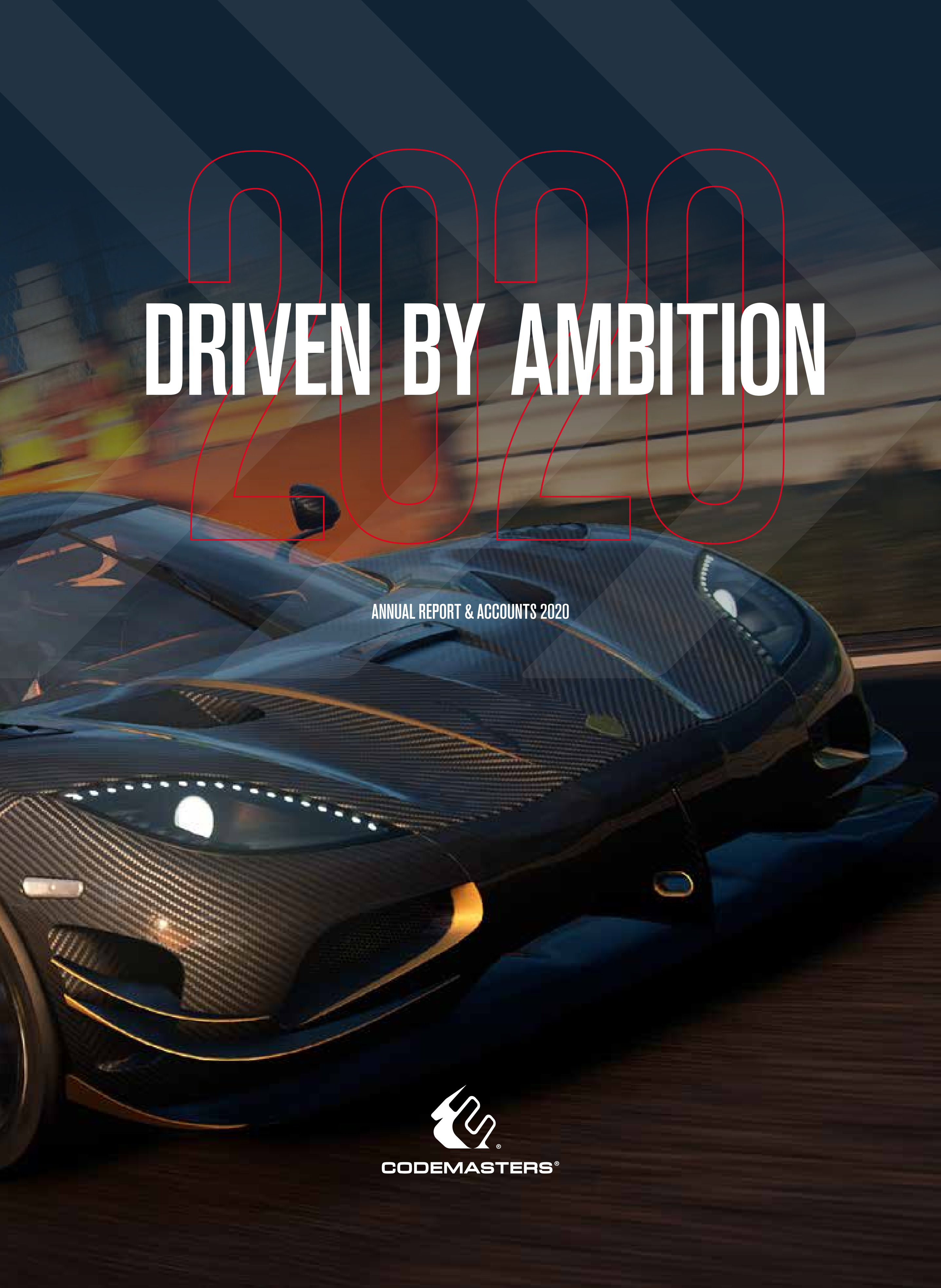


2020

# DRIVEN BY AMBITION

ANNUAL REPORT & ACCOUNTS 2020

CODEMASTERS®

FOR OVER 30 YEARS CODEMASTERS HAS BEEN PUSHING BOUNDARIES

# 2020 WAS NO DIFFERENT. WE'VE ONLY JUST STARTED.



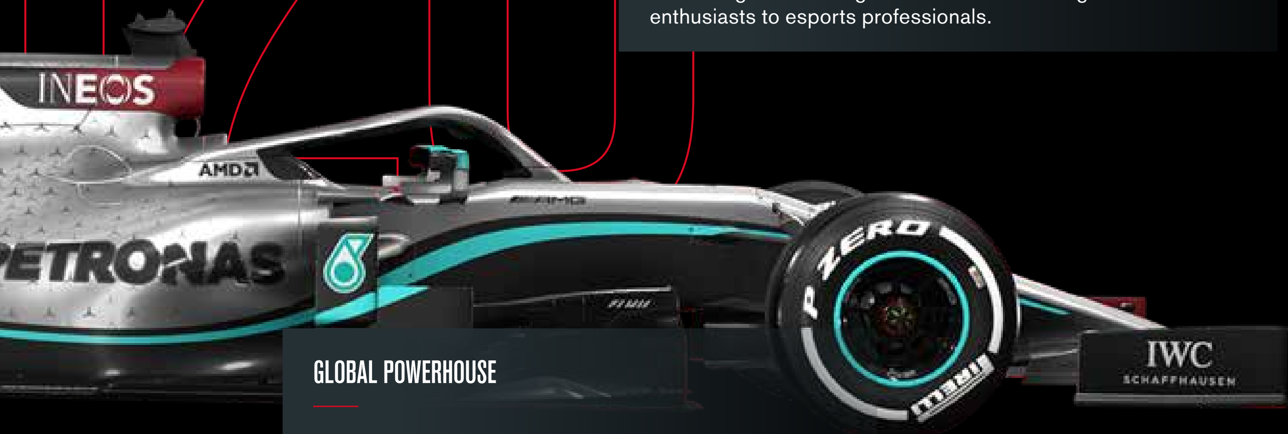

Codemasters produces iconic games and is a world leader in the development and publishing of racing titles.

## IN POLE POSITION

Codemasters is a world-leader in the development and publishing of racing games across console, PC, streaming, and mobile. It is the home of revered franchises including DiRT, GRID and the F1® series of videogames. In November 2019, the Group acquired Slightly Mad Studios and added the award-winning Project CARS franchise to its portfolio alongside Fast & Furious Crossroads.

## AN ENGINE FOR GROWTH

Codemasters has a clear, multi-pronged, content strategy creating the most diverse racing games portfolio. The benefit enables the Group to offer something for all racing fans from casual racing enthusiasts to esports professionals.




## GLOBAL POWERHOUSE

With the addition of Project CARS and Fast & Furious Crossroads via its acquisition of SMS, Codemasters has further cemented its position as a world leader of high-quality racing games. Codemasters will continue to grow in the coming years through a larger portfolio and investment into games across all new platforms and devices.

COMPANY OVERVIEW

# RACING AHEAD.

## 2020 KEY FINANCIAL HIGHLIGHTS

£76.0m
REVENUE

85.7%
GROSS MARGIN

£24.8m
NET CASH

11.6p
ADJUSTED EARNINGS PER SHARE[1]

£18.2m
ADJUSTED EBITDA[2]

£15.9m
OPERATING PROFIT

1 Adjusted earnings per share is a non-GAAP measure presented as a meaningful comparison of earnings per share across periods. It is defined as Adjusted net income per share (which is a non-GAAP measure used as a proxy for cash earnings), where the number of shares across each period is the outstanding amount of Ordinary Shares in issue as at 31 March 2020, given the significant variance in average number of shares in issue between periods, an adjusted measure has been presented. Adjusted net income is defined as Adjusted EBITDA less cash interest and tax paid.

2 Adjusted EBITDA, is a non-GAAP measure used by the Group, which is defined as profit before finance costs on borrowings (restricted to represent cash basis), tax, capitalisation, depreciation, amortisation, non-recurring items, share based payments and takes into account the phasing of milestone payments received from publishers.

# OUR OPPORTUNITY

Codemasters is a world-leading developer and publisher with a heritage of 34 years in the games industry. Headquartered in Southam, Warwickshire, Codemasters also has offices and studios in Birmingham, Cheshire (Runcorn), London and an art facility in Kuala Lumpur. Codemasters specialises in racing games and is the proud owner of the DiRT, GRID and F1® series of video game franchises. In November 2019, the Group acquired renowned racing developers, Slightly Mad Studios, adding the Project CARS and Fast & Furious video game franchises to its roster.

## PORTFOLIO

### F1® 2019 – RELEASED 28 JUNE 2019

F1® 2019 features a series of firsts including the FIA Formula 2 Championship™. The game launched with an F2™ light story mode: a scenario-based introduction which alters the outcome of the game based on the player's success, actions and responses. The game also included Driver Transfers which give the potential for unlikely partnerships as drivers can move teams at the end of the season.

### GRID – RELEASED 11 OCTOBER 2019

GRID gives race fans intense wheel-to-wheel action on some of the most challenging street tracks and race circuits. The game isn't about a procession of cars; with 400 AI personalities, 104 career events across 12 race locations including battles against World Champion racing driver, Fernando Alonso and the return of the revered Ravenwest Motorsport. GRID won the prestigious Best Racing Game at the gamescom Awards 2019.

### DIRT RALLY 2.0 GAME OF THE YEAR EDITION (GOTY)– RELEASED 24 MARCH 2020

DiRT Rally 2.0 GOTY celebrates the best of rally and rallycross, with a combined package of 81 cars across 26 locations. Featuring four rally and rallycross season packs, GOTY also includes the Colin McRae FLAT OUT pack with a new location, Perth and Kinross, and 40 race scenarios.

# 2020 PERFORMANCE

### F1® contract extension

Extended contract with Formula One Management for exclusive game rights for the FIA Formula One World Championship ("F1") franchise from 2021 until 2025, with a further option for the 2026 and 2027 seasons, representing the longest agreement in the partnership's history.

### Successful £20m fundraise and acquisition of Slightly Mad Studios (SMS)

SMS has been established for 10 years and will provide Codemasters further diversified revenue streams through additional proven franchises including Project CARS 3 which launches late summer 2020, access to a blockbuster movie game with the launch of the Fast & Furious Crossroads title confirmed for release on 7 August 2020 in the second quarter of the Group's current financial year, a new free-to-play mobile game Project CARS Go in the second half of the year and the addition of over 150 product developers.

### Annual release F1® 2019

Launched on 28 June 2019 and earlier in the season than any previous iteration, F1® 2019, players had the option of an additional deluxe Legends Edition which featured Alain Prost and Ayrton Senna. Featuring F2™ for the first time, players were also introduced to the game via a light story mode, giving returning players a new experience. F1® 2019 was the highest-rated racing game of 2019 with an average Metacritic score of 87%.

### Release of GRID

Released on 11 October 2019, GRID gave race fans intense wheel-to-wheel action on some of the most challenging street tracks and race circuits. The game isn't about a procession of cars; with 400 AI personalities, 104 career events across 12 race locations including battles against World Champion racing driver, Fernando Alonso and the return of the revered Ravenwest Motorsport. GRID won the prestigious Best Racing Game at the gamescom Awards 2019.

CHAIRMAN'S STATEMENT

# DELIVERING ON OUR POTENTIAL.

## Overview

FY20 was the first full financial year following the Group's admission to trading on AIM and I am pleased to report that it was one of considerable achievement, both in terms of performance during the year and, more importantly, putting in place the building blocks for continued future success.

## Results

The Group has delivered FY20 revenue of £76.0 million, Adjusted EBITDA comfortably ahead of initial expectations at £18.2 million and profit before tax of £12.2 million. At the year end, the Group had net cash of £24.8 million; cash of £25.6 million with £0.8 million of debt within SMS which is due for repayment in H1 of FY21. The results were delivered with just two titles being launched in the financial year: GRID and F1® 2019, along with the Game of the Year Edition of DiRT Rally 2.0 supported by the ongoing strength of our back catalogue of games and key partnerships. The increasing shift to digital, amplified at the end of the financial year by the outbreak of COVID-19, continues to improve margins. Digital sales represented 67.7% of the total sales in the year, up from 59.2% in FY19.

## Strategy

The Group's immediate strategy remains as follows:

- strengthen Codemasters' overall leadership position in racing;
- grow the audience; and
- increase average revenue per user.

