 May 2018. Such appointment may be terminated by 3 months' notice by either party.

Jennifer Lawrence was appointed as a Non-Executive Director under a letter of appointment dated 24 February 2019. Such appointment may be terminated by 3 months' notice by either party.

Paul Bray stepped down as Chief Financial Officer and Chief Operating Officer on 23 October 2018.

The Chairman and the CEO have separate and clearly defined roles. The Chairman is responsible for overseeing the Board and the CEO is responsible for implementing the stated strategy of the Company and for its operational performance.

The Chairman is committed to ensuring that the Board comprises sufficient Non-Executive Directors to establish an independent oversight which is challenging and constructive in its operation. The Board believes that all of the Non-Executive Directors are of sufficient experience and quality to bring an expert and objective dimension to the Board. The Company ensures that the Non-Executive Directors are enabled to call on specialist external advice where necessary.

Directors are expected to attend Board and Committee meetings and to devote enough time to the Company and its business in order to fulfil their duties as Directors.

Board meetings

The Board meets on a regular basis throughout the calendar year and as required on an ad hoc basis with a mandate to consider strategy, operational and financial performance and internal controls. In advance of each meeting, the Chairman sets the agenda, with the assistance of the Company Secretary. Directors are provided with appropriate and timely information, including board papers distributed in advance of the meetings. Those papers include reports from the executive team and other operational heads.

The Company Secretary produces full minutes of each meeting, including a log of actions to be taken. The Chairman then follows up on each action at the next meeting, or before if appropriate.

The Board committees are comprised solely of Non–Executive Directors with the CEO and CFO invited to attend committee meetings as considered appropriate by the chair of the committee.

Board and committee attendance

		Board		Committee			
Director	Position	Max possible attendance	Meetings attended	Nominations	Audit and Risk	Remuneration	Independence
Chris Bell	NED/ Chairman	3	3	1	1	1	✓
Debbie Bestwick	CEO	3	3	1	1	1	✕
Jo Jones	CFO	2	2	–	1	1	✕
Penny Judd	NED	3	3	1	1	1	✓
Jennifer Lawrence	NED	JL appointed on 24 February 2019					✓
Paul Bray*	CFO	1	1	–	–	–	✕

(*Paul Bray resigned on 23 October 2018)

Corporate governance continued

Matters reserved for the Board
Matters reserved for the decision of the Board include:

- approving the Group's strategic aims and objectives;
- reviewing performance against the Group's strategic aims, objectives and business plans;
- overseeing the Group's operations;
- approving changes to the Group's capital, corporate, management or control structures;
- approving results announcements and the annual report and financial statements;
- approving the dividend policy;
- declaring the interim dividend and recommending the final dividend and any special dividend;
- approving any significant changes in accounting policies;
- approving the treasury policy;
- approving the Group's risk appetite and principal risk statements;
- reviewing the effectiveness of the Group's risk and control processes;
- approving major capital projects and material contracts or arrangements;
- approving all circulars, prospectuses and admission documents;
- ensuring a satisfactory dialogue with shareholders;
- establishing Board committees and approving their terms of reference;
- approving delegated levels of authority;
- approving changes to the Board and its committees;
- determining the remuneration policy for the Directors and other senior executives;
- providing a robust review of the Group's corporate governance arrangements; and
- approving all Board mandated policies.

Committees
In line with the policy stated in the Admission Document, the Board has in place Audit, Nomination and Remuneration Committees, which comply with the stated terms of reference for each committee. The reports of the Audit and Remuneration Committees can be found on pages 15 to 16.

Nomination Committee
The Nomination Committee leads the process for board appointments and makes recommendations to the Board. The Nomination Committee shall evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. The Nomination Committee meets as and when necessary, but at least once a year. The Nomination Committee comprises Debbie Bestwick, Chris Bell, Penny Judd and Jennifer Lawrence (since appointment on 24 February 2019) and is chaired by Chris Bell.

Election and re-election of the Directors
As the Annual General Meeting will be the first since Admission, each of the Directors will retire and stand for re-election (or election for Jennifer Lawrence and Jo Jones who have been appointed since Admission).

Support for Directors
Each Director has access to the advice and support of the Company Secretary, who ensures compliance with the Board's procedures and advice as to applicable rules and regulations. The Company also provides professional training for the Directors where necessary (at the Company's expense).

Internal control
The Board is ultimately responsible for maintaining the Company's risk framework system of internal control and for reviewing the effectiveness of such system. No system can be perfect but the Board considers the Company's systems manage risks appropriately in order that the Company can achieve its business objectives.

Board evaluation
The Board considers it important to evaluate its performance and at each meeting of the Board includes an agenda item to evaluate whether the meeting was successful.

The Board will seek more formal evaluation of its operations and practices, whether by a formal internal process or with the support of external advisers. The Board has not yet done so since Admission, given the busy board calendar and short time since Admission.

Corporate Culture
The Board places significant importance on the promotion of ethical values and good behaviour within the Company and takes ultimate responsibility for ensuring that these are promoted and maintained throughout the organisation and that they guide the Company's business objectives and strategy.

The central role that sound ethical values and behaviour plays within the Company is enshrined in the Employee Handbook, which promotes this culture through all aspects of the business, from initial recruitment and hiring to career advancement. The Employee Handbook also sets out the Company's requirements and policies on such matters as whistleblowing, communication and general conduct of employees.

Relations with shareholders
The Board considers it important to maintain an open dialogue with the Company's shareholders and to keep those shareholders fully informed of the strategy, operational developments and prospects.

The Company keeps investors informed of its progress through announcements and updates as to financial and operational progress.

The executive Board met formally with shareholders at conferences in November 2018 and February 2019 and formal investor roadshows around the interim results and release of final results.

Annual General Meeting
The AGM will be held at 10.30am on 8 May at Park Plaza, Nottingham, 41 Maid Marian Way Nottingham NG1 6GD United Kingdom. The Notice of AGM, setting out the resolutions proposed, is contained in a separate document and is available on the Company's website https://www.team17group.com.

Audit Committee report

Members of the Committee

- Penny Judd (Chair)
- Christopher Bell
- Jennifer Lawrence since appointment on 24 February 2019

Dear Shareholder

I am pleased to present the report of the Audit Committee for the year ended 31 December 2018. The Terms of Reference for the Committee were created at admission and are reviewed annually.

Role of the committee

The Audit Committee has the primary responsibility of monitoring the quality of internal controls to ensure that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee meets at least twice each financial year and will have unrestricted access to the Group's external auditors.

External audit

The Audit Committee approves the appointment and remuneration of the Group's external auditors. They also ensure that they are satisfied with the external auditors' independence in relation to any other non-audit work undertaken by them.

Significant issues considered in relation to the financial statements

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

- appropriateness of revenue recognition in the preparation of the Group financial statements
- appropriateness of capitalised development costs and their useful economic life
- appropriateness of the treatment of IPO related costs and the presentation in the Group financial statements
- appropriateness of the accounting for share based payments and their disclosure within the Group financial statements
- appropriateness of the calculation and disclosure of earnings per share in the Group financial statements

Remuneration Committee report

Members of the Committee

- Jennifer Lawrence (Chair) since appointment on 24 February 2019
- Christopher Bell
- Penny Judd

Dear Shareholder

I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2018. The Terms of Reference for the Committee were created at Admission and are reviewed annually.

The Company is committed to a remuneration policy with the objective of aligning business performance with executive remuneration. It is vital for the Company that it is able to encourage and reward the right behaviours, values and culture, thereby attracting, retaining and motivating its team.

Role of the Committee

The primary role for the Committee is to review and set the remuneration of the Executive Directors and senior management (including salary levels, discretionary variable remuneration and terms and conditions of service).

The Committee also determines the headline remuneration policy of the Company including the apportionment between fixed and variable remuneration and the method of centralisation. The Committee is enabled to seek external professional advice as it requires from time to time.

Independence of the Remuneration Committee

All of the members of the Committee are independent Non-Executive Directors. The Chief Financial Officer and Chief Executive Officer are invited to meetings of the Committee where required but are not present for any business relating directly to their own positions or remuneration.

Activities of the Committee

The Long-Term Incentive Plan operated by the Company was approved at Admission and described in detail in the Admission Document.

During the year, the Company has made the following awards:

Debbie Bestwick – award of 972,727 plan shares

Jo Jones – award of 141, 892 plan shares

Appointment of new NED – Jennifer Lawrence on 24 Feb 2019

During the year, the committee has considered and approved the proposed remuneration for Jo Jones.

Remuneration policy

The Committee is focused on setting a remuneration policy to take into account the importance of talent to the success of the Company in an industry where talented and resourceful individuals are in high demand and are relatively mobile. The Company promotes a culture based on sound ethical values and rewards behaviours that support such values.

The Company compensates its employees through both fixed and variable remuneration.

Directors' remuneration

Director	Base salary/fees	IPO Bonus	Annual performance award 2018	Benefits 2018	Share options	Total 2018
Executive Directors						
Debbie Bestwick	201,049	621,174	321,000	27,249	318,601***	1,489,073
Jo Jones*	35,808	–	–	3,615	–****	39,423
Paul Bray**	131,744	155,294	–	41,567	–	328,605
Non-Executive Directors						
Christopher Bell	66,667	–	–	–	–	66,667
Penny Judd	36,667	–	–	–	–	36,667
Jennifer Lawrence	–		–	–	–	–

(*Jo Jones appointed on 23 October 2018, **Paul Bray resigned on 23 October 2018)

All figures included are solely post listing of the Company on 23 May 2018. Any costs prior to this were borne by Team17 Holdings Limited

*** The share options figure represents the accounting fair value of the share options apportioned from the grant date to the vesting date

**** No charge has been included in the 2018 Team17 Group financial statements due to the immateriality of the balance at 31 December 2018

Directors' report

For the Year Ended 31 December 2018

The directors present their report and the audited financial statements of Team17 Group Plc (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is that of a holding company.

The principal activity of the Group is the development and publishing of computer games for the digital market.

Future developments

Trading for the period from 31 December 2018 to the date of this document has been positive and is consistent with the Board's expectations and profitability and cash generation remain encouraging. The Group has recently released a number of games, with further releases planned during the rest of 2019. Through its greenlight process the Group continues to review and sign new titles to its games label, in addition to maximising the revenue opportunity provided by its substantial back catalogue.

Results and dividends

The profit for the year, after taxation, amounted to £7,203,000 (Year ended 31 December 2017:£4,395,000).

The directors have not recommended the payment of a dividend (2017: £Nil).

Directors

The directors who served the Company during the year and up to the date of signing the financial statements:

D J Bestwick

P Judd (appointed 4 May 2018)

J Jones (appointed 23 October 2018)

C Bell (appointed 4 May 2018)

J Lawrence (appointed 24 February 2019)

J P Bray (resigned 23 October 2018)

J Haxby (resigned 30 April 2018)

Squire Patton Boggs Directors Limited (appointed on 14 February 2018 and resigned on 30 April 2018)

Going concern

Management has produced forecasts which have been reviewed by the Directors. These demonstrate the Group is forecast to generate profits and cash in the year ending 31 December 2019 and beyond and that the Group has sufficient cash reserves to enable the Group to meet its obligations as they fall due for a period of at least 12 months from when these financial statements have been signed.

As such, the Directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing these financial statements.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the Group and 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial risk management

See Principal Risks and Uncertainties on page 10.

Statement of disclosure of information to Auditors

In so far as each of the directors is aware, the directors confirm that:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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.

Independent Auditors

PricewaterhouseCoopers LLP were reappointed as auditors for the year to 31 December 2018. PricewaterhouseCoopers LLP offer themselves for reappointment in accordance with the Companies Act 2006.

The Group and Company financial statements on pages 22 to 60 were approved by the Board of Directors on 4 April 2019 and signed on its behalf by:

J Jones
Director

Independent auditor's report to the members of Team17 Group Plc

Report on the audit of the group financial statements

Opinion

In our opinion, Team 17 Group Plc's Group financial statements (the "financial statements"):

• give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;

• have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and

• have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position as at 31 December 2018; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality	• Overall group materiality: £560,000 (2017: £370,000), based on 5% of profit before tax and exceptional items.
Audit scope	• The group engagement team has performed a full scope audit of all components within the group. The audited components therefore accounted for 100% of consolidated revenue and 100% of consolidated profit before tax.
Key audit matters	• Valuation of capitalised development costs. • IPO transactions.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of capitalised development costs There is a risk that capitalised development costs are, to a material level, incorrectly valued on the closing balance sheet. This could be a result of unrecognised impairment losses and/or incorrect writing off of capitalised recoupable costs. The Group incurred £3.9 million of capitalised product development costs during the year ended 31 December 2018, relating to games the Group develops to sell through its various channels. The net book value of such capitalised costs as at 31 December 2018 was £2.7 million. We focused on this area due to the inherent level of judgement around whether costs capitalised meet the recognition criteria of IAS 38 'Intangible assets' as determination of that involves management judgment. Furthermore, there is a risk that capitalised costs will not be supported by the future cash inflows generated from product sales.	We assessed whether the costs capitalised relating to product development met the criteria set within IAS 38 'Intangible assets' noting no exceptions. We agreed a sample of capitalised product development costs to source documentation, including invoices and timesheets, and determined that they had been allocated to the correct project. We have considered the impairment judgements taken by management and concur that the games involved have either been discontinued (and are therefore clearly impaired) or are not generating the level of return to support the full carrying value. We are satisfied that the total level of provisioning across the relevant titles is materially correct. We have challenged the management to ensure that the method used to amortise recoupable costs is consistent with industry practice.
IPO transactions The Group financial statements have been presented under IFRS after an Initial Public Offering during the year. There is a potential risk therefore over the completeness and accuracy of the adjustments to reflect the IPO transactions.	The engagement team reviewed the IPO adjustments provided to us by management. We performed an independent completeness assessment to verify that all adjustments have been identified; and We validated IPO adjustments to supporting documentation, and verified these have been appropriately accounted for in the financial statements. We have also assessed the appropriateness of the disclosures included in notes to the financial statements to reflect these changes during the year.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

There are four statutory entities including one significant trading component within the Group. We have performed full scope audit over all four entities which gave us the evidence we needed for our opinion on the Group financial statements as a whole.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to material misstatement in the Group financial statements, including, but not limited to Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, review of legal correspondence and enquires of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it

We did not identify any key audit matters relating to irregularities, including fraud. As in all our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditor's report to the members of Team17 Group Plc continued

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£560,000 (2017: £370,000).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	The key objective of the group is to deliver underlying profitable growth to increase long-term shareholder value. As a result, we believe profit before tax and exceptional items is the primary measure used by the shareholders in assessing the performance of the group and is therefore the appropriate benchmark to use in assessing materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £90,000 and £504,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £28,000 (2017: £20,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

- 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 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's 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 to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the company financial statements of Team 17 Group Plc for the period ended 31 December 2018.

Andy Ward
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
4 April 2019

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Revenue	5	**43,201**	29,634
Cost of sales		**(23,399)**	(12,782)
Gross profit		**19,802**	16,852
Administrative expenses		**(7,264)**	(5,933)
Exceptional costs	6	**(2,597)**	(1,988)
Total administrative expenses		**(9,861)**	(7,921)
Operating profit	7	**9,941**	8,931
Finance income		**79**	8
Finance costs	9	**(1,323)**	(3,581)
Profit before tax		**8,697**	5,358
Taxation	10	**(1,494)**	(963)
Profit and total comprehensive income attributable to owners of the parent for the period		**7,203**	4,395
Earnings per share – Basic (pence)	11	**6.1**	4.3
– Diluted (pence)	11	**6.1**	4.3

All amounts relate to continuing operations.

There were no other comprehensive income transactions in the period and therefore a Statement of Other Comprehensive Income has not been presented.