Significant strides were made during the past year with regards to each of these pillars, both through organic measures and through acquisition. The strategy remains based on the strength of the Group's overall leadership in racing through the Group's proven expertise in this category and the quality of its AAA franchises. Through the strengthening of our portfolio, we are increasingly well positioned to take advantage of a strong growth market and the continued shift to digital distribution and post launch services. Other opportunities include increasing the Group's penetration into existing and new markets, as well as the new opportunities from Next Gen consoles and streaming platforms. A broader IP portfolio allows us to further establish the Codemasters brand as the go to racing channel for both gamers and licensors hence raising competitive barriers to entry.

## Share Placings and Acquisition

At the start of the financial year, Reliance Big Entertainment, owners of the Company prior to IPO, held 29.5% of the equity. Through placings in June and November 2019 we were able to welcome new institutional shareholders to the register whilst providing Reliance with a highly satisfactory exit and thus ending our nine year relationship with them. An issue of additional ordinary shares, raising approximately £20 million before expenses, took place in November 2019 to finance the initial cash consideration for the acquisition of Slightly Mad Studios ("SMS"). On behalf of the Board, I would like to thank all of our shareholders, past and present, for their support.

The addition of Slightly Mad Studios was an exciting development for the Company, bringing diversified revenue streams through additional proven owned IP Project CARS, access to a licenced blockbuster movie game with the launch of the Fast & Furious Crossroads title confirmed for release on 7 August 2020, and the addition of over 150 product developers. The acquisition helped cement our leadership in the racing category and is expected to deliver adjusted earnings per share enhancement of circa 30% in FY21, being the first full year of ownership.

## Board Composition

Ian Bell, who founded SMS in 2009, joined the Board as an Executive Director and maintains his role as Chief Executive of SMS. Ian is a true innovator with over 20 years' experience in the gaming industry.

Since the financial year end, Lisa Thomas has joined the Board as Non-Executive Director. Lisa is a highly experienced consumer marketer with over 32 years' experience at the forefront of consumer engagement and brand building. In accordance with the terms of the relationship agreement with Reliance, Shibasish Sarkar left his role as Non-Executive Director following Reliance's exit referred to above.

The Board now comprises three Executive Directors and three independent, Non-Executive Directors.

## COVID-19 and People

Since the outbreak of the COVID-19 pandemic our focus has been on the health and safety of our employees and I am pleased to say that we were able to act swiftly and in line with guidance to enable remote working throughout the organisation. This has been helped by the fact that SMS has always adopted a fully remote workforce. It is a great credit to all of our staff that we experienced negligible operational disruption and that they have adapted to the current environment with the utmost professionalism.

## Outlook

The gaming sector is in the midst of significant change, driven by the continual shift to digital distribution and the vast opportunities arising as a result of esports, Games as a Service, the launch of Sony's and Microsoft's next generation consoles, and the emerging streaming platforms such as Google Stadia. Codemasters is well placed to take advantage of this growing market, due to its diverse racing game portfolio and associated revenue streams, key partnerships and the ongoing strength of its back catalogue. As we look ahead, I am confident that we will be able to deliver on our ambitious growth strategy and strengthen our position as a world-leader in the development of premium racing games. Signing the prestigious FIA World Rally Championship license in May 2020 continues to reinforce the company's position as the preferred destination for the world's most successful racing licenses.

**Gerhard Florin**
Non-Executive Chairman
21 June 2020

MARKET OVERVIEW

# LEADING THE WAY.

## CONTINUED GAMES MARKET GROWTH

According to a 2019 Newzoo report, the games market will grow to more than $160 billion in 2020, up 7.3% year on year. Codemasters, as a market-leader exclusively focused on the racing category, is well placed to take advantage of the opportunities that will arise during the next 12 months and beyond.

The racing category is worth an evergreen c.$3 billion with an estimated player-base of 42 million on PC and console. Codemasters is well established within the racing sector, and with the acquisition of Slightly Mad Studios, the Group believes its category leadership strategy is best placed to increase shareholder value.

# UNIQUELY PLACED FOR GROWTH

## BUILDING THE WORLD'S BIGGEST RACING GAME COMMUNITY

Our RaceNet community continued to grow throughout FY20, and in FY21 we will be launching version 2 of this player community platform to increase retention, enabling more opportunities for players to engage with Codemasters when they are away from our games.

Long term we see significant potential for RaceNet to cross-sell more titles per year, maximise our portfolio retention and lifetime value of users and bring value to our unique community of racing gamers.

$160bn

ESTIMATE GAMES MARKET SIZE IN 2020

c.$3bn

RACING CATEGORY MARKET SIZE

## NEW HARDWARE

Both Microsoft (Xbox Series X) and Sony (PlayStation 5) have confirmed their next generation of hardware in time for the 2020 holiday season. Both promise to deliver substantial technical upgrades and the significant marketing spend is expected to boost the entire gaming market.

Codemasters has confirmed its first next-generation title with DiRT 5, which will coincide with the hardware launches. On Xbox, it will take advantage of the new Smart Delivery option. Players who purchase DiRT 5 for Xbox One, will automatically upgrade to the Xbox Series X version when they buy the new hardware.

Both consoles have confirmed backwards compatibility which should provide a smoother transition for games publishers and developers.

Codemasters will continue to invest significant funds into the development of next-generation titles. Leveraging both Codemasters' and Slightly Mad Studios' proprietary game engines, the Group will be able to create new experiences for our community of players.

## CLOUD GAMING AND STREAMING

In November 2019, Google entered the cloud gaming market with the launch of Stadia, which featured Codemasters' GRID as a launch title. Cloud gaming refers to a game that exists on a company server rather than on a device. Cloud gaming offers a more affordable entry point with no expensive hardware costs. Both Microsoft (xCloud) and Sony (PlayStation Now) offer cloud-based solutions which provide an extensive catalogue of games for a low monthly subscription.

With other existing platforms including GeForce (NVIDIA), NetEase and Tencent, rumours of more players entering the space, and 5G being rolled-out globally, cloud-gaming represents a significant opportunity for the games industry. As the market matures, we expect new platforms will emerge over time, which will likely want to secure exclusive content deals in order to make them more attractive propositions.

## FURTHER INVESTING IN ANALYTICS

Codemasters continues to increase investment and focus in data and analytics to understand its audience. By understanding both prospective and active players' habits and motivations, we can give players more of what they want, and drive more lifetime value and grow our market share. This is particularly valuable as we increase our focus on post launch content and services across our franchises.

Over the past year this player insight has not just driven decisions around gameplay, services and content, but has helped inform our consumer communications. Knowing how our players interact with our games increases the effectiveness of our user acquisition and upsell strategies.

## CLEAR MULTI-PRONGED CONTENT STRATEGY

Codemasters has a clear, multi-pronged, content strategy creating the most diverse racing games portfolio. The benefits will enable the Group to offer something for all racing fans from casual racing enthusiasts to esports professionals.

Alongside our core franchises, Codemasters has focused on securing additional content rights such as the FIA Formula 2 Championship™ which features in F1® 2020 having debuted the previous year. The Group is also extending franchises by creating new experiences which cater to a more diverse audience. DiRT 5, releasing October 2020, retains the DNA of DiRT Rally and creates an entirely new experience that will reinvent off-road racing to deliver a sensory overload with vibrant visuals, heart-pounding soundtrack, and severe weather conditions.

Fast & Furious Crossroads creates additional opportunities with a single-player narrative-driven experience, and innovative multiplayer gameplay, based in the Fast and Furious universe. The game has the potential to appeal to the broadest potential racing audience alongside fans of the movie franchise.

## SIGNIFICANT OPPORTUNITY IN MOBILE

Codemasters acknowledges the significant potential from the mobile market, which was worth $68.5 billion in 2019. Newzoo expects the mobile market to be the fastest-growing segment of 2020, enjoying 11.6% year on year growth.

F1® Mobile Racing will continue to be the focus within the mobile market for the first half of the year with the recent update adding F1® 2020 drivers, cars and new circuits for the 2020 season, Hanoi Circuit and Circuit Zandvoort.

Slightly Mad Studios expects to launch its first mobile title, Project CARS GO in the second of half of calendar year 2020.

Mobile is definitely part of our growth strategy. Our mobile project with NetEase continues to progress well toward soft launch. We remain optimistic about the potential of this partnership, both in China and global markets. We will continue to consider M&A opportunities to accelerate growth in the mobile gaming market.

**$68.5bn**

**ESTIMATE MOBILE MARKET SIZE 2019**

## CONTINUED GROWTH OF ESPORTS

According to a report by Newzoo, global esports revenues are projected to break the $1 billion barrier ($1.1 billion) for the first time in 2020, up 15.7% from the previous year. By 2023 the figure is expected to rise to $1.55 billion. The audience will also grow from 495 million, up 11.7% from 2019 to 646 million by the end of 2023.

With many sports events put on hold during the COVID-19 pandemic, esports has helped fill the void with bespoke official tournaments aired on both streaming platforms and linear TV.

F1® 2019 was one of the games to benefit with Formula 1® and Codemasters filling the postponed F1® calendar with the F1® Esports Virtual Grand Prix. Shown live online and to TV audiences, the Virtual Grand Prix's achieved 30 million views.

Esports continues to be a great way to unlock the full potential of a competitive gaming title. Tournaments shown on digital and linear TV helps drive engagement and increases both sales of the game and monthly average users (MAU). In a market still in its infancy, Codemasters expects to create revenue opportunities from sponsorship and broadcast as the market matures. The Group is also in a good position to start generating esports revenue from the F1® franchise on the back of the popularity of F1® Esports Series and F1® Virtual Grand Prix through a revenue share with F1®.




# ESPORTS UNLOCKS THE FULL POTENTIAL OF A COMPETITIVE GAMING TITLE.

$1.1bn

2020 PROJECTED ESPORTS REVENUES

646m

ESTIMATED ESPORTS AUDIENCE BY 2023

CHIEF EXECUTIVE'S REVIEW

# PLENTY OF FUEL IN THE TANK.

CEO

Frank Sagnier
CEO

## Strategic Progress

FY20 was another year of considerable progress, in which we continued to strengthen our leadership in the racing genre. This was achieved as we delivered against our key strategic directives: growing our audience and increasing average revenue per unit ("ARPU") which bodes well for sustainable future performance. Our focus on producing the highest quality games places us well to take advantage of favourable market dynamics.

Revenues for the year increased to £76.0 million, (FY19: £71.2 million) which was particularly pleasing given that there were just two game launches as well as the DiRT Rally 2.0 Game of the Year Edition during the year compared to four in the prior period. The trend towards digital sales continued, representing 67.7% of the total (FY19: 59.2%). This trend was evident throughout the financial year but accelerated in the last few weeks as the COVID-19 pandemic led to the closure of bricks and mortar retail outlets globally. Gross margin decreased to 85.7% (FY19: 87.6%), leading to Adjusted EBITDA of £18.2 million (FY19: £18.7 million), which includes a loss of £0.9 million from Slightly Mad Studios ("SMS"), acquired in November 2019. Profit before tax of £12.2 million was generated (FY19: £2.9 million) and the Group has a strong balance sheet with net cash at the year-end of £24.8 million, being £25.6 million of cash and debt of £0.8 million which was acquired with SMS and is due for repayment in H1 of FY21.

The introduction of our Games as a Service ("GaaS") strategy alongside the launch of DiRT Rally 2.0 was an important milestone for the Group and its initial success provides us with confidence for rolling this out further across our portfolio of titles, with new content released every two weeks for 12 months. In total, DiRT Rally 2.0 released four seasons of additional content, 67.7%

## DIGITAL SALES

# DIGITAL

including the Colin McRae FLAT OUT pack, followed by the Game of The Year Edition which included all content from the year including 26 locations and 81 vehicles – making it the most complete rally experience on the market. The impact of this year of additional content has doubled the 90-day retention when compared to the original DiRT Rally and average session times are 34% longer. This is the most significant service programme we have embarked on at Codemasters – giving players more and more reasons to keep coming back to the game.

GaaS for Codemasters remains at a nascent stage and yet we are very pleased with the initial results. We are already seeing positive signs that it is driving player engagement, satisfaction and retention, resulting in a longer life cycle for our games. GaaS is expected to form an increasing share of our revenue going forward.

At the end of October 2019, we extended our relationship with Formula One Management ("FOM") for the exclusive video game rights for the FIA Formula One World Championship ("F1") franchise, to publish an annual title from 2021 to 2025. In addition, within the agreement there is an option to further extend until 2027 based on certain performance conditions. This represents the longest extension in the partnership's history, which dates back to 2008, and shows the strength of our relationship with Liberty Media, owners of F1® since 2017.