The notes on pages 26 to 47 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

For the Year Ended 31 December 2018

	Note	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Assets			
Non-current assets			
Intangible fixed assets	13	**41,598**	43,793
Property, plant and equipment	14	**640**	634
Deferred tax asset	19	**–**	335
Total non-current assets		**42,238**	44,762
Current assets			
Trade and other receivables	15	**8,145**	6,817
Cash and cash equivalents	16	**23,512**	8,440
Total current assets		**31,657**	15,257
Total assets		**73,895**	60,019
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	20	**1,313**	10
Share premium	20	**44,084**	377
Merger reserve	20	**(153,822)**	–
Other reserves	20	**158,864**	644
Retained earnings	20	**12,170**	6,413
Total equity		**62,609**	7,444
Non-current liabilities			
Interest bearing loans and borrowings	18	**–**	37,970
Accruals and deferred income		**–**	3,520
Provisions		**140**	50
Deferred tax liabilities	19	**3,142**	3,674
Total non-current liabilities		**3,282**	45,214
Current liabilities			
Trade and other payables	17	**8,004**	6,016
Interest bearing loans and borrowings	18	**–**	1,345
Total current liabilities		**8,004**	7,361
Total liabilities		**11,286**	52,575
Total equity and liabilities		**73,895**	60,019

The notes on pages 26 to 47 are an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 4 April 2019, and were signed on its behalf by:

J Jones
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2018

Equity attributable to shareholders of the company

	Note	Share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Retained Earnings £'000	**Total Equity £'000**
At 1 January 2017		10	377	–	644	254	**1,285**
Profit and total comprehensive income for the period		–	–	–	–	4,395	**4,395**
Share based compensation	21	–	–	–	–	1,764	**1,764**
Total transactions with owners		–	–	–	–	1,764	**1,764**
At 31 December 2017		10	377	–	644	6,413	**7,444**
Profit and total comprehensive income for the year		–	–	–	–	7,203	**7,203**
Capital reorganisation	20	1,030	(377)	(153,822)	153,169	–	**–**
New shares issued on IPO	20	273	44,814	–	–	–	**45,087**
Transaction costs of new equity instruments	6	–	(730)	–	–	–	**(730)**
Treasury shares		–	–	–	3,616	(1,808)	**1,808**
Sale of shares by Employment Benefit Trust	20	–	–	–	1,435	–	**1,435**
Share based compensation	21	–	–	–	–	362	**362**
Total transactions with owners		1,303	43,707	(153,822)	158,220	(1,446)	**47,962**
At 31 December 2018		1,313	44,084	(153,822)	158,864	12,170	**62,609**

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash generated from operations	22	**17,514**	13,227
Tax paid		**(1,316)**	(1,504)
Net cash inflow from operations		**16,198**	11,723
Cash flow from investing activities			
Purchase of property, plant and equipment		**(327)**	(453)
Sale of property, plant and equipment		**16**	–
Capitalisation of development costs		**(3,908)**	(1,686)
Net cash outflow from investing activities		**(4,219)**	(2,139)
Cash flows from financing activities			
Interest received		**79**	8
Interest paid		**(5,015)**	(921)
Repayment of directors loans		**(1,345)**	(2,596)
Repayment of loan notes		**(38,226)**	(4,828)
Proceeds of issue of ordinary shares		**45,087**	–
Sale of shares by Employment Benefit Trust		**3,243**	–
Capitalised transaction costs of new equity instruments		**(730)**	–
Net cash inflow/(outflow) from financing activities		**3,093**	(8,337)
Net increase in cash and cash equivalents		**15,072**	1,247
Cash and cash equivalents at beginning of year		**8,440**	7,193
Cash and cash equivalents at end of year	16	**23,512**	8,440

Notes to the consolidated financial statements

For the Year Ended 31 December 2018

1. General information

The principal activity of Team17 Group Plc (the "Company") is that of a holding company and the principal activity of the Company and its subsidiaries (together, the "Group") is the development and publishing of computer games for the digital and physical market. The Company was incorporated on 14 February 2018 and is a public company limited by shares incorporated and domiciled in United Kingdom. The address of its registered office is Castleview House, Calder Island Way, Wakefield, WF2 7AW. The registered number of the Company is 11205116.

2. Significant accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union and those parts of the Companies Act 2006 that remain applicable to companies reporting under IFRS. The Company financial statements have been prepared under FRS102. Both financial statements have been prepared on the historical cost basis with the exception of certain items which are measured at fair value as disclosed in the principal accounting policies set out below. These policies have been consistently applied to all years presented unless otherwise stated.

In connection with the admission to AIM, the Group undertook a reorganisation of its corporate structure which resulted in the Company becoming the ultimate holding company of the Group. Prior to the reorganisation the ultimate holding company was Team17 Holdings Limited.

The transaction was accounted for as a capital reorganisation rather than a reverse acquisition since it did not meet the definition of a business combination under IFRS 3. In a capital reorganisation, the consolidated financial statements of the Group reflect the predecessor carrying amounts of Team17 Holdings Limited with comparative information of Team17 Holdings Limited presented for all periods since no substantive economic changes have occurred.

The consolidated financial information has been prepared on a going concern basis and under the historical cost convention. The principal accounting policies adopted are set out below.

The consolidated financial information is presented in sterling and has been rounded to the nearest thousand (£'000).

Going concern

Management has produced forecasts which have been reviewed by the directors. These demonstrate the Group is forecast to generate profits and cash in the year ending 31 December 2019 and beyond and that the Group has sufficient cash reserves to enable the Group to meet its obligations as they fall due for a period of at least 12 months from when these financial statements have been signed.

As such, the directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing these financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its return. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of loss of control, as applicable.

Business combinations and goodwill

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is initially measured at cost, being the excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statement of Comprehensive Income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At each year end date goodwill is reviewed for impairment using a discounted cash flow method applied to business forecasts. If this review demonstrates that impairment has occurred, this is expensed to the income statement. Goodwill is allocated to cash generating units for the purpose of impairment testing, with the allocation being made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

2. Significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Statement of Comprehensive Income when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite and at the year end date no intangible assets are accorded an indefinite life.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Amortisation is calculated over the estimated useful lives of the assets as follows:

- Brands – 10-13 years straight line
- Development costs – 2 years reducing balance

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in cost of sales for development costs and administrative expenses for brand costs.

During the year the Group has revised its approach to the recognition of recoupable costs within its Intellectual Property and its amortisation of development costs – adopting an 85% reducing balance approach in the case of the latter (previously straight line) and retaining the former within capitalised development costs (previously derecognised when 'recovered' from the third party) and amortising in line with all other development costs. This ensures the costs continue to be written off over a two-year period but more accurately reflects the sales curve of the game. This revision in accounting estimate is accounted for as at 31 December 2018 and then prospectively. The net impact of this adjustment was £0.3m. EBITDA does not include an add back for amortisation of games ordinarily as this is booked as a cost of sale item within the accounts, however, due to their prior year and catch up nature these costs have been reflected in the presentation of adjusted EBITDA.

An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- completion of the intangible asset is technically feasible so that it will be available to sell as a completed game
- the Group intends to complete the intangible asset and has the ability to use or license it as indicated above, thus generating probable future economic benefits;
- the expenditure attributable to the intangible asset during its development, mainly salary and third party developer costs, can be measured reliably; and
- the Group has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Until completion, the assets are subject to annual impairment testing. Amortisation commences upon completion of the asset.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated, which is usually taken to be each individual branch store. These budgets and forecast calculations are generally covering a period of five years.

Impairment losses of continuing operations are recognised in the Statement of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

2. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Revenue recognition

Revenue includes income from the release of full games and early access versions of self-published games.

The group designs, produces and sells computer games based on its own and third party intelectual property to digital and physical distributors, who are considered to be the Group's customers when assessing revenue recognition. The majority of the Group's sales are earned in the form of royalties received from third party distributors who have a license to sell the Group's games to consumers. Revenue is recognised at the point at which the distributor sells the content to the consumer.

The transaction price is the amount the group is entitled to in accordance with the contractual arrangement with the third party.

Operating lease agreements

Rentals applicable to operating leases, where substantially all of the risks and benefits or ownership remains with the lessor, are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

Lease incentives are spread over the period of the lease on a straight line basis.

Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held and administered separately from those of the Group. Contributions payable for the year are charged in the Statement of Comprehensive Income. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The Group has no further payment obligations once contributions have been paid.

Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the period end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each period end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

2. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost includes the original price of the asset and the cost attributable to bringing the asset to its current working condition for its intended use. Depreciation, down to residual value, is calculated on a straight-line basis over the estimated useful life of the asset which is reviewed on an annual basis.

Depreciation is calculated over the estimated useful lives of the assets as follows:

- Leasehold property – straight line over the life of the lease
- Plant and equipment – 3 years straight line
- Fixtures & fittings – 6 years straight line
- Motor vehicles – 5 years straight line

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is de-recognised.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

In accordance with IFRS9, 'Financial Instruments' the Group has classified its financial assets as 'Financial assets at amortised cost'. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through the Statement of Comprehensive Income, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets carried at amortised cost

This category applies to trade and other receivables due from customers in the normal course of business. All amounts which are not interest bearing are stated at their recoverable amount, being invoice value less provision for any expected credit losses. These assets are held at amortised cost.

The group classifies its financial assets as at amortised cost only if both of the following criteria are met:

(i) the asset is held within a business model with the objective of collecting the contractual cash flows; and

(ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost comprise current trade and other receivables due from customers in the normal course of business and cash and cash equivalents.

The Group does not hold any material financial assets at fair value through other comprehensive income or at fair value through the Statement of Comprehensive Income. The Group does not hold any derivatives and does not undertake any hedging activities.

Trade receivables are initially recognised at their transaction price. The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money. Other financial assets are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Trade and other receivables are measured at amortised cost less provision for expected credit losses.

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at banks and on hand and short term deposits held with banks with a maturity of three months or less from inception.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Included within cash and cash equivalents is cash owned by the EBT. The EBT cash is not readily available for use by the Group to meet its everyday operating costs but can be spent for the benefit of the employees and as such is an appropriate cash equivalent.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets measured at amortised cost. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For other financial assets at amortised cost, the Group determines whether there has been a significant increase in credit risk since initial recognition. The Group recognises twelve month expected credit losses if there has not been a significant increase in credit risk and lifetime expected credit losses if there has been a significant increase in credit risk.

Expected credit losses incorporate forward looking information, take into account the time value of money when there is a significant financing component and are based on days past due; the external credit ratings of its customers; and significant changes in the expected performance and behaviour of the borrower.

Financial assets are written off when there is no reasonable expectation of recovery. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the Statement of Comprehensive Income.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and previously included loans and other borrowings including directors loans.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR). Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Comprehensive Income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statement of Financial Position only if there is a current enforceable legal right to offset the recognised amounts and intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured using the directors' best estimate of the expenditure required to settle the obligation at the period end date.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Significant accounting policies (continued)

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The Group supplies a single product range into a single marketplace and so there is considered to be only one segment. On transition to IFRS the chief operating decision maker has begun to utilise IFRS based measures to monitor performance. No differences exist between the basis of preparation of the performance measures used by the Board of Directors and the figures in the Group financial information.

Share capital

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

Share premium

Share premium includes any premiums received on the 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.

Merger relief reserve

Merger relief reserve which has been included in other reserves, includes any premiums received on the issue of share capital in a share for share exchange.

Merger reserve

During the year the Company became the ultimate parent company of the Group. The merger reserve was created during the year as a result of the share for share exchange under which Team17 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 merger reserve.

Retained earnings

Retained current and prior period losses.

Foreign currency

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the Statement of Comprehensive Income.

Employee Benefit Trust

As the Company is deemed to have control of its Employee Benefit Trust ("EBT"), it is treated as a subsidiary and consolidated for the purposes of the combined and consolidated financial statements. The EBT's assets (other than investments in the company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements. The EBT's investment in the Company's shares is deducted from equity in the Consolidated Statement of Financial Position as if they were treasury shares. The gain or loss on transfer of the shares from the EBT to employees is recognised within equity.

Adoption of new and revised standards

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 16 'Leases' is a replacement for IAS 17 'Leases' and will be effective for the period ending 31 December 2019 onwards. IFRS 16 required lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts. The Group's activities as a lessee are not material and hence the group does not expect any significant impact on the financial statements. The impact of this will depend upon the facts and circumstances as at the time of adoption and the transition choices adopted. The impact is expected to be an increase in the assets and liabilities of the Group, in a similar quantum to the operating lease commitments noted in the statutory accounts.

The directors have considered the likely impact of the above standards on the financial statements of the Group in future periods. The directors do not consider that the standards will have a material impact on the financial statements in future periods.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

3. Key sources of estimation, uncertainty and significant accounting judgements

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.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Development costs capitalisation

The Group invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done together with any agreements made with the rights holders of a specific game. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis and a review for indicators of impairment is completed by product at each period-end date. The net book values of the development intangible assets including rights acquired at 31 December 2018 are £2,693,000 (2017: £3,104,000). Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows.

Goodwill impairment

The carrying value of goodwill is reviewed for impairment at least annually. In determining whether goodwill is impaired an estimation of the fair value and/or the value in use of the cash generating unit (CGU) to which the goodwill has been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU, and suitable discount rates based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU. The calculation of fair value requires estimates of the market value of the Group by reference to existing market data for the Group or for similar entities.

Exceptional items

IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a Group's profitability. In practice, these are commonly referred to as "exceptional" items, but this is not a concept defined by IFRS and therefore there is a level of judgement involved in determining what to include in underlying profit. We consider items which are non-recurring and significant in size or in nature to be suitable for separate presentation (see note 6).

Share based compensation

The Company has granted share options to directors and the fair value of these options has been estimated using a Monte Carlo Simulation model to estimate the fair value of the awards. These valuations were calculated by external experts and reviewed by the Company.

The fair value of these options are recognised as an expense in the Statement of Comprehensive Income over the vesting period of the options with a corresponding credit included within retained earnings.

4 Segmental analysis

For management purposes the Group is considered to comprise only one segment for reporting to the chief operating decision maker, that of the development and publishing of computer games for the digital and physical market.

Four (2017: Five) customers each contributed over 10% of the total revenue in 2018 with total revenue derived from these customers being £35,365,000 (2017: £22,820,000).

All non-current assets are located in the UK.

5. Revenue

All revenue was generated by the sale of goods.

The Group does not provide any information on the geographical location of sales as the majority of revenue is through third party distribution platforms which are responsible for the sales data of consumers.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

5. Revenue (continued)

Whilst the chief operating decision maker considers there to be only one segment, the Company's portfolio of games is split between those based on IP owned by the Group and IP owned by a third party and hence to aid the readers understanding of our results, the split of revenue from these two categories are shown below:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Internal IP	**32,100**	14,802
Third Party	**11,101**	14,832
	43,201	29,634

6. Exceptional costs

Exceptional costs are made up of the following:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
IPO related costs	**2,597**	–
Share based compensation charge for former chairman	**–**	1,988
	2,597	1,988

Exceptional items in the year ending 31 December 2018 relate to significant one-off costs, which have not been deducted from equity, associated with the Group's admission onto AIM in May 2018. The costs comprise advisors fees (£1,323,000), the write off of unamortised loan note fees (£258,000), stock exchange listing fees (£43,000), other IPO costs (£56,000) and bonuses payable to Directors which were contingent on admission to AIM (£917,000). Costs totalling £730,000 incurred in association with the IPO which met IAS 32 definition of transaction costs (being incremental and directly related to the issuance of new equity instruments and which would have been avoided had the instruments not been issued) have been deducted from share premium.