Under the terms of the Agreement, Codemasters will pay a higher minimum guarantee to FOM in respect of F1® 2020, which will then increase each year during the term of the Agreement. These increases in aggregate equate to a compound annual growth rate of approximately 12% between the F1® 2019 and F1® 2025 games. In return, Codemasters will receive advertising inventory and marketing support across F1® channels, including via trackside advertising at Grands Prix and a stronger presence on F1®'s fast-growing digital channels. Codemasters will also work more closely with F1® to explore additional revenue opportunities.

F1® Mobile Racing continues to go from strength to strength. To date, the game has launched in 155 countries and has over 19 million downloads, up from 9 million at the end of March 2019. A highly rated game on both iOS and Android, it is steadily growing audience and revenue as it continues to innovate with new gameplay features on a regular basis. Revenue from this free to play game is a mix of in-app purchases, subscriptions and in-game advertising. F1® Mobile Racing will also launch its first esports tournament in 2020.

The symbiotic nature of the relationship has never been more evident than since the outbreak of COVID-19. With many sports events put on hold during the COVID-19 pandemic, esports has helped fill the void with bespoke official races aired on both streaming platforms and linear TV. F1® 2019 was one of the games to benefit with Formula 1® and Codemasters filling the postponed F1® calendar with the F1® Esports Virtual Grand Prix. The events, shown live online and to TV audiences achieved 30 million views. The professional drivers have been joined by a host of household names from various sports, such as Thibaut Courtois, Ian Poulter and Ben Stokes. As well as providing much needed entertainment, the Virtual Grand Prix is helping to attract a much broader audience to the world of F1® as fans of the different sports tune in to watch the stars in action. There have also been a series of official F2 and F3 Virtual Racing events featuring the real-world drivers competing on the F1® 2019 game using the F2 cars.

Together, these initiatives are all helping to deliver F1® to an ever growing and increasingly engaged audience and we are thrilled to be at the heart of it.

According to a report by Newzoo, global esports revenues are projected to break the $1 billion barrier ($1.1 billion) for the first time in 2020, up 15.7% from the previous year. By 2023 the figure is expected to rise to $1.55 billion. The audience is also expected to grow from 495 million in 2020, up 11.7% from 2019 to 646 million by the end of 2023.

Esports continues to be a great way to unlock the full potential of a competitive gaming title. Tournaments shown on digital and linear TV helps drive engagement and increases both sales of the game and monthly average users (MAU). In a market still in its infancy, Codemasters expects to create revenue opportunities from sponsorship and broadcast as the market matures. The Group is also in a good position to start generating esports revenue from the F1® franchise on the back of the popularity of F1® Esports Series and F1® Virtual Grand Prix. In addition, over the period we also launched our first DiRT Rally 2.0 World Series: an online competition culminating in a live final at the Motorsport Show in January 2020. The introduction of esports, combined with the additional season content, has seen the DiRT community and player base continue to grow. The Group saw a large increase in MAU in March due to the COVID-19 lockdown. DiRT Rally 2.0 World Series Season 2 will commence in the second half of calendar year 2020.

In November 2019, we reached agreement to acquire Slightly Mad Studios, whose sole focus on high quality racing games mirrors our own. The acquisition was in line with our intentions set out at the time of IPO and underline the importance and benefits of our admission to trading on AIM. The addition of SMS brings a number of strategically important benefits to the Group: adding to our IP portfolio; growing our leadership in our genre; and raising competitive barriers to entry. As well as critically acclaimed and commercially successful titles, SMS also brings over 150 talented product developers into the Codemasters family, a fully distributed work force and it has been a pleasure to welcome them.

In the current financial year to 31 March 2021, SMS will bring three additional titles to our launch schedule. The first is Project CARS 3 which takes players from weekend warrior to road legend. The game has been confirmed for late summer with Project CARS GO, a new mobile version of the highly popular franchise releasing in the second half of 2020. The third is the exciting launch of Fast & Furious Crossroads, a team-based, vehicular-heist action game set in the adrenaline-fueled universe of the Hollywood Blockbuster Fast & Furious ("F&F") franchise. This licensed IP game was originally scheduled for launch in May 2020 to coincide with the planned release of the latest F&F film, with both being subsequently delayed due to COVID-19 and the ongoing disruption it has caused.

Following close consultation with our partners BANDAI NAMCO Entertainment Europe and Universal Games and Digital Platforms, the game will now launch on 7 August 2020. The game has been eagerly anticipated and with the inclusion of stars Vin Diesel, Michelle Rodriguez and Tyrese Gibson amongst others, promises to bring fans of the films an authentic storyline, packed with heroes, gadgets, cars and non-stop cinematic-style action. The inclusion of a blockbuster movie game in the portfolio means that Codemasters will now have exposure across all key segments of the racing genre.

Our mobile project with NetEase continues to progress well towards soft launch. We remain optimistic about the potential of this partnership, both in the China and global markets.

## Operational Review

Codemasters is renowned for developing high quality, AAA rated games and is focused solely on the racing category for which it is best known. Its success to date has focused around its franchises, GRID, DiRT and F1®, with the first two being fully owned IP, and F1® benefitting from exclusive rights. As the Group has invested more in these franchises and expanded its distribution agreements, their performance has continued to improve and provide growing and predictable revenue streams at increasingly profitable levels, driven by the growing trend towards digital delivery which also gives players 24/7 access to our growing back catalogue of titles.

The sales performance this year has been delivered largely due to the release of the latest annual instalment of the F1® franchise (F1® 2019), GRID (released in October 2019), the Group's back catalogue of titles and a number of business development initiatives.

In keeping with previous releases, F1® 2019 received widespread critical acclaim. The 2019 instalment of the F1® franchise was the first year that the game benefited from a two-year development cycle, with a second team deployed. The benefits have been tangible and give us confidence for future performance under the two-team structure. For the first 90 days after launch the average Daily Active User tracked 50% above that of F1® 2018® in a comparable period highlighting how fans are continuing to become more and more engaged with the game.

We were also pleased to release the game in June 2019, two months earlier than the previous year, bringing the release date closer to the start of the season. Our intention is to continue to bring the release date forward in future seasons although the current financial year is anomalous due to the COVID-19 pandemic affecting the start of the season. This year's instalment also provided gamers with the option to buy additional content for the first time in an F1® game, enabling player recurring investment. Car liveries, helmets, suits and gloves could all be purchased in-game and the response has been encouraging. Sales remained strong throughout the year and for the third year running, our F1® release was the highest rated racing game on PlayStation 4 in its respective year.

F1® Mobile Racing, our free to play mobile game for Apple and Android devices has attracted over 19 million players in less than a year since launch and went to number one in the Racing category chart in over 150 countries. In June 2019, it launched on iOS in China and in the first half of the year we have delivered four major upgrades to the game, including Elite Leagues and a Season Championship. In May 2019, we introduced a subscription service for the game and are delighted that user acquisition is now profitable on a monthly basis. We will continue to invest in this mobile title over the coming years, releasing regular updates to satiate demand.

F1® Esports Series is now in its third season and continues to grow the number of entries and viewers. Broadcasted live across Facebook and Sky Sports TV, the 2019 Series attracted 5.5 million viewers and 100 million impressions. The first F1 Esports China Championship was completed in January 2020. The two-day final event was streamed live on HUYA, with the final race also broadcasted live on Great Sports TV. At its peak, 1.6 million people tuned in online at the same time.

In October 2019 we were pleased to re-launch the GRID® franchise for the first time since 2014 debuting on this generation of both Sony and Microsoft consoles and it was selected as the only racing launch title on Google Stadia, the streaming platform launched in November 2019.

GRID® won "Best Racing Game" at the gamescom Awards 2019 having previously picked-up "Best Racing Game" at E3, the world's premier event for computer and video games, from Game Informer and DualShockers. It is the first game to partner with Fernando Alonso as a racing consultant, and delivers genre leading racing AI, accessible handling and some of the most iconic cars ever created.

As anticipated, the performance of the Group's back catalogue continues to be strong thanks to the accelerated growth of the digital business reflecting the longer life cycle of high-quality products and well established IP. The Group expects digital growth to continue with future releases.

## COVID-19

Since the outbreak of the COVID-19 pandemic, our focus has been on the health and safety of our employees. We were able to implement remote working, in line with the UK government guidance, quickly and effectively across all of our operations. The team from SMS has always embraced remote working and we were able to learn plenty from them in a short time frame. The ability of our teams to adapt to new working practices and maintain the highest standards of performance has undoubtedly been one of the highlights of the year and I would like to thank each and every one of them.

We are incredibly fortunate to be in an industry that has been largely unaffected by this terrible pandemic. We are proud that our games have been able to bring enjoyment and escapism in such a difficult environment and have worked hard with our partners at F1® to bring alternative ways to follow sporting icons in the absence of live sport. We have also been proud to have supported Games for Carers: a UK initiative which gave free games to NHS staff to help them relieve stress amid the COVID-19 pandemic. Over 100,000 codes were committed by UK games companies.

## Outlook

FY20 has been a period of growth across all parts of the business and I am confident in our growth prospects for the coming year, supported by a strong pipeline of game releases and investment in the sector. Whilst the wider macro-environment has been hampered by the COVID-19 pandemic, we have felt minimal disruption to the business, and I would like to thank all employees for their commitment in delivering these solid set of results in these challenging times.

Through SMS we acquired two highly rated franchises to add to our portfolio; Project CARS and Fast & Furious Crossroads, broadening our market share further in the racing sector. Project CARS 3 will be released in late summer 2020, while the highly anticipated Fast & Furious Crossroads will launch on 7 August 2020, both on PlayStation®4, the Xbox One family of devices and PC. We are also looking forward to the release of F1® 2020 in July, and DiRT 5™ in October 2020 and Project CARS Go in the second half of calendar year 2020.

The gaming market is rapidly growing, and we are well placed to take advantage of the opportunities that will arise during the next 12 months and beyond. We see a significant opportunity in Games as a Service, mobile gaming and esports, all of which are at a nascent stage for the Group but will form a major part of our growth strategy as we expect to see increasing revenue contributions from these parts of the business. The launch of Next Gen consoles confirmed by Sony and Microsoft for the holiday season 2020 will be a boost to the console market and the growth of the market overall. Additionally, the shift to digital has been amplified by the closure of bricks and mortar retail stores, and we anticipate the trend towards digital sales to continue, which will deliver higher margins for the Group.

**Frank Sagnier**
Chief Executive Officer
21 June 2020

# ENGAGING WITH OUR AUDIENCE.

## THE BIGGEST GLOBAL DEVELOPER AND PUBLISHER OF RACING GAMES

Boasting a roster than includes DiRT, GRID and the F1® series of video games, Codemasters already holds a significant market share in the racing category. With the addition of Project CARS and Fast & Furious Crossroads via its acquisition of SMS, Codemasters has further cemented its position as a world leader of high-quality racing games and will continue to grow in the coming years through a larger portfolio and investment into games across all new platforms and devices.

Codemasters will benefit from reducing risk by having the ability to plan game launches away from previous competition and create different types of racing experiences to satisfy the needs of our players.

## ACQUISITION

In November 2019, Codemasters acquired racing specialists Slightly Mad Studios (SMS) who share a rich history of creating AAA driving experiences. Established for 10 years, with a leadership team who have worked together on highly acclaimed racing games since 2002, SMS is the proud owner and developer of the Project CARS franchise. In December 2019, SMS announced Fast & Furious Crossroads: a team-based, vehicular-heist action game set in the adrenaline-fueled Fast & Furious universe. Fast & Furious Crossroads will be released on 7 August 2020 with Project CARS 3 confirmed for late summer 2020. Project CARS GO on mobile is expected to launch in the second half of the calendar year. According to an article on Forbes.com, the Fast & Furious movie franchise has delivered more than $5.9 billion globally at the box office since its debut in 2002.

## GAMES AS A SERVICE

In FY20, DiRT Rally 2.0 released four seasons of additional content, including the Colin McRae FLAT OUT pack. Launching with six locations and over 50 cars, DiRT Rally 2.0 GOTY includes all content from the year including 26 locations and 81 vehicles making it the most complete rally experience on the market.

GRID also released two seasons of additional content with new cars and career content. Offering new tracks for free, Season One featured Hot Hatch Showdown with four new cars and 30 events. Season 2 profiled Track Day Supercars including six vehicles and a Career expansion. Further season content has been released in FY21 to satisfy the needs of our players.