Exceptional items in 2017 relate to the estimated fair value of shares issued by the company during 2018 to the former chairman in respect of the settlement of a claim that arose in 2017. The charge of £1,988,000 included £224,000 of associated employment taxes.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

7. Operating Profit

The following items are included in profit before tax:	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Depreciation of property, plant and equipment (note 14)	**305**	214
Amortisation of development costs – cost of sales (note 13)	**4,319**	1,387
Amortisation of brands – administrative expenses (note 13)	**1,784**	1,783
Exceptional costs (note 6)	**2,597**	1,988
Amortisation of financing fees	**258**	54
Profit on foreign exchange	**(155)**	(160)
Operating lease rentals		
– other operating leases	**72**	72
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of Team 17 Group Plc	**13**	13
Fees payable to the Company's auditor in respect of:		
Audit of Company's subsidiaries	**77**	45
Deal related costs	**580**	125
Tax compliance	**27**	–

8. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, was as follows:

	Group	
	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
Staff and directors	**152**	83

The aggregate payroll costs of these persons were as follows:

	Group	
	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
Wages and salaries	**6,515**	4,329
Social security costs	**602**	715
Other pension costs	**177**	123
Share based compensation	**319**	1,764
	7,613	6,931

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

8. Staff numbers and costs (continued)

The following tables sets out the Directors' remuneration:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Aggregate emoluments	**1,571**	578
Company contributions to money purchase scheme	**51**	41
Share based compensation	**319**	–
	1,941	619

Retirement benefits are accruing to 2 directors (2017: 2) under money purchase schemes.

The remuneration of the highest paid Director were:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Aggregate emoluments	**1,143**	427
Share based compensation	**319**	–
	1,462	427

9. Finance costs

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest payable on other loans	**26**	74
Interest payable on loan notes	**1,297**	3,507
	1,323	3,581

10. Taxation

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Current tax:		
Current year tax	**2,694**	2,547
Video Games Tax Relief claim	**(444)**	–
Adjustments in respect of prior period:		
Video Games Tax Relief claim	**(391)**	(525)
Other	**(168)**	–
	1,691	2,022
Deferred tax:		
Origination and reversal of temporary differences	**(197)**	(1,059)
	(197)	(1,059)
Total tax charge	**1,494**	963

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

10. Taxation (continued)

The other adjustment in respect of prior period relates to additional tax credits claimed on finalisation of the tax computations.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Reconciliation of total tax charge:		
Profit before tax	**8,697**	5,358
Taxation using the UK Corporation Tax rate of 19% (2017: 19.25%)	**1,652**	1,031
Effects of:		
Expenses not deductible for tax purposes	**845**	457
Video Games Tax Relief	**(444)**	–
Adjustment in respect of prior periods	**(559)**	(525)
Total tax charge	**1,494**	963

As a result of changes to the UK corporation tax rates that were substantively enacted as part of the Finance Bill 2016 on 6 September 2016 the main rate will reduce to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

11. Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Team17 Group plc divided by the weighted average number of shares in issue. The weighted average number of shares takes into account treasury shares held by the Team17 Employee Benefit Trust.

At 31 December 2018 the performance criteria for issuing the share options had not been met and therefore there is no dilutive effect.

	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to shareholders £'000	**7,203**	4,395
Weighted average number of shares	**118,356,852**	101,200,548
Basic and diluted earnings per share (pence)	**6.1**	4.3

The calculation of adjusted earnings per share is based on the profit attributable to shareholders as shown in the Statement of Comprehensive Income plus additional costs added back during the year as shown in note 12. The weighted average number of shares uses the number of shares in issue post listing on AIM on 23 May. This has been applied retrospectively to the number of shares in issue at 31 December 2017 and the metric has been restated to ensure that the adjusted earnings per share figures are comparable over the two periods.

	Year ended 31 December 2018	Year ended 31 December 2017
Adjusted earnings (note 12) £'000	**10,425**	6,383
Weighted average number of shares	**129,246,382**	129,246,382
Adjusted basic and diluted earnings per share (pence)	**8.1**	4.9

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

12. Adjusted EBITDA

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit attributable to shareholders	**7,203**	4,395
Exceptional costs (note 6)	**2,597**	1,988
Share based compensation (note 21)	**362**	–
Revision of accounting estimate (note 13)	**263**	–
Adjusted earnings	**10,425**	6,383
Taxation	**1,494**	963
Finance income	**(79)**	(8)
Finance cost	**1,323**	3,581
Amortisation	**1,784**	1,783
Depreciation	**305**	214
Adjusted EBITDA	**15,252**	12,916

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

13. Intangible Fixed Assets

	Development costs £'000	Brands £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2017	5,021	21,983	21,083	48,087
Additions	1,686	–	–	1,686
At 31 December 2017	6,707	21,983	21,083	49,773
Additions	3,908	–	–	3,908
At 31 December 2018	**10,615**	**21,983**	**21,083**	**53,681**
Amortisation				
At 1 January 2017	2,216	594	–	2,810
Charge for the period	1,387	1,783	–	3,170
At 31 December 2017	3,603	2,377	–	5,980
Charge for the year	4,319	1,784	–	6,103
At 31 December 2018	**7,922**	**4,161**	**–**	**12,083**
Net carrying amount				
At 31 December 2018	**2,693**	**17,822**	**21,083**	**41,598**
At 31 December 2017	3,104	19,606	21,083	43,793

Goodwill
The Group tests annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

The recoverable amount of the cash generating unit ("CGU") at 31 December 2018 is determined from the fair value less costs of disposal of the underlying business units. No impairment is considered necessary at 31 December 2018. The key assumption in calculating the fair value was the expected future cashflows at 31 December 2018.

When estimating the fair value of the Group the Directors took account of current market expectations and recent data from similar transactions.

Revision of accounting estimate
During the year the group has revised its approach to the recognition of recoupable costs within its Intellectual Property and its amortisation of development costs – adopting an 85% reducing balance approach over 2 years in the case of the latter (previously straight line over 2 years) and retaining the former within capitalised development costs (previously derecognised when recovered from the third party) and amortising over the useful economic life of the game in line with all other costs. The impact of this revision of accounting estimate is an increase to capitalised costs of £1,720,000 and a corresponding increase in amortisation of £1,983,000 giving an overall reduction in net book value of £263,000. This revision in accounting estimate is accounted for as at 31 December 2018 and then prospectively.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

14 . Property, plant and equipment

	Leasehold Property £'000	Plant and machinery £'000	Fixtures and Fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2017	68	562	70	80	780
Additions	17	331	34	71	453
Disposals	–	(114)	–	–	(114)
At 31 December 2017	85	779	104	151	1,119
Additions	40	190	29	69	328
Disposals	–	(9)	–	(38)	(47)
At 31 December 2018	**125**	**960**	**133**	**182**	**1,400**
Depreciation					
At 1 January 2017	28	308	31	18	385
Charge for the year	10	171	12	21	214
Disposals	–	(114)	–	–	(114)
At 31 December 2017	38	365	43	39	485
Charge for the year	16	235	18	36	305
Disposals	–	(7)	–	(23)	(30)
At 31 December 2018	**54**	**593**	**61**	**52**	**760**
Net book value					
At 31 December 2018	**71**	**367**	**72**	**130**	**640**
At 31 December 2017	47	414	61	112	634

15. Trade and other receivables

Amounts falling due within one year

Year ended	**31 December 2018 £,000**	31 December 2017 £,000
Trade receivables	**6,741**	5,628
Other receivables	**948**	990
Prepayments	**456**	199
	8,145	6,817

There are no impaired assets within trade and other receivables

16. Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
Cash at bank and in hand	**23,512**	8,440

Included within the balance above is £3,243,000 (2017: £Nil) of cash and cash equivalents is cash owned by the EBT. The EBT cash is not readily available for use by the Group to meet its everyday operating costs but can be spent for the benefit of the employees and as such is an appropriate cash equivalent.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

17. Trade and other payables

Current:

Year ended	31 December 2018 £'000	31 December 2017 £'000
Trade payables	**364**	385
Other creditors	**313**	25
Current tax liabilities	**1,097**	723
Taxation and social security	**240**	1,148
Accruals and deferred income	**5,990**	3,735
	8,004	6,016

18. Interest bearing loans and borrowings

Non-current:	31 December 2018 £'000	31 December 2017 £'000
Loan notes:		
In more than two years but less than five years	**–**	37,970
	–	37,970

Current:	31 December 2018 £'000	31 December 2017 £'000
Directors loans	**–**	1,345

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

19. Deferred taxation

Recognised deferred tax liabilities:

	Accelerated depreciation for tax purposes £'000	Other short term timing differences £'000	Arising on intangible fixed assets £'000	**Total £'000**
At 1 January 2017	54	588	3,756	**4,398**
Deferred tax recognised in profit or loss	–	(381)	(343)	**(724)**
At 31 December 2017	54	207	3,413	**3,674**
Deferred tax recognised in profit or loss	–	(193)	(339)	**(532)**
At 31 December 2018	**54**	**14**	**3,074**	**3,142**

Recognised deferred tax asset

	Other short term timing differences £'000	**Total £'000**
At 1 January 2017	335	**335**
Deferred tax recognised in profit or loss	–	**–**
At 31 December 2017	335	**335**
Deferred tax recognised in profit or loss	(335)	**(335)**
At 31 December 2018	–	**–**

As a result of changes to the UK corporation tax rates that were substantively enacted as part of the Finance Bill 2016 on 6 September 2016 the main rate will reduce to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

20. Share capital

	31 December 2018 £'000	31 December 2017 £'000
Authorised, allotted, called up and fully paid		
334,536 A ordinary shares of 1p each	–	3
466,917 B ordinary shares of 1p each	–	5
116,729 C ordinary shares of 1p each	–	1
66,354 D ordinary shares of 1p each	–	1
46,392 E ordinary shares of 1p each	–	–
34,794 deferred shares of 1p each	–	–
131,288,276 ordinary shares of 1p each	1,313	–
	1,313	10

During the year the group listed on AIM and Team17 Group Plc became the new holding company of the group.

The ordinary shares have voting, dividend and capital distribution rights. They are not redeemable.

Admission to AIM

This note should be read in conjunction with the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows. The Group's admission onto AIM involved a number of transactions which are explained below:

Capital re-organisation

Prior to Admission the Company acquired the entire share capital of Team17 Holdings Limited (comprising £0.01 nominal ordinary shares) in exchange for issuing the same number of its own ordinary shares (of £1 nominal ordinary shares) to the existing shareholders of Team17 Holdings Limited. This transaction was under common control and treated as a capital restructuring and not a business combination. The company recorded the investment at fair value and applied merger relief, leading to the creation of the other reserve of £153,169,000, being a share premium created on reorganisation of £153,813,000 less the elimination of brought forward reserves of £644,000. On consolidation and the application of predecessor (merger) accounting, the merger reserve of £153,822,000 was also created. The impact of this transaction on the consolidated financial statements is disclosed as a 'Capital reorganisation' in the Statement of Changes in Equity.

Subsequently (but prior to admission), the Company sub-divided its £1 ordinary shares into £0.01 nominal shares. The impact of this share split has been taken into account in the calculation of basic earnings per share in accordance with IAS 33. The sub-division of shares has been retrospectively applied from the first day of the comparative financial period, leading to an increase in the weighted average number of shares in issue across all periods. Basic EPS for the year ending 31 December 2017 has been restated as a result.

New share issue

Prior to the listing the Company had in issue 103,962,794 £0.01 ordinary shares. As part of the IPO the Company issued a further 27,325,482 £0.01 ordinary shares, at £1.65 per share. This raised a total of £45,087,045. A further 37,849,200 existing shares were placed on sale, at £1.65, by the existing shareholders. Following admission, the Company had in issue 131,288,276 ordinary £0.01 shares of which 65,174,682 were placed on AIM and 2,041,900 were held within the Group as treasury shares within the Employee Benefit Trust.

The £45,087,000 proceeds of the share issue were utilised by the Company to: repay shareholder loan notes (£38,226,000); repay director loans (£1,345,000); repay accrued interest on shareholder loan notes (£4,630,000); repay accrued interest on directors loans (£198,000); and settle transaction costs associated with the listing.

Shares held by subsidiaries

In November 2017, an Employee Benefit Trust (the "Trust") was set up. As part of the IPO transaction, the Trust was gifted shares creating a £3.6m capital contribution reserve (included in other reserves). Subsequently the EBT sold half of its shareholding (in line with all other shareholders) creating a gain of £1,435,000 included within other reserves. At 31 December 2018, and included in these consolidated financial statements, the Trust holds 2,014,900 (2017: £Nil) shares in Team17 Group plc with a nominal value of £20,419 (2017: £Nil).

Share premium reserve

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium.

Retained earnings

Includes all current and previous retained profits and losses.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

20. Share capital (continued)

Merger reserve

During the year the Company became the ultimate parent company of the Group. The merger reserve was created during the year as a result of the share for share exchange under which Team17 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 merger reserve.

21. Share based compensation

The executive directors were granted share options during the year under the Team17 Group plc Long Term Incentive Plan. These options only vest if certain performance criteria are met. The options are split into two parts with the amount of Part A options that will vest depending on the Group's Cumulative EPS targets whilst part B depends on annualised absolute total shareholder return. The maximum number of outstanding share options at 31 December 2018 was 1,114,619 (2017: Nil).

Award date	Vesting date	Maximum number of share options outstanding	Exercise price per share option
23 May 2018	23 May 2021	972,727	£Nil
18 December 2018	30 October 2021	141,892	£Nil

The fair value of services received in return for share options granted is calculated based on appropriate valuation models. The expense is apportioned over the vesting period and is based on the number of financial instruments which are expected to vest and the fair value of those financial instruments at the date of the grant. The assessed fair value of options granted during the year was £319,000 (2017: £Nil) based on the following assumptions using the Monte-Carlo method for valuing share options. In addition there is £43,000 (2017: £Nil) of national insurance included within social security costs accrued at 13.8% which creates a total charge for the year through retained earnings of £362,000 (2017: £Nil).

Underlying share price (£)	2.20
Grant price (£)	–
Exercise price (£)	–
Vesting period	3 years
Estimate of part A options vesting	59%
Estimate of part B options vesting	65%
Expected volatility of the share price	38%
Dividends expected on the shares	0%
Risk free rate	1%
Fair value (£'000)	319

In 2017 shares worth £1,764,000 were agreed to be provided to the ex-chairman for Nil consideration as part of a settlement agreement. These were accrued for in the 2017 consolidated financial statements and the shares were granted in May 2018.

Notes to the consolidated financial statements continued

For the Year Ended 31 December 2018

22. Cash generated from operations

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flow from operating activities		
Profit before tax	**8,697**	5,358
Adjustments for:		
Depreciation of property, plant and equipment	**305**	214
Amortisation of intangible fixed assets	**6,103**	3,170
Share based compensation	**362**	1,764
Finance income	**(79)**	(8)
Financial expenses	**1,323**	3,581
Financing fees written off	**258**	54
	16,969	14,133
Operating cash flow before changes in working capital		
Increase in trade and other receivables	**(1,328)**	(3,401)
Increase in provisions	**89**	10
Increase in trade and other payables	**1,784**	2,485
Cash generated from operations	**17,514**	13,227

23. Commitments and contingencies

(a) Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2018 Land & Buildings £'000
Within one year	54
Within two to five years	142
After five years	–
	196

	31 December 2017 Land & Buildings £'000
Within one year	72
Within two to five years	288
After five years	–
	360

(b) Capital commitments

The Group had no contracted capital commitments at 31 December 2018

24. Related parties

Ultimate controlling party

At 31 December 2018 there was not considered to be a single ultimate controlling party of Team17 Group Plc.

Transactions with related parties

There are no loan notes outstanding with related parties at the 31 December 2018.