Games as a Service (GaaS) is Codemasters' most important strategic initiative to grow revenue and profit over a games lifecycle. It is a proven model, as demonstrated by DiRT Rally 2.0, to further engage our players, and increase monetisation. GaaS allows for more predictability and extends the lifecycle of our products.

# MOMENTUM

## MOBILE GAMING

F1® Mobile Racing ("F1MR") continues to go from strength to strength. To date, the game has launched in 155 countries and has over 19 million downloads, up from 9 million at the end of March 2019. A highly rated game on both iOS and Android, F1MR is steadily growing audience and revenue as it continues to innovate with new gameplay features on a regular basis. Revenue from this free to play game is a mix of in-app purchases, subscriptions and in-game advertising. F1® Mobile Racing was also part of the F1 Esports qualification in 2019.

## ESPORTS

Codemasters saw continued growth with the third season of the F1® Esports Series with online viewership topping 5.8 million, up 76% on the previous year. This figure is greater than the combined online and TV viewership from season 2, which amounted to 5.5 million. There was also growth in social impressions, 169 million, up 66% from the preceding season. Player participation grew substantially with 109,000 qualifying attempts and 1.4 million laps recorded, representing 65% and 40% increases respectively.

During the sporting calendar blackout, the newly created Virtual Grand Prix Series, using F1® 2019, became one of the most watched and talked about live events with online and TV audience of 30 million views. The virtual Bahrain Grand Prix, which featured a mix of F1® and F2 drivers, esports professionals and celebrities. From an F1® 2019 game perspective, both MAU and digital sales saw significant growth.

Codemasters also launched its first DiRT Rally 2.0 World Series: an online competition culminating in a live final at the Motorsport Show in January 2020. The introduction of esports, combined with the additional season content, has seen the DiRT community and player base continue to grow. The Group saw a large increase in MAU in March due to the COVID-19 lockdown.

DiRT Rally 2.0 World Series Season 2 will commence in the second half of calendar year 2020.

## NEXT-GENERATION CONSOLES

Releasing for the 'Holiday' season at the end of 2020, both Sony (PlayStation 5) and Microsoft (Xbox Series X) have confirmed new hardware with significant technological advancements. Both machines will deliver four times the processing power, reduce loading times, introduce ray tracing for incredibly realistic lighting effects, and be backwards compatible.

Codemasters believes backwards compatibility gives players confidence to continue to purchase for their current consoles, knowing there is a smooth transition when they decide to upgrade. The combined amount of marketing from Xbox and PlayStation will also be an added boost for the console market.

## DRIVE TO DIGITAL

While digital already accounted for a large percentage of the Group's total revenue, the lockdowns due to COVID-19 drove significant digital sales growth. While this might be short term due to the COVID-19 pandemic, we expect the transition to digital to accelerate as more players become accustomed to the simplicity of downloading games and content. We also hope to see more subscription services emerge, offering a catalogue of games for a monthly fee with no long-term contracts.

STRATEGY IN ACTION

# PORTFOLIO.


## SLIGHTLY MAD STUDIOS

Slightly Mad Studios (SMS) is the award-winning team behind the Project CARS franchise, which has achieved both critical and commercial success.

The upcoming edition, Project CARS 3, will release late Summer 2020. In December 2019, SMS announced the development of Fast & Furious Crossroads: a team-based, vehicular-heist action game set in the adrenaline-fueled Fast & Furious universe, scheduled for release on 7 August 2020. Slightly Mad Studios has also delivered high-quality racing simulations alongside its IP including two Need for Speed titles on behalf of Electronic Arts.

# POWERHOUSE

### EXPERIENCE

With over a decade's worth of pedigree creating AAA-games, the studio is a 175+ strong group of professionals working from either a hub in London or Singapore, or worldwide via a unique and award-winning distributed development system.

SMS is renowned for its unique culture and way of working. Most staff work away from a hub and rely on communication and meeting software to keep abreast of the latest news and workflows. Being established for remote working has meant there has been no disruption to current projects during the COVID-19 lockdown.


FAST & FURIOUS CROSSROADS

Featuring a unique and authentic storyline, and packed with heroes, gadgets, cars and non-stop cinematic-style action, Fast & Furious Crossroads will deliver pulse-pounding gameplay both in a single-player story mode and a soon-to-be-revealed multiplayer mode.

The Fast & Furious Crossroads story mode expands the Fast & Furious universe with Vin Diesel, Michelle Rodriguez and Tyrese Gibson reprising their roles as Dom, Letty, and Roman in an action-packed adventure set across stunning global locations.

The game is scheduled for launch on 7 August 2020.

2009

FOUNDED

175+

EMPLOYEES

PROJECT CARS 3

Project CARS is an intense and technically advanced simulation racing experience. Created by gamers, tested by real racing drivers and a preferred choice for esports professionals.

Project CARS is pushing racing into a new era of motorsports by combining authentic realism of the world's most advanced simulation racing game with the pure joy of racing action. Project CARS is The Ultimate Driver Journey.

In June 2020, Slightly Mad Studios announced the 3rd instalment of their leading racing franchise, Project CARS 3, for release in late summer 2020. Alongside the deep and authentic racing simulation that the series is known for, the latest game will include a host of exciting new features to increase accessibility to a wider audience.

12 MONTHS AT CODEMASTERS

# A MOMENTOUS YEAR.

# ONLY AS GOOD AS ITS PEOPLE

## OUR PEOPLE

A company is only as good as its people and, here at Codemasters, we have the very best. Our teams are highly motivated and empowered to develop the best racing games and create the perfect experience for our players and memories that last forever.

At Codemasters, we are the guardians of some of the most revered games brands in the world, and we are proud to be the home of DiRT, GRID and the F1® series of video games. With our increased focus on games as a service, we can give players more of what they want and increase engagement, daily and monthly average users (DAU/MAU), lifetime value (LTV) and brand loyalty.

With the acquisition of Slightly Mad Studios, our headcount has increased to c.750 global full-time staff with the majority based in the UK.

## MAKING A DIFFERENCE

We believe the secret of our success is our people. It is the Codemasters family that underpins our technology, our games and our successes. We are committed to attracting a diverse workforce and ensuring we maintain a supportive and inclusive culture. We want an environment where everyone feels respected, safe, and able to reach their full potential.




## AWARD NOMINATIONS AND WINS

It has been a momentous year for Codemasters and its games, with a record number of award nominations including the coveted "Best British Game" for DiRT Rally 2.0 at the BAFTA Games Awards. Successes/wins included the highly prestigious gamescom 2019 Award, which went to GRID in the Best Racing Game category. There were further successes for F1® 2019, scooping two awards for Best Racing Game at The Independent Game Developers Association (TIGA) and Global Gaming Awards, as well as a nomination for Best British Game at the BAFTAs. DiRT Rally 2.0 capped off a great year picking up Best Racing Game from highly respected US online publication, Game Informer.

It is testament to the quality of our teams that we received such a high number of international nominations across our entire gaming portfolio. Codemasters also received recognition as a leading UK games publisher across multiple global award categories.

## ROYAL MAIL STAMP COLLECTION

Celebrating eight of the most revered games to emerge from British programmers during the 1980s and 1990s, Royal Mail released the Video Games Presentation Pack recognising the part the UK played in the global boom of the video games industry.

Codemasters featured with three of its classic titles, Micro Machines, Sensible Soccer and Dizzy, more than any other British developer.

#RaiseTheGame Diversity Pledge

## #RAISETHEGAME

Codemasters is proud to have signed-up to Ukie's (The Association of UK Interactive Entertainment) Raise The Game pledge, designed to inspire meaningful cultural and behavioural change in all games companies.

We are committed to:

- Creating a diverse workforce by recruiting as fairly and as widely as possible;
- Shaping inclusive and welcoming places to work, by educating and inspiring people to take more personal responsibility for fostering and promoting diversity and inclusion; and
- Reflecting greater diversity within games at every level from game design and development through to marketing and community engagement.

We have already made small strides. All job advertising is checked through gender-decoding tools to ensure inclusive language. We work in partnership with schools and colleges in the community to help educate, attract and inspire girls and young women into education in STEM subjects. Concurrently, we have committed to a series of university lectures, games education summits, and school career days to promote Codemasters and attract the next generation of talent, regardless of gender. Codemasters also actively supports both Women in Games and Putting the G into Gaming.

12 MONTHS AT CODEMASTERS continued

# PERFORMANCE.

## APRIL 2019 ONWARDS

### DIRT RALLY 2.0 SERVICE

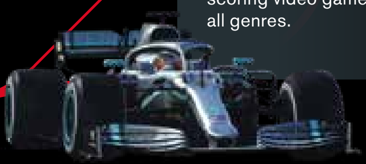
For the first time in Codemasters' history, Codemasters delivered 12 months of additional content (games as a service) to increase engagement, retention, and monetisation. The content packs enable the business to have less reliance on the initial release phase and create additional revenue opportunities throughout the product's lifecycle. These additions also help our games to stay relevant, give more reasons for new players to join the community, and satisfy the needs of our players with more content for the games they love.

The Group published four seasons of content during the fiscal year, releasing cars, tracks and/or liveries every few weeks. The Colin McRae FLAT OUT pack also featured 40 scenarios from Colin's legendary career. The scenarios take place in nine of the cars made famous throughout Colin's career, including many iconic vehicles from previous Colin McRae Rally and DiRT games.

## JUNE 2019

### F1® 2019 RELEASE DATE

Launched on 28 June and earlier in the season than any previous iteration, F1® 2019 players had the option of an additional deluxe Legends Edition which featured Alain Prost and Ayrton Senna. Featuring F2™ for the first time, players were also introduced to the game via a light story mode, giving returning players a new experience. F1® 2019 was the highest-rated racing game of 2019 with an average Metacritic score of 87%, achieving 89% on Xbox One X. The Xbox version also featured in the top 20 highest scoring video games across all genres.



MARCH 2020

## F1® ESPORTS VIRTUAL GRAND PRIX SERIES

With the sporting calendar on hold, Formula 1® and Codemasters created the F1® Esports Virtual Grand Prix series hosting competitions during the original F1® 2020 calendar. Starting in March 2020 and streamed live via Twitch and YouTube and aired live on Sky Sports Main Event and Sky Sports F1®, the Virtual Grand Prix's achieved an online and TV audience of 30 million views. The opening event for the virtual Bahrain Grand Prix drew 89.7 million social impressions, and media coverage reaching an online readership of 2.2 billion.

MARCH 2020

## DIRT RALLY 2.0 GAME OF THE YEAR (GOTY) EDITION

DiRT Rally 2.0 GOTY celebrates the best of rally and rallycross, with the base game and five additional seasons of content. Players experience the most authentic point-to-point rally game combined with the thrilling, fast-paced action of the Official FIA World Rallycross Championship: a traditional six-car, track-based race scenario over multiple laps.

GaaS has significantly increased our consumer rating and grown our MAU, prolonging the product lifecycle in a way we have not seen before.

OCTOBER 2019

## F1® CONTRACT EXTENSION

Codemasters extended its contract with Formula One Management for exclusive game rights for the FIA Formula One World Championship ("F1") franchise from 2021 until 2025, with a further option for the 2026 and 2027 seasons based on performance thresholds. These rights represented the longest agreement in the partnership's history and demonstrated the global success of the game and the shared vision for increasing the international appeal of F1®.

With huge growth across both F1®'s and the game's social channels, the Group is honing its development focus to create modes which lower the barrier to entry for new players while retaining the main experience our core gamers love. With the overwhelming success of both the F1® Esports Series, (Europe and China) and Virtual Grand Prix Series, Codemasters believes it can achieve sustainable growth in the coming years.

NOVEMBER 2019

## ACQUISITION OF SMS

Slightly Mad Studios (SMS) has been established for 10 years and is the proud developer and owner of the Project CARS franchise which has generated both critical and commercial success. SMS has also secured a deal with Universal and Bandai Namco for Fast & Furious Crossroads: a narrative-driven action racing game set in the Fast and Furious universe. The Company has also delivered high-quality racing simulations alongside its IP including two Need for Speed titles for Electronic Arts.

## MODERN SLAVERY

Whilst there may not be a significant inherent risk of modern slavery in the Group's supply chain, the Group is committed to ensuring that it eliminates any exposure to modern slavery. Codemasters' policy on tackling modern slavery reflects its commitment to effective governance and ethical behaviours in all of its business practices.

Our recruitment and employment procedures include appropriate pre-employment screening of all staff to determine right to work in the UK, or Malaysia. We expect all employees to conduct business with honesty and integrity and we have a zero tolerance to bribery and corruption. We are also committed to ensuring that all employees receive fair pay for the role that they perform.

We expect the same high standards from those we work with and are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business.

We have a clear Whistleblowing Policy which is established on our intranet site: if there are any genuine concerns about wrongdoing or breaches of law then these concerns can be raised in confidence without fear of disciplinary action.

## STREAMLINED ENERGY AND CARBON REPORTING (SECR)

The Group's energy consumption has been collated from the electricity bills across its three UK studios and that generated by its solar panels. The greenhouse gas emissions have been calculated using an industry standard conversion factor. The Group has no significant energy consumption which falls into Scope 1.

| | **Year ended 31 Mar 2020** |
|---|---|
| UK energy consumption (MWh) | 2,241 |
| Scope 2: ($tCO_2e$) | 564 |
| $tCO_2e$ per employee | 0.989 |

During the year, the Group generated over 30Mwh from its solar panels. Over the next two years we are estimating to generate close to 300Mwh per annum as it increases its solar capacity. The Group is in the process of reducing its energy consumption across its estate through an ongoing programme of replacing less energy efficient lightbulbs with LED's and conversion to Philips Interact with daylight harvesting, accurate scheduling and PIR activation. In addition, four further electric charging points have been installed at its Southam headquarters during the year.

## SECTION 172 STATEMENT

In compliance with section 172 of the Companies Act 2006, the Directors recognise the importance of engagement with all stakeholders and the impact this has on the Group's long-term success. Through the presentations, discussions and reviews during the Board meetings throughout the year, the Board is able to ensure that the Group maintains an effective working relationship with its stakeholders and shareholders. Senior management disseminates updates and engagement with the wider business and partners providing insights into the Group's activities and initiatives. The annual budgeting and forecasting process provides the Board with the opportunity to understand and challenge the long-term business strategy to help deliver growth and future success of the Group through its team and the products they create, develop and publish ensuring that the long-term consequences of any decisions are considered.

The Directors recognise the importance of the talent of its employees and the commitment they make to the success of the Group. The Group operates from high quality studios with good facilities to ensure there is a pleasant and constructive work environment with an aim to retain employees. The majority of SMS employees work from home, providing them with a flexible work environment. Please see the 'stakeholder and social responsibility' section on page 41 for more details.

The Executive Directors maintain face to face dialogue with shareholders on a regular basis, with feedback provided to the full Board. This ensures that there is transparency and they act fairly between members of the Company.

Environment and the wider community are important considerations. As detailed below, the company has its own solar panels and over the next two years is investing in increasing its capacity to generate a much higher proportion of its energy requirements from a sustainable source. As detailed on page 19, Codemasters has joined #RaiseTheGame to demonstrate its commitment to the wider community and its desire to be seen to be maintaining a reputation for high standards of business conduct and acting ethically and with integrity in all it does.

The Group builds strong business relationships with its suppliers and customers alike without whom the Group would not be able to operate. The Group's ethos is to invest time to foster relationships to ensure that all parties thrive from the relationships. The Group acts with integrity in its dealings.

# WE MAKE RACING GAMES

DiRT RALLY 2.0

# RISE TO THE CHALLENGE

## GAME OF THE YEAR

DiRT Rally 2.0 Game of the Year Edition provides the most comprehensive rally and rallycross experience ever made. With over 80 cars and 26 locations from around the world, DiRT Rally 2.0 features four full seasons of additional rally and rallycross content and the Colin McRae: FLAT OUT pack which celebrates the historic career of arguably one of the greatest ever rally drivers.

Since the release of the base game in February 2019, DiRT Rally 2.0 has been on a path of evolution with new cars, locations, and community-requested features coming every month. With the Game of the Year Edition, every piece of content ever created is available in one complete package.

IP LICENSED

SIMULATION

OFF-ROAD

85%

METACRITIC REVIEW AVERAGE

Take on the definitive versions of iconic rally locations such as Wales, Monte Carlo, Sweden, Germany, Greece, Finland, and Scotland in legendary rally cars, including fan-favourites such as the SUBARU Impreza 2001, Peugeot 206 Rally, and the Skoda Fabia Rally.

Race on eight official circuits from the FIA World Rallycross Championship, complete with licensed Supercars and support series.

DiRT Rally 2.0 Game of the Year Edition also includes the latest and greatest of the FIA World Rallycross Championship, with the 2018 and 2019 Championships, cars, drivers, and locations. Experience the fast-paced super-intense action from the world of rallycross in modern machinery or take on the fearsome monsters of the Group B era. The choice is yours.

Develop your team and cars around race strategies, and progress through a varied selection of Events and Championships in both a single-player Career Campaign and a competitive online environment.

80+

DIFFERENT CARS TO RACE

04

SEASONS OF CONTENT

## KEY FEATURES

- **The complete rally and rallycross experience**
  80+ cars in 26 locations from all corners of the world. GotY is the ultimate rally package.
- **All four seasons of content**
  11 new rally and rallycross locations, 27 new vehicles, and 57 bonus liveries.
- **Colin McRae FLAT OUT pack**
  The ultimate tribute to a rally legend who gave birth to the DiRT series over 20 years ago. Drive two of his most iconic cars, an all-new rally location, and 40 challenging scenarios which will test the toughest of drivers.
- **All content available on Oculus**
  All post-launch content now playable in the exciting world of virtual reality. If you've just got a headset and are ready to take on the world of rally, this is the perfect place to start.

THRILL

F1 2019
THE OFFICIAL VIDEOGAME

HEA

**IP**
**LICENSED**

**SIMULATION**

**CIRCUIT**

# THE OFFICIAL VIDEOGAME OF THE 2019 FIA FORMULA ONE WORLD CHAMPIONSHIP™

F1® 2019 challenges you to Defeat your Rivals in the most ambitious F1® game in Codemasters' history. The game released a full two months earlier during the Formula 1 myWorld Grosser Preis Von Osterreich 2019 weekend and, unlike previous iterations, ahead of the British, German and Hungarian races.

F1® 2019 features all the official teams, drivers, and all 21 circuits from the 2019 season. This year sees the inclusion of F2™ with players being able to complete the 2018 season with the likes of George Russell, Lando Norris, and Alexander Albon. The 2019 F2™ season content was made available as a free digital update during the season.

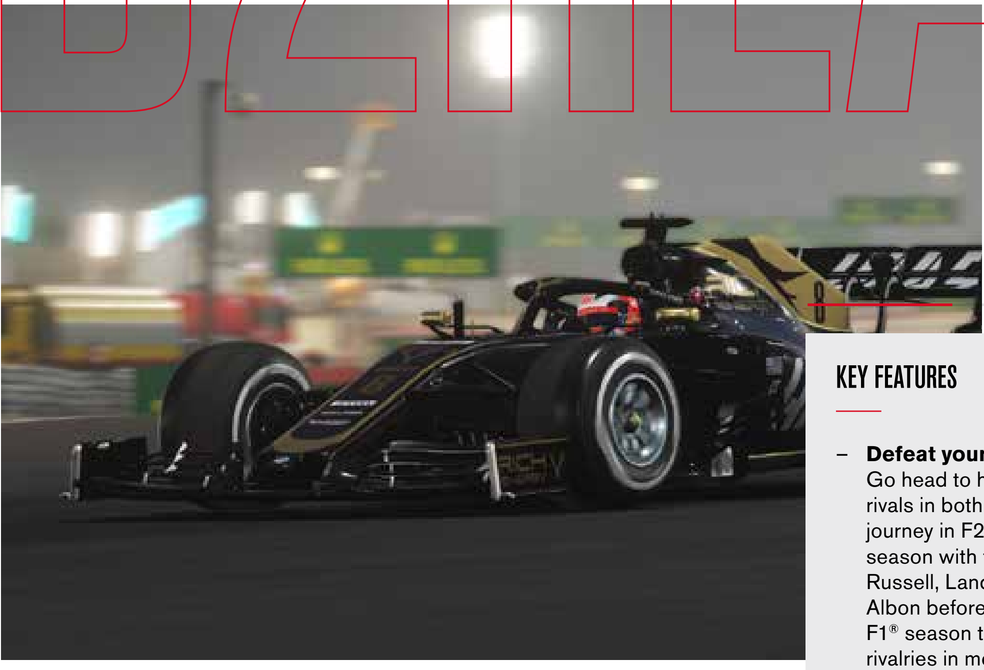
Having established itself as one of the highest-rated racing franchises of all time, F1® 2019 builds on the success of previous iterations and delivers an experience that rivals the quality and production values of its real-life race counterpart. With a greater emphasis on graphical fidelity, the environments are significantly enhanced, and the tracks come to life like never before. Night races have been overhauled, creating vastly improved levels of realism and the upgraded F1® broadcast sound and visuals add further realism to all aspects of the race weekend.

# HAVE YOU GOT WHAT IT TAKES?

**87%**

**METACRITIC REVIEW AVERAGE**

# D2HEAD





## KEY FEATURES

- **Defeat your Rivals**
  Go head to head with the biggest rivals in both F2™ and F1®. Begin your journey in F2™ and re-live the 2018 season with the likes of George Russell, Lando Norris, and Alexander Albon before stepping up to the 2019 F1® season to experience the biggest rivalries in motorsport including Lewis Hamilton's battle with Sebastian Vettel.
- **F2™ mode and Career Story**
  Establish your reputation and defeat your rivals in the F2™ Story Mode before stepping into the full F1® 2019 Championship.
- **Esports Integration**
  F1® 2019 features an in-game esports area giving players the latest news and highlights from the F1® Esports Series. The esports section makes it much easier to sign-up and participate in the online qualifiers and see upcoming events in the calendar.
- **Enhanced visual fidelity**
  Stunning new night lighting, uplifted environments, and upgraded F1® broadcast rebrand visuals gets you even closer to the action.
- **Multiplayer**
  New League functionality allows players to find and create their own tournaments, compete in weekly challenges, and customise a 2019 F1® Regulation Car, designed in collaboration with Ross Brawn and Pat Symonds.

### Anniversary Edition:

The F1® 2019 'Anniversary Edition' which comes with two classic cars from the 2010 season; the Ferrari F10, as driven by Fernando Alonso and Felipe Massa, and Lewis Hamilton and Jenson Button's McLaren MP4-25.

### Legends Edition:

For the F1® purists, the F1® 2019 'Legends Edition' celebrates the greatest rivalry in F1® history. Players will get to drive as Ayrton Senna in his 1990 McLaren MP4/5B and Alain Prost in the Ferrari F1-90, and face off over eight race challenges, as well as receiving exclusive Senna and Prost themed multiplayer car liveries. They will also receive the content from the 'Anniversary Edition': 2010 Ferrari F10 and 2010 McLaren MP4-25 classic car DLC.

SIMULATION

CIRCUIT

# THE OFFICIAL MOBILE GAME OF THE FIA FORMULA ONE WORLD CHAMPIONSHIP ™

F1® Mobile Racing continues to be a leader in its field for authenticity, stunning visuals, and superb gameplay. Available in 155 countries, F1® Mobile Racing has over 19 million downloads to date.

Take your place in the world's biggest motorsport with F1® Mobile Racing, the official mobile game of the FIA Formula One World Championship™.

Develop and customise your F1® car from the ground up, or race for one of 10 official F1 ® teams. Challenge opponents from around the world to thrilling multiplayer duels. Including teams, drivers, helmets, and circuits from the 2019 season, F1® Mobile Racing lets you compete against the greatest drivers on the planet including Lewis Hamilton, Sebastian Vettel, and Max Verstappen.

## KEY FEATURES

- **World championship™**
  Featuring the 2019 season with all teams, drivers, and race helmets.
- **High-stakes events**
  Race in time-limited Grand Prix™ Events during every real-world F1® race weekend for big rewards. Combine your scores over each event to rank on global leaderboards.
- **Development and upgrade your F1® car**
  Collect parts to upgrade your car's performance and find the best configuration for each Grand Prix™.
- **Real-time multiplayer**
  Duel against players from around the world in real-time 1v1 races to make your way to the top Leagues.
- **Stunning graphics**
  Enjoy the feeling of being a real F1® driver with gorgeous visuals.
- **Thrilling races**
  Take part in the greatest racing spectacle on the planet with a console-quality gameplay experience on your mobile.

19m

DOWNLOADS

GRID

SIMULATION

CIRCUIT

# GRID CAPTURES THE INTENSE MOMENT-TO-MOMENT ACTION LIKE NO OTHER RACING GAME.

The series returns with an all-new experience where every race is the chance to choose your path, create your story, and define your legacy in the motorsport universe.