On 23 May 2018, the group repaid in full the outstanding loan notes to LDC V LLP (a shareholder of the company). The balance outstanding at 31 December 2017 was £13,908,000. Interest of £501,000 was charged during the year (2017: £1,278,000).

The Group also repaid loan notes owed to the shareholders of the Company, D A Bestwick and J P Bray, who were directors of Team17 Holdings Limited during the year. The balance outstanding at 31 December 2017 was £21,026,000. Interest of £548,000 was charged on these loan notes during the year (2017: £1,930,000).

Loan notes owed to the other directors/shareholders of Team17 Holdings Limited (who were K Aston, C Davies, C Van Der Kuyl and P Burns) were also repaid. The balance outstanding at 31 December 2017 was £3,292,000. Interest of £86,000 was charged during the year (2017: £299,000).

Transactions with key management personnel:

The key management personnel of the Group are deemed to be the board of directors and details of their aggregate remuneration can be found in note 8.

25. Financial instruments

Trade and other receivables shown above comprises trade receivables and other receivables as disclosed in note 15.

Trade and other payables comprises of trade payables, other payables and accruals as disclosed in note 17.

Borrowings comprises of loan notes and other loans as disclosed in note 18.

Loans and receivables are non-derivatives financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

Management have assessed that for cash and short-term deposits, trade receivables, trade payables and other current liabilities their fair values approximate to their carrying amounts largely due to the short-term maturities of these instruments. Book values are deemed to be a reasonable approximation of fair values.

For the loan notes which are repayable in 2022 and bear a fixed rate of interest there is not, given the limited changes in interest rates since issue, considered to be any material difference between the amortised cost and fair value of these financial liabilities.

Fair value

The fair value of all financial instruments is equivalent to their book value due to their short maturities.

Financial risks

The Group monitors and manages the financial risks relating to the financial instruments held. The principal risks include credit risk on financial assets, and liquidity and interest rate risk on financial liability borrowings. The key risks are analysed below.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount. Supply of products by the Group results in trade receivables which management consider to be of low risk, other receivables are likewise considered to be low risk. However, certain customers comprise in excess of 10% of the revenue earned by the Group (see note 5). Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. The maximum exposure is the amount of the deposit.

25. Financial instruments (continued)

Financial assets

The Group is not exposed to significant interest rate risk on the financial assets, other than cash and cash equivalents.

Cash and cash equivalents are exposed to interest rate risk as they are held at floating rates, although the risk is not significant as the interest receivable is not significant.

Liquidity risk

Cash and cash equivalents

Bank balances are held on short term / no notice terms to minimise liquidity risk.

Trade and other payables

Trade and other payables are non-interest bearing and are normally settled on 30 day terms.

Borrowings

The maturity analysis of the cash flows from the group's borrowing arrangements that expose the group to liquidity risk are as follows;

31 December 2018

	Within one year £000	Within one-two years £000	Within two-five years £000	Over five years £000	Total £'000
Loan notes	–	–	–	–	–
Interest bearing loans and borrowings	–	–	–	–	–
	–	–	–	–	–

31 December 2017

	Within one year £000	Within one-two years £000	Within two-five years £000	Over five years £000	Total £'000
Loan notes	826	859	57,690	–	59,375
Interest bearing loans and borrowings	1,345	–	–	–	1,345
	2,171	**859**	**57,690**	**–**	**60,720**

At 31 December 2018

	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Book value £'000	Fair value £'000
Financial assets				
Trade and other receivables	7,689	–	7,689	7,689
Cash and cash equivalents	23,512	–	23,512	23,512
	31,201	–	31,201	31,201
Financial liabilities				
Trade and other payables	–	(8,004)	(8,004)	(8,004)
	31,201	**(8,004)**	**23,197**	**23,197**

25. Financial instruments (continued)

31 December 2017

	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Book value £'000	Fair value £'000
Financial assets				
Trade and other receivables	6,618	–	6,618	6,618
Cash and cash equivalents	8,440	–	8,440	8,440
	15,058	–	15,058	15,058
Financial liabilities				
Trade and other payables	–	(7,665)	(7,665)	(7,665)
Borrowings	–	(39,315)	(39,315)	(39,315)
	15,058	(46,980)	(31,922)	(31,922)

26. Contingent liabilities

The long term nature, size and complexity of the Group contracts means that there may be, from time to time, disputes between the parties to the contracts. The Group aims to resolve such disputes on a timely basis and at minimal cost.

27. Pensions

The Group operates a defined contribution scheme for its directors and employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The outstanding pension contributions at 31 December 2018 were £24,000 (31 December 2017: £38,000).

The following pages are for Team17 Group Plc as a separate entity and are not consolidated

Independent auditors' report to the members of Team17 Group Plc

Report on the audit of the company financial statements

Opinion
In our opinion, Team 17 Group Plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the "Annual Report"), which comprise: the Company Statement of Financial position as at 31 December 2018; the Company Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach
Overview

Materiality	• Overall materiality: £504,000 based on 1% of total assets.
Audit scope	• This is the first financial period for the entity. We performed full scope audit procedures over Team 17 Group Plc (the parent company of the group).
Key audit matters	• IPO transactions.

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
IPO transactions The Company financial statements have been presented under FRS 102 after an Initial Public Offering during the period. There is a potential risk therefore over the completeness and accuracy of the adjustments to reflect the IPO transactions.	The engagement team reviewed the IPO adjustments provided to us by management. We performed an independent completeness assessment to verify that all adjustments have been identified; and We validated IPO adjustments to supporting documentation, and verified these have been appropriately accounted for in the financial statements. We have also assessed the appropriateness of the disclosures included in notes to the financial statements to reflect these changes during the period.

Independent auditors' report to the members of Team17 Group Plc continued

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to material misstatement in the Company financial statements, including, but not limited to Companies Act 2006, the Listing Rule and UK tax legislation. Our tests included, but were not limited to, review of legal correspondence and enquires of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it

We did not identify any key audit matters relating to irregularities, including fraud. As in all our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£504,000.
How we determined it	1% of total assets.
Rationale for benchmark applied	The company is a non-trading holding company. The entity's assets relate solely to their ownership of the subsidiary trading companies and thus reflect the company's purpose. Company materiality has been restricted to ensure it is not greater than 90% of the Group's financial statement materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £25,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

- 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 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent auditors' report to the members of Team17 Group Plc continued

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Team17 Group Plc continued

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the group financial statements of Team 17 Group Plc for the year ended 31 December 2018.

Andy Ward
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
4 April 2019

Company Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 £'000
Fixed assets		
Investments	8	**154,853**
		154,853
Current assets		
Debtors	9	**44,452**
Cash at bank and in hand		**–**
		44,452
Creditors: amounts falling due within one year	10	**(461)**
Net current assets		**198,844**
Net assets		**198,844**
Capital and reserves		
Called up share capital	11	**1,313**
Share premium account	12	**44,084**
Other reserve	12	**153,813**
Profit and loss account	12	**(366)**
		198,844

The company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to produce its own profit and loss account. The loss for the year dealt within the accounts of the company was £728,000.

The notes on pages 55 to 60 are an integral part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 4 April 2019, and were signed on its behalf by:

J Jones
Director

Company Statement of Changes in Equity

For the period ended 31 December 2018

Equity attributable to shareholders of the company

	Note	Called up share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account £'000	**Total Equity £'000**
On incorporation		–	–	–	–	**–**
Loss and total comprehensive expense for the period		–	–	–	(728)	**(728)**
New shares issued at incorporation		10	–	–	–	**10**
Capital reorganisation	12	1,030	–	153,813	–	**154,843**
New shares issued on IPO	12	273	44,814	–	–	**45,087**
Transaction costs of new equity instruments		–	(730)	–	–	**(730)**
Share based compensation	13	–	–	–	362	**362**
At 31 December 2018		1,313	44,084	153,813	(366)	**198,844**

Notes to the Company financial statements

For the Period Ended 31 December 2018

1. General information

The Company was incorporated on 14 February 2018 and the principal activity of Team17 Group Plc (the "Company") is that of a holding company. The Company is incorporated and domiciled in United Kingdom. The address of its registered office is Castleview House, Calder Island Way, Wakefield, WF2 7AW. The registered number of the Company is 11205116.