Take your place in the GRID World Series and compete in intense wheel-to-wheel racing. Get behind the wheel of the most iconic and desirable race cars – current and classic, from GT through Touring and Muscle to Stock and Super Modifieds – and in some of the world's most famous city streets, ovals, and circuits.

Every moment of the race is captured in GRID, from the adrenalin rush at the start lights to the elation at the chequered flag, with action and incidents coming one after another: tight overtaking, accidents, spinouts, and collisions. These are all heightened by the impact of having rivals, team-mates, and a nemesis driver that will all try to either help or hinder your progress towards your goal of becoming the GRID World Series champion.

## KEY FEATURES

- **The most iconic cars ever raced**
  Race the greats, both current and classic, across an array of vehicle classes. Modern greats such as the Porsche 911 RSR and Ferrari 488 GTE in the GT class to classics such as the Ford GT40 and Nissan Skyline R32 are all available to race to their limits.
- **12 incredible racing locations**
  Compete in intense wheel-to-wheel races on iconic city streets, world-famous circuits, and beautiful point-to-points, featuring Havana, Shanghai, Brands Hatch, Indianapolis, and many more, with multiple routes at each location and varied time of day and weather conditions.
- **Impactful damage system**
  Realistic damage can affect both the car's performance and handling. Too much contact with the same racer will see them emerge as a nemesis who will stop at nothing to get their revenge in the race.
- **Nemesis system**
  Create Nemeses by trading paint on track. Team-mates can be called upon to support, attack, or defend – though how they react to those orders is driven by their personality.
- **Racecraft**
  Build-up your Racecraft score during every race by pulling off great overtakes, following the racing line, nailing clean sectors, and much more. Thanks to Racecraft, every corner and moment is a chance for glory.
- **Fernando Alonso challenge**
  One of the most successful racing drivers of the modern era across F1, Endurance, and Stock racing, Fernando Alonso joins GRID as Race Consultant and his Renault R26 car features in-game. Complete his challenges and earn the right to race Alonso himself.

FINANCIAL REVIEW

# DELIVERING GROWTH.

CFO

Rashid Varachia
Chief Financial Officer

| £76.0m | 85.7% | £18.2m | £15.9m | £24.8m |
|---|---|---|---|---|
| REVENUE | GROSS MARGIN | ADJUSTED EBITDA | OPERATING PROFIT | NET CASH BALANCE |



## Overview

In FY20 the Group continued to deliver on its strategic objectives with growth in revenue and Adjusted EBITDA, excluding SMS. The acquisition of Slightly Mad Studios ("SMS") in November 2019 represents a key strategic acquisition enabling the Group to be the leading developer and publisher in high quality racing games.

The Group delivered revenue of £76.0 million which represented a 6.8% increase from £71.2 million in FY19. Non-boxed share of revenue has grown strongly from 59.2% in 2019 to 67.7% in FY20. Also, a positive by-product of the COVID-19 lockdowns around the world has meant that lost boxed sales have been more than replaced with higher margin digital sales.

Adjusted EBITDA is £18.2 million (2019: £18.7 million) with Adjusted EBITDA, excluding SMS, being £19.0 million, an increase of 1.6% year on year.

Adjusted EPS of 11.6 pence has decreased by 1.7 pence from 13.3 pence per share in 2019 due to the impact of the increase in share capital owing to the shares issued to fund the acquisition of SMS and the negative contribution from SMS. Net cash balances as at 31 March 2020 were £24.8 million, with cash of £25.6 million up from £18.4 million as at 31 March 2019, leaving the Group's balance Sheet in a strong position. The Group also had debt of £0.8 million which was acquired with SMS and is due for repayment in H1 of FY21.

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| **Revenue** | **76,049** | 71,219 |
| **Gross profit** | **65,188** | 62,388 |
| **Gross Margin %** | **85.7%** | 87.6% |
| **Operating profit** | **15,864** | 8,304 |
| – non-recurring items | **1,415** | – |
| – amortisation & impairment of development costs and computer software | **24,521** | 27,470 |
| – interest on unwinding of licensing agreements (restricted to represent cash basis) | **(1,274)** | (2,001) |
| – depreciation of tangible fixed assets | **2,155** | 1,430 |
| – capitalisation of development costs | **(27,055)** | (23,231) |
| – share based payments | **1,135** | 6,725 |
| – SMS milestone payment adjustment | **1,391** | – |
| **Adjusted EBITDA** | **18,152** | 18,697 |
| Tax (charge)/ credit on profit on ordinary activities | **(777)** | 771 |
| Less non-cash tax items (deferred tax charged to Income Statement) | **58** | (838) |
| Cash interest | **98** | 34 |
| **Adjusted net income** | **17,531** | 18,664 |

Non-recurring items in 2020 are costs incurred in relation to the acquisition of SMS, which under accounting rules are not one-off costs so are included within Operating profit. In 2019, the non-recurring items relate to the costs of the IPO which are one-off costs, so are shown after Operating profit.

## Trading

The Group delivered £76.0 million of revenue in FY20 (2019: £71.2 million), primarily driven by performance of the major releases in the year (F1® 2019 and GRID) coupled with a full year's revenue from DiRT Rally 2.0 which was released in February 2019. 2019 included three major releases (F1® 2018®, DiRT Rally 2.0 and ONRUSH). The Company's back catalogue produced a material contribution to the total revenue of the period. The revenue from the SMS group was £0.8m representing income from back catalogues sales (games released in prior financial years); there were no new game releases by SMS in the period.

Sales from a number of specific agreements and from the Group's back catalogue supported the increase in revenue. The sales from specific arrangements and back catalogues sales are largely through digital channels, and consumers continue to shift towards more digital downloadable content. These trends have led to the proportion of sales from non boxed channels increasing to 67.7% in FY20 (FY19: 59.2%). Digital sales are beneficial to the Group as they deliver an increased gross profit and EBITDA when compared to boxed titles. All the Group's content is available digitally, ensuring the strength of back catalogue sales.

In 2020 the Group achieved a gross margin of 85.7% (2019: 87.6%). The gross margin was adversely impacted this year owing to lower gross margin achieved on boxed sales and the increase in mobile income, where the revenue is accounted for gross of fees payable to the platforms which are accounted for as a cost of sale. We expect the gross margin to increase going forward, as sales from digital channels continue to increase as a proportion of overall sales.

The Board of Directors use Adjusted EBITDA as a key trading performance indicator. The Board believes this provides a meaningful measure of the underlying operational cash earnings of the Group. The table on the previous page reconciles operating profit which is reported in the Income Statement to Adjusted EBITDA.

**"The Group continued to invest in its product offering in FY20, which has contributed to increase in revenue and like for like Adjusted EBITDA generation. Following the acquisition of SMS, the Group has strengthened its portfolio of games and added further expertise to the strength of our workforce. The Group's strong cash position means it is well placed for future investment opportunities."**

Adjusted EBITDA includes cost of sales, development costs and sales, general and administrative costs. In FY20 Adjusted EBITDA of approximately £18.2 million was achieved (FY19: £18.7 million), with adjusted EBITDA of £19.0 million excluding the effects of the acquisition. Growth in the Adjusted EBITDA excluding SMS, has been driven by the growth in revenue and shift to more profitable routes to market than in previous years.

Commentary regarding the key reconciling items noted above is as follows:

- Amortisation includes long-term amortisation of capitalised development costs and long-term contracts. The key component is amortisation of capitalised development costs, whereby the development costs of each title are released over a 12-month period into the Income Statement, 65% in the first month, with the remainder split equally over the eleven remaining months. Amortisation is a non-cash accounting entry and is dictated by the timing of releases.
- Amortisation costs were £24.5 million (2019: £27.5 million). The underlying amortisation is consistent year on year with the prior year's value including an impairment of £2.6 million. This reflects the continued high level of investment that the Group is making in the development of its current titles.
- Interest on unwinding of licensing agreements of £1.3 million (2019: £2.0 million) is recorded below operating profit within the Income Statement but forms a recurring cost, which is necessary for the Group to be able to release certain titles. Adjusted EBITDA includes all licensing costs in so far as to reflect their cash impact on the Group. It has been restricted to represent the cash basis.
- Depreciation of £2.2 million (2019: £1.4 million) has been recognised in the year. As part of the Group's capitalisation policy certain overheads, including depreciation are capitalised where they are directly related to developing the Group's games. In FY20 £1.4 million (2019: £1.1 million) of depreciation was capitalised within capitalised development costs.
- Capitalisation is the measure of development costs incurred that are held as an intangible asset prior to release of the applicable title. Certain long-term licences entered into in the period are also capitalised (and amortised upon release of the title associated with the licence). Both are non-cash measures. Capitalisation of £27.1 million (2019: £23.2 million) has increased year on year predominantly owing to the investment SMS has made in the development of its games which are due for release in FY21. Investment in the Group's other releases has also increased in the year, with a greater proportion of costs incurred on post release services, which are not capitalised. In October 2019 the long-term licence (which triggered a commitment to developing future titles and to payment to the licensor over a period of time greater than one year) was entered into, which led to £29.2 million being capitalised as an intangible asset.
- Share-based payments in the year of £1.1 million (2019: £6.7 million) are a non-cash charge.

– The adjustment for SMS milestone payments received arises as SMS develop their titles on behalf of a publisher. They receive milestone payments which aren't reflected within revenue until the games are released. Therefore, the net movement in these payments is adjusted for so it reflects the cash position. The costs incurred in developing the games are included within the capitalisation of development costs.

**Creative sector relief**
Creative sector relief recognised in the period of £9.1 million (FY19: £7.3 million) represents the expected relief receivable for FY20 based upon the qualifying costs incurred in the period. The increase in the current year reflects the increased investment in the Group's product offering. The SMS acquisition contributed £1.0 million towards the relief.

**Non-recurring items**
The £1.4 million non-recurring costs in the year relate to the acquisition costs of SMS. In FY19, the £1.5 million non-recurring costs relate to costs associated with the IPO.

**Net interest payable**
Net interest payable of £3.6 million (FY19: £3.9 million) includes £1.6 million foreign exchange movement in respect of the extended F1® licence agreement which was agreed in the year. The FY19 amount includes a £2.2 million charge relating to foreign exchange movement on the US Dollar loans held at the start of the prior period repayable to the Group's former owner Reliance Big Entertainment (Singapore) Pte. Ltd.

It also includes £2.2 million (FY19: £2.0 million) of interest on the unwinding of licensing agreements and £0.05 million on the unwinding of the of liability in respect of right of use assets following the adoption of IFRS 16 – leases. Both items are non-cash in nature.

**Profit after tax**
At the start of FY20 the Group had in excess of £120 million of brought forward trading losses. As such, corporation tax charges have been minimal in the year, reflecting the Group's ability to utilise brought forward losses. In FY20 a net deferred tax charge of £0.1 million (FY19: credit of £0.8 million) was recognised as an estimate of future tax saved from utilising brought forward losses in future periods.

FY20 profit after tax was £11.5 million (FY19: £3.7 million).

Basic earnings per share was 8.1 pence (FY19: 3.0 pence).

Adjusted EPS was 11.6 pence (FY19: 13.3 pence). This is a non-GAAP measure presented as a meaningful comparison of earnings per share across periods. It is defined as Adjusted net income per share (which is also a non-GAAP measure used as a proxy for cash earnings), where the number of shares across each period is the current number of Ordinary shares in issue.

Given the significant variance in the number of shares in issue during the year due to the number of shares issued to fund the initial consideration of SMS and the associated impact on weighted average number of shares in issue between the periods, an adjusted measure has been presented. Adjusted net income is defined as Adjusted EBITDA less cash interest and tax paid.

## Statement of Financial Position and Cash Flow
The investment in SMS is £39.2 million, represented by initial consideration of £23.3 million (£19.4 million in cash and £3.9 million in shares) and deferred contingent consideration of £15.9 million. The deferred contingent consideration is payable over the three years to 31 December 2022 depending on the results of the SMS group (see note 17 for more details). The initial consideration was funded through the issue of 11.3 million new ordinary shares. Costs associated with the issue of the new Ordinary shares of £0.6 million were recognised directly within the share premium account. The excess consideration paid above the fair value of the net assets acquired is reflected in the Consolidated Financial Statements as Intangible assets of £11.0 million and goodwill of £24.0 million.