2. Significant accounting policies

Basis of preparation

The Company financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and the Companies Act 2006.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its individual Statement of Comprehensive Income in these financial statements. The Company's overall result for the year is given in the Statement of Changes in Equity.

The financial information has been prepared on a going concern basis and under the historical cost convention. The principal accounting policies adopted are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The financial information is presented in sterling and has been rounded to the nearest thousand (£'000).

The Company has presented a period from incorporation on 14 February 2018 to 31 December 2018.

Financial Reporting Standard 102 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- The requirements of section 7 Statement of Cash Flows;
- The requirements of section 3 Financial Statement Presentation paragraph 3.17 (d);
- The requirements of section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e). 11.41(f), 11.42, 11.44 to 11.45, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- The requirements of section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.w9A;
- The requirements of section 33 Related Party Disclosures paragraphs 33.7.

This information in included in the consolidated financial statements found earlier in this report.

Going concern

Management has produced forecasts which have been reviewed by the directors. These demonstrate the Group is forecast to generate profits and cash in the year ending 31 December 2018 and beyond and that the Group has sufficient cash reserves to enable the Group to meet its obligations as they fall due for a period of at least 12 months from when these financial statements have been signed.

As such, the directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing these financial statements.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Trade and other receivables

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

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at cost less impairment, the impairment loss is measured at the difference between an assets carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Notes to the Company financial statements continued

For the Period Ended 31 December 2018

2. Significant accounting policies (continued)

Trade and other payables

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

Revenue recognition

Revenue represents income from group management charges on a monthly basis.

Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held and administered separately from those of the Group. Contributions payable for the year are charged in the Statement of Comprehensive Income. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The Group has no further payment obligations once contributions have been paid.

Taxation

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the period end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each period end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share capital

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

Share premium

Share premium includes any premiums received on the 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.

Merger relief reserve

Merger relief reserve which has been included in other reserves, includes any premiums received on the issue of share capital in a share for share exchange.

Retained earnings

Retained current and prior period losses.

Foreign currency

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Notes to the Company financial statements continued

For the Period Ended 31 December 2018

3. Key sources of estimation, uncertainty and significant accounting judgements

The preparation of the Company's 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.

The Company has issued share options during the year and the value of these options has been estimated using a Monte Carlo Simulation model to estimate the fair value of the awards. These valuations were calculated by external experts and reviewed by the Company.

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.

4. Revenue

All turnover was generated from group management charges.

All turnover was generated in the United Kingdom.

5. Operating Profit

Remuneration paid to our auditors is stated in note 7 of the consolidated financial statements and has not been included within the individual entity accounts.

6. Staff numbers and costs

The average number of persons employed by the Company during the year was as follows:

	Period ended 31 December 2018 No.
Directors	4

The aggregate payroll costs of these persons were as follows:

	Period ended 31 December 2018 £'000
Wages and salaries	1,453
Social security costs	246
Other pension costs	46
Share based compensation	319
	2,064

The following tables sets out the Directors' remuneration:

	Period ended 31 December 2018 £'000
Aggregate remuneration	1,453
Company contributions to money purchase scheme	46
Share based compensation	319
	1,818

Retirement benefits are accruing to 2 directors under money purchase schemes. In addition long term share incentive schemes are in place for 2 (2017: Nil) directors.

No directors exercised share options during the year. Directors remuneration was paid through the the previous Group holding Company Team17 Holdings Limited until the listing on AIM on 23 May 2018 when Team17 Group Plc became the ultimate controlling party of the Group.

Notes to the Company financial statements continued

For the Period Ended 31 December 2018

6. Staff numbers and costs (continued)

The remuneration of the highest paid Director were:

	Period ended 31 December 2018 £'000
Aggregate emoluments	1,030
Share based compensation	319
	1,349

7. Taxation

	Period ended 31 December 2018 £'000
Current tax:	
Current year tax	–
Deferred tax:	
Origination and reversal of temporary differences	–
Total tax charge	
	–

	Period ended 31 December 2018 £'000
Reconciliation of total tax charge:	
Loss before tax	728
Taxation using the UK Corporation Tax rate of 19%	138
Effects of:	
Losses surrendered for group relief	(138)
Total tax charge	–

Notes to the Company financial statements continued

For the Period Ended 31 December 2018

8. Investments

Company:	£'000
Cost	
Additions	**154,853**
At 31 December 2018	**154,853**
Net book value	
At 31 December 2018	**154,853**

Name of company	Holding	Proportion of voting rights and shares held	Activity
Subsidiary undertakings			
Team17 Holdings Limited	Ordinary Shares	100%	Intermediate holding company
Team17 Software Limited	Ordinary Shares	100%	Intermediate holding company
Team17 Digital Limited	Ordinary Shares	100%	Development and publishing of computer games for the digital market
Mouldy Toof Studios Limited	Ordinary Shares	100%	Dormant

The investment in Team17 Digital Limited is held via Team17 Software Limited.

The registered office of all subsidiaries is Castleview House, Calder Island Way, Wakefield, WF2 7AW.

9. Trade and other receivables

Amounts falling due within one year

Year ended	31 December 2018
	£'000
Amounts owed by group undertakings	**44,452**
	44,452

10. Trade and other payables

Amounts falling due within one year

Year ended	31 December 2018 £'000
Trade payables	**16**
Taxation and social security	**80**
Accruals and deferred income	**365**
	461

Notes to the Company financial statements continued

For the Period Ended 31 December 2018

11. Share capital

	31 December 2018 £'000
Authorised, allotted, called up and fully paid	
131,288,276 ordinary shares of 1p each	1,313
	1,313

The ordinary shares have voting, dividend and capital distribution rights. They are not redeemable.

12. Reserves

Admission to AIM

This note should be read in conjunction with the Statement of Changes in Equity. The Group's admission onto AIM involved a number of transactions for the Company which are explained below:

Capital re-organisation

Prior to Admission the Company acquired the entire share capital of Team17 Holdings Limited (comprising £0.01 nominal ordinary shares) in exchange for issuing the same number of its own ordinary shares (of £1 nominal ordinary shares) to the existing shareholders of Team17 Holdings Limited. This transaction was under common control and treated as a capital restructuring and not a business combination. The Company recorded the investment at fair value and applied group reconstruction relief, leading to the creation of the other reserves (merger relief reserve) of £153,813,000. The impact of this transaction on the financial statements is disclosed as a 'Capital reorganisation' in the Statement of Changes in Equity.

Subsequently (but prior to admission), the Company sub-divided its £1 ordinary shares into £0.01 nominal shares.

New share issue

Prior to the listing the Company had in issue 103,962,794 £0.01 ordinary shares. As part of the IPO the Company issued a further 27,325,482 £0.01 ordinary shares, at £1.65 per share. This raised a total of £45,087,045. A further 37,849,200 existing shares were placed on sale, at £1.65, by the existing shareholders. Following admission, the Company had in issue 131,288,276 ordinary £0.01 shares of which 65,174,682 were placed on AIM.

Share premium reserve

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Retained Earnings

Includes all current and previous retained profits and losses.

Merger relief reserve

Merger relief reserve which has been included in other reserves, includes any premiums received on the issue of share capital in a share for share exchange.

13. Share based compensation

Please see note 21 in the consolidated Team17 Group Plc consolidated financial statements for further information on the share based compensation charge in the year.

14. Related parties

Ultimate controlling party

At 31 December 2018 there was not considered to be a single ultimate controlling party of Team17 Group Plc.

Transactions with key management personnel

The key management personnel of the Group are deemed to be the board of directors and details of their aggregate remuneration can be found in note 6.

15. Pensions

The Company operates a defined contribution scheme for its directors and employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The outstanding pension contributions at 31 December 2018 were £2,000.

Registered office
Castleview House, Calder Islay Way, Calder Island, Wakefield WF2 7AW

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