During the year the Group has adopted IFRS 16 accounting for leases. Assets used under operating leases are now brought into the Statement of Financial Position as a right of use asset with a corresponding liability. As at 31 March 2020, the Group's right of use assets have a net book value of £2.5 million and have a corresponding liability of £1.6 million.

There were £18.2 million trade and other receivables at 31 March 2020 (31 March 2019: £9.2 million). The variance year on year is driven by the timing of several specific agreements which were completed in the final quarter of the year, coupled with the increase in the amount of accrued income from console providers and other customers as a result of income recognition on some agreements.

Within trade and other payables there was £45.5 million that was payable in a period greater than one year as at 31 March 2020 (31 March 2019: £6.2 million). The significant increase is due to the extension of one of the licensing agreements, the liability in respect of the right of use assets following the adoption of IFRS 16 and the contingent consideration for the acquisition of SMS.

As at 31 March 2020, the Group had net cash of £24.8 million, (31 March 2019: £18.2 million) with £25.6 million in cash (31 March 2019: £18.4 million). The movement over the year represents the strength of sales of the Group's game portfolio and the timing of payments on a number of agreements entered into in the last quarter of the financial year. The Group also has debt of £0.8 million which was acquired with SMS and is due for repayment in H1 of FY21.

**Rashid Varachia**
Chief Financial Officer
21 June 2020

# PRINCIPAL RISKS AND MITIGATIONS

The Group is subject to a number of business risks that are inherent to a competitive and rapidly expanding market. These risks include strategic, competitive or financial risks. The Board actively monitors these risks and takes action to mitigate the Group's exposure to these risks.

The key business risks facing the Group are outlined below:

| RISK | DESCRIPTION | MITIGATION |
|---|---|---|
| **Intellectual property rights** | The Group relies on a combination of trade secret, copyright, non-disclosure laws and other contractual arrangements and technical measures to protect its own and its customers' intellectual property. Despite its best efforts to protect its proprietary rights, unauthorised third parties may attempt to copy or use information from the games the Group is working on or has previously released. If the Group cannot successfully enforce its intellectual property rights this could have a material adverse effect on the Group's business. | The Group has taken the appropriate steps with employees and third parties to ensure that the intellectual property that it uses in its products is owned or licensed by the Group. The Group's trademarks are monitored by a trademark attorney and third parties are bound by confidentiality provisions around the use of its intellectual property. |
| **Launch of new titles and next generation of consoles** | The Group is reliant on the success of any new title it launches, with each new title requiring a significant amount of expenditure to be incurred before it is released.<br>In addition, the launch of the next generation of consoles by console manufacturers, such as Microsoft and Sony, has historically presented challenges to developers and publishers. In the event that a new title is not successful it could materially adversely affect the operations or financial performance of the Group. | Codemasters' strategy is to deliver high quality racing games. It has a portfolio of global brands that act as a platform to build from. The Group continues to invest in further developing its proprietary intellectual property to enable it to deliver market leading products to the next generation of consoles when they are released. |
| **Single genre & deterioration of F1®** | Codemasters' products are within a single genre of the video gaming industry, the racing genre. In addition, the Group's F1® franchise is reliant on the popularity of F1®. Any reduction in the popularity of F1® or the wider racing genre would have a material impact on the Group's business. | Racing games are an evergreen genre within video gaming. The genre has a proven track record or delivering some of the most popular titles in each generation of console.<br>In addition, the global popularity of F1® is continuing to grow, which presents further opportunities for the Group. |
| **Dependence upon key personnel** | The Group relies upon a small management team and the loss of a key individual could result in the Group not successfully implementing its strategy. As an example, the Group's F1® contracts and the wider relationship require support from suitably experienced members of the Group. | The Board believes that the Group has the appropriate remuneration and other incentivisation structures in place to retain and attract the calibre of employees necessary to ensure the continued development of the Group and its future success. |
| **Reliance on strategic relationships** | In conducting its business, the Group relies upon the continuation of its strategic relationships within the industry. Specifically, the majority of boxed revenue is derived from the distribution agreement with Koch.<br>A material disruption in the distribution of the Group's boxed goods would have a material adverse impact on the Group's financial performance. | The Board believes that the relationships with key strategic partners are strong. In addition, there are alternative providers available for such external services in the event of an unforeseen event impacting one of those partners. Furthermore, as a greater proportion of the Group's revenue is from digital channels this reduces the reliance on strategic partners for boxed products. |
| **Reliance on F1 relationship** | The Group's ongoing relationship with F1® is a key asset of the Group. Were Codemasters to fail to release a title pursuant to the licence with F1® or were the owners of F1®, Liberty Media, not to renew the licence for the F1® 2026 game onwards, this would have a significant impact on the Group's portfolio of franchises and on its future revenue generation. | The Board maintains a close relationship with F1®, it continues to promote F1® titles to a wider audience offering a greater range of products, including F1® Mobile Racing to mobile customers and the F1® Esports series. All of these are commercially beneficial to F1® and the Group and further strengthen the relationship between the two parties. |

| RISK | DESCRIPTION | MITIGATION |
|---|---|---|
| **Foreign exchange movements** | The Group has certain contracts priced in foreign currencies, has employees based overseas paid in foreign currencies and receives a substantial amount of revenues in foreign currencies (mostly US Dollars and Euros).<br>There is significant exposure to the risk that adverse exchange rate movements could cause revenues to decrease or costs to increase in the reporting currency. | Revenues are concentrated around new title release dates, which are inherently uncertain making hedging against currency risk difficult in practice. However, where relevant the Group uses forward foreign exchange contracts to mitigate the exposure of cash flows to foreign currency exchange fluctuations. These contracts are not entirely effective but can remove a significant amount of currency exposure. |
| **Market growth, new developments and changing technology** | The video games market is competitive, selective and is subject to concentration and economic fluctuations. There are also rapid technological changes requiring significant research and development.<br>In order to remain competitive, the Group will need to continue to select the games it develops and adapt how it derives its revenues from its games and technology in a changing consumer environment. | The Group is mitigating this risk by moving towards a greater proportion of its revenue from digital distribution of its products.<br>In addition, the Group's own intellectual property and proprietary racing engine and well-established brands provide flexibility of delivering a consistently evolving range of products. |
| **Video Games Tax Relief ('VGTR')** | The Group benefits from the VGTR scheme that came into force in 2014 and to date all of the internally developed franchises qualify for VGTR. Therefore, the Group receives a substantial VGTR cash inflow to partially offset its development costs. If changes to VGTR policy were made preventing future releases for qualifying from the tax relief this could materially impact the Group's future financial performance. | Current UK tax policy states that VGTR will be available until 31 March 2023. The Group has a proven track record of developing titles that qualify for VGTR. |
| **Reliance on stability of IT systems** | The Group is highly dependent on the effective operation of its IT systems and infrastructure. This dependence is increased by the Group's workflow structure, which provides for work to be passed between operations within the UK and overseas. Any major systems failure could cause a material delay or interruption of the Group's operations and ability to fulfil its contractual obligations. | The Group has put in place business continuity and disaster recovery procedures in the event of failure of, disruption to or damage to the Group's IT network or IT systems, incorporating the IT network within SMS. |
| **Economic conditions/ Brexit** | As a provider of global consumer products, the Group is exposed to fluctuations in the global economy. In addition, being based in the UK the Group is exposed to the potential future legislative changes, including access to skilled personnel and exposure to any economic downturn both in the UK and overseas. There remains significant uncertainty regarding the UK's exit from the European Union and the impact this may have on businesses within the UK. The Group's business, financial conditions and prospects could be impacted by the global economy and Brexit. | Having a global customer base provides a natural mitigation against a localised economic downturn. The Board is closely monitoring the developments of Brexit and where an associated risk becomes more prevalent the necessary action will be taken to mitigate it accordingly. |
| **Economic conditions/ COVID-19** | The pandemic virus is impacting all companies, employees, suppliers and customers on a world-wide basis and provides significant uncertainty over the ability for companies to operate. The virus impacts on the Group's ability work to work within the three physical studios and may impact on staff's ability to develop and promote new titles as well as manage the on-going promotion of its back catalogue. | The Group's continued investment in IT infrastructure has seen a smooth transition to staff being able to work from home with minimal disruption to the business. The majority of the SMS team are already home based, so have seen little change to their working practices. The Group will continue to monitor the situation for the wider impact on its supply chain and constantly changing consumer behaviour patterns. |

The Strategic Report on pages 1-35 has been approved by the Board and signed on its behalf by:

**Frank Sagnier**
Chief Executive Officer
21 June 2020

# BOARD OF DIRECTORS




## GERHARD FLORIN

**Non-Executive Chairman**

Gerhard has over 20 years' experience in the entertainment and gaming industry. He currently serves on the board of InnoGames GmbH and MTG AB, a Swedish based public company as a Non-Executive Director. Gerhard has previously served on the boards of Funcom NV and King Digital Entertainment plc and was Chairman of the latter between 2014 and 2016. Between 2006 and 2010, Gerhard served as an Executive Vice President and General Manager of Publishing at Electronic Arts Limited, being responsible for the Company's worldwide publishing business, prior to which he held various positions in Electronic Arts' German and British operations.

Gerhard holds a Master's and PhD degree in Economics from the University of Augsburg, Germany.

**Committee Membership:**
Audit Committee
Remuneration Committee (Chair)

## FRANK SAGNIER

**Chief Executive Officer**

Frank has been in the games industry for over 20 years. He started at Acclaim Entertainment as Head of European Marketing. He then moved to Electronic Arts Limited where he successfully managed the European Marketing and Third-Party Publishing teams. Frank was also part of the global leadership team that drove the Company into the online and mobile era. After many years in the corporate world, Frank spent several years running a number of game development studios backed by venture capital firms and focused solely on digital free-to-play business models.

Frank joined Codemasters in 2014, when he was recruited as Chief Executive Officer to implement the Group's strategy. Frank is also an Ambassador for BAFTA Games and a Vice President of 'SpecialEffect', a UK-based charity which uses video games and technology to enhance the quality of life of people with disabilities.

## RASHID VARACHIA

**Chief Financial Officer**

Rashid is a Chartered Certified Accountant, who trained with KPMG UK and since qualifying has held a number of senior finance roles. He joined Codemasters in 2012 as Vice President of Finance, responsible for all finance, HR, IT and company secretarial matters. He was then promoted to his current position, Chief Financial Officer, in 2015. Prior to joining Codemasters, Rashid was the Divisional Finance Director at Technicolor Home Entertainment services, part of Technicolor SA which is listed on Euronext Paris


NED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NED

## IAN GOMES

**Non-Executive Director**

Ian Gomes spent his professional career of over 30 years with KPMG UK, 23 years of which as a Partner. He has worked in multiple environments with extensive client facing and executive leadership roles in the UK, Middle East and Asia. He has substantial global experience as lead auditor and adviser to major companies. His wide cross sector experience also spans strategy, risk mitigation and control, transformation, fund raisings, forensic investigations, acquisition due diligence and post-acquisition integration. Ian is currently an independent Non-Executive Director and Chair of the Audit Committee at Wyelands Bank plc, a UK bank.

Ian holds a Master's degree in Business Administration and is a Fellow of the Institute of Chartered Accountants in England & Wales.

**Committee Membership:**
Audit Committee (Chair)
Remuneration Committee

## IAN BELL

**Executive Director & CEO – Slightly Mad Studios (appointed 10 December 2019)**

Ian Bell is the Chief Executive Officer of Slightly Mad Studios (SMS) and has joined the Board following the acquisition of SMS by Codemasters on 28 November 2019. Ian Bell founded the Company almost two decades ago and continues to play an active and critical role in its strategic decision-making; from expanding markets to future game scenarios, from budget allocation to capital acquisition, Ian remains the heartbeat of Slightly Mad Studios.

## LISA THOMAS

**Non-Executive Director (appointed 7 April 2020)**

Lisa Thomas is a highly experienced consumer marketer with over 32 years of experience. She is currently Global Chief Brand Officer of Virgin and Managing Director of Virgin Enterprises Limited (VEL), a post that she has held since 2016. Featured in Campaign's Power 100 for 2019, Lisa leads the Virgin brand globally across their five core sectors and is responsible for their brand licensing business VEL. Previously, Lisa was UK Group CEO of M&C Saatchi, one of the world's most recognised advertising agencies, from 2010 until 2019, and was concurrently Chairman of LIDA, the creative agency that she founded and which specialised in customer communications as part of the M&C Saatchi Group. She is currently President of WACL (Women in Advertising and Communications London).

## SHIBASISH SARKAR

**Non-Executive Director (resigned 27 June 2019)**
Shibasish Sarkar resigned on 27 June 2019 following Reliance's reduction in their shareholding.

# CORPORATE GOVERNANCE STATEMENT

## Introduction

### Under the AIM Rules for Companies (AIM Rule 26), since 28 September 2018 AIM-quoted companies have been required to apply a recognised corporate governance code.

Codemasters Group Holdings plc ("the company") has adopted The Quoted Companies Alliance Corporate Governance Code ('QCA Code') (which is available at www.theqca.com). The QCA Code takes key elements of good governance and applies them in a manner which is applicable to the different requirements of growing companies; it is constructed around ten broad principles and a set of disclosures.

It is the Board's responsibility to ensure that good standards of corporate governance are embraced throughout the Group. It is the primary responsibility of the Company's chairman to ensure that the Company correctly implements and applies the ten principles of the QCA Code to support the Group in achieving its goal of being the world leading independent racing game distributor and publisher.

The Board reviews the Company's compliance with the QCA Code on an annual basis, which is expected to be reviewed at the same time as the Group's Annual Report and Accounts are prepared.

Below is a table setting out the ten principles of the QCA Code and summarises where in this Annual Report narrative regarding the Company's compliance can be found. Further information regarding Corporate Governance is available on the Group's website at www.codemasters.com including the date when the Board last reviewed its compliance with the QCA code.

| QCA CODE | PRINCIPLE | RELEVANT SECTION(S) OF THE ANNUAL REPORT | PAGES |
|---|---|---|---|
| 1 | Establish a strategy and business plan which promote long-term value for shareholders | Engaging with our Audience<br>Chief Executive Officer's Review | 14 to 15<br>10 to 13 |
| 2 | Seek to understand and meet shareholder needs and expectations | Corporate Governance Statement – Investor Relations and Communications | 41 |
| 3 | Take into account wider stakeholder and social responsibilities and their implications for long-term success | Twelve months with Codemasters<br>Corporate Governance Statement – Stakeholder and social responsibilities | 18 to 22<br>41 |
| 4 | Embed effective risk management, considering both opportunities and threats, throughout the organisation | Strategic Review – Principal Risks and Mitigations<br>Corporate Governance Statement – Review of business risk and internal control | 34 to 35<br>40 to 41 |
| 5 | Maintain the Board as a well-functioning, balanced team led by the Chair | Board of Directors<br>Corporate Governance Statement – Board Overview<br>Corporate Governance Statement – Board Committees | 36 to 37<br>39<br>39 to 40 |
| 6 | Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities | Board of Directors<br>Corporate Governance Statement – Board Overview<br>Corporate Governance Statement – Board Committees | 36 to 37<br>39<br>39 to 40 |
| 7 | Evaluate all elements of Board performance based on clear and relevant objectives, seeking continuous improvement | Corporate Governance Statement – Board Overview<br>Corporate Governance Statement – Board Committees<br>Corporate Governance Statement – Board Performance<br>Remuneration Committee report | 39<br>39 to 40<br>40<br>44 to 46 |
| 8 | Promote a corporate culture that is based upon ethical values and behaviours | Twelve months with Codemasters section<br>Corporate Governance Statement – Stakeholder and social responsibilities | 18 to 22<br>41 |
| 9 | Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board | Strategic Review, Principal Risks and Mitigations<br>Corporate Governance Statement – Introduction<br>Corporate Governance Statement – Board Overview<br>Corporate Governance Statement – Board Committees<br>Corporate Governance Statement – Attendance at Board meetings | 34 to 35<br>38<br>39<br>39 to 40<br>40 |
| 10 | Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders | Corporate Governance Statement – Introduction<br>Corporate Governance Statement – Board Committees<br>Corporate Governance Statement – Investor Relations and Communications | 38<br>39 to 40<br>41 |

## Board overview

The Board has collective responsibility and legal obligation to promote the interests of the Company and its Group and is collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Board. The Company holds Board meetings at least four times each complete financial year and at other times as and when required.

From 7 April 2020, the Board comprises six Directors, an independent Non-Executive Chairman, three full-time Executive Directors and two Non-Executive Directors. Directors' biographies are summarised on pages 36 to 37. The Director's biographies contain details of relevant experience, skills and personal qualities and capabilities which each Director brings to the Board. The Board considers that, collectively, it has an appropriate balance of sector, financial and public markets knowledge and expertise, as well as having an appropriate balance of personal qualities and capabilities. Each Director is encouraged to maintain and enhance their skill sets utilising methods appropriate to their own circumstances.

The Chairman and both Non-Executive Directors are considered independent. Each Non-Executive member of the Board has confirmed that they are able to devote the time required to the business of the Group. The Group operates in a dynamic environment and each Non-Executive Director recognises that the time commitment required by the Group may vary as it matures.

The Company has adopted, and will maintain, governance structures and processes that are fit for purpose and support good decision-making by the Board.

The Company has an Audit Committee and a Remuneration Committee. The Board believes these committees provide governance structures and processes in line with its corporate culture and appropriate to its size and complexity; and capacity, appetite and tolerance for risk. The Group also has a schedule of matters reserved for the Board, which details key actions that are not delegated beyond the Board. These include but are not limited to approval of changes to the Board, approval of the business strategy, acquisitions or disposals from the Group.

The performance of the Board is reviewed at least annually, as part of the review the Board considers the membership of the Board and whether it needs refreshing.

Currently the Board has five male Directors and one female Director. The Directors consider the current Board structure, size and composition appropriate, taking into account the challenges and opportunities facing the Company. In considering future candidates, the appointments will be made with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skills, expertise and experience.

## Board Committees

### Audit Committee

The Audit Committee meets at least four times a year and is chaired by Ian Gomes, Gerhard Florin is the other member of the Audit Committee. All members of the Audit Committee must be Non-Executive Directors and both members must be present to form a quorum at a meeting. It is responsible for ensuring that the financial performance of the Company is properly reported on and reviewed.

The Audit Committee also has responsibility for ensuring that the Company has in place the procedures, resources and controls to enable compliance with inter alia the AIM Rules and the QCA Code.

The Audit Committee has written terms of reference, its role includes:

- monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements);
- undertaking narrative reporting and advising the Board on whether the content of the Annual Report and Accounts provides the necessary information for shareholders to assess the Company's performance, business model and strategy;
- reviewing internal control and risk management systems;
- reviewing compliance, whistleblowing and fraud systems;
- reviewing any changes to accounting policies;
- reviewing and monitoring the extent of the non-audit services undertaken by external auditors; and
- advising on the appointment of external auditors. The Audit Committee will have unrestricted access to the Company's external auditors.

The Audit Committee also annually reviews the requirement for an internal audit function. Given the close monitoring of the business by the Executive Directors and senior management, the Audit Committee does not consider that a formal internal audit function within the business is currently required. An internal controls review was commissioned during the year as highlighted in the Audit Committee Report which can be found on page 42 to 43.

### Remuneration Committee

The Remuneration Committee meets at least twice a year and is chaired by Gerhard Florin, Ian Gomes is the other member of the Remuneration Committee. All members of the Remuneration Committee must be Non-Executive Directors and both members must be present to form a quorum at a meeting. It is responsible for assisting the Board in setting Director and senior management remuneration and to develop and submit to the Board recommendations with respect to other employee benefits considered advisable. The Remuneration Committee has written terms of reference.

The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's Chief Executive Officer, the Chairman, the Executive Directors, the Company Secretary and other senior executives as designated by the Board. The Remuneration Committee also has responsibility for:

- recommending to the Board a remuneration policy for Directors and senior executives and monitoring its implementation;
- approving and recommending to the Board and the Company's shareholders the total individual remuneration package of the Chairman, Chief Executive Officer and other Executive Directors (including bonuses, incentive payments and share incentive awards or other share awards);
- approving and recommending to the Board the total individual remuneration package of the Company Secretary and all other senior executives (including bonuses, incentive payments and share incentive awards or other share awards);
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Group; and
- reviewing the design of all equity-based incentive plans for approval by the Board and shareholders, in each case within the terms of the Company's remuneration policy and in consultation with the Chairman and/or the Chief Executive Officer. No Director or member of management may be involved in any discussions as to their own remuneration.

Further information is set out in the Remuneration Committee Report on pages 44 to 46.

**Nomination Committee**

The Group considers that given the current size of the Board, it is not necessary to establish a formal nominations committee. This position will be reviewed on a regular basis by the Board.

## Board performance

The Board has adopted a policy to evaluate Board performance on an annual basis based upon the following clear and relevant objectives:

- suitability of experience and input to the Board;
- attendance at Board and Committee meetings; and
- interaction with management in relevant areas of expertise to ensure insightful input into the Company's business.

The Board undertook an internal formal performance review during 2019. The format of the annual review will be considered on an annual basis.

The performance review included a review of the Board's effectiveness as a unit and the performance of its committees. As part of the review, consideration was given to diversity, succession planning and development or mentoring of individual Directors and the wider senior management team.

## Attendance at Board meetings

During the year, the Board held ten Board meetings. The Audit Committee met five times and the Remuneration Committee met four times.

Attendance at these respective meetings is set out in the table below:

| | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|
| **Gerhard Florin** (Non-Executive Chairman, Chair of Remuneration Committee & Audit Committee member) | 9/10 | 5/5 | 4/4 |
| **Ian Gomes** (Independent Non-Executive Chair of Audit Committee & Remuneration Committee member) | 10/10 | 5/5 | 4/4 |
| **Shibasish Sarkar (resigned 27 June 2019)** (Non-Executive Director) | 1/1 | N/A | N/A |
| **Frank Sagnier** (Executive Director & Chief Executive Officer) | 10/10 | N/A | N/A |
| **Rashid Varachia** (Executive Director & Chief Financial Officer) | 10/10 | N/A | N/A |
| **Ian Bell (appointed 10 December 2019)** (Executive Director & Chief Executive Officer of SMS) | 1/2 | N/A | N/A |

## Auditor independence

The Company's external auditor is Grant Thornton UK LLP, who has served the Company since 25 May 2018. The external audit function provides independent review and audit. It is the responsibility of the Audit Committee to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements as well as developing and implementing policy on the engagement of the external auditor to supply non-audit services.

## Review of business risk and internal control

The Board regularly reviews and considers the risks to which the business is exposed and discusses the measures which are in place to mitigate risks with the Executive Directors and the senior management team. The Board is satisfied that the senior management team has implemented effective risk management throughout the business. This is an ongoing process, some of the key activities that the Board undertake as part of this process are as follows:

- review of monthly consolidated management accounts prepared in accordance with IFRS;

- detailed preparation of annual budgets and monitoring of performance against those budgets. In addition to this detailed preparation of re-forecasts as required within the financial year and regular monitoring of performance against the re-forecast in addition to budget;
- weekly meetings of senior management to include strategic, financial and operational performance; and
- strategic and financial reviews undertaken at all Board meetings, with actions arising monitored and reviewed at subsequent meetings.

The Board continually monitors the process to maintain effective internal controls. The Audit Committee also annually reviews the requirement for an internal audit function. Given the close monitoring of the business by the Executive Directors and senior management, they do not consider that a formal internal audit function within the business is currently required.

Included within the written matters reserved for the Board of Directors is the annual assessment of the significant risks and effectiveness of the Group's internal controls. During the year an external consultant was engaged to review the Group's internal controls, the executive summary concluded: *"Overall the control environment is considered in good order with management continuing to work towards enhancing the control environment."*

## Stakeholder and social responsibilities

The Group has identified both internal and external stakeholders. The Company communicates with its internal stakeholders using a number of different methods of both formal and informal. It has instituted employee forums in which employees are encouraged to discuss topics relevant to morale, business developments, products and other relevant matters.

The Board believes that the Company's corporate values guide its objectives, strategy and business plan. The Board promotes a corporate culture that is based on ethical values and behaviours and has adopted a number of policies in support of this which include but are not limited to:

- Code of conduct;
- Anti-Bribery and Corruption Policy;
- Share Dealing Code;
- Communications Policy; and
- Whistleblowing Policy

The Company promotes the health and well-being of all employees of the Group. All employees have access to free fruit, the use of a gym and outdoor recreational facilities and equipment, including a football pitch and 30 acres of grounds at our head office in Southam, Warwickshire.

The Company is committed to attracting a diverse workforce and nurturing an inclusive culture. We are focused on tackling the issue of gender diversity in the industry, through promotion of Codemasters to schools, universities and at other summits.

The Company is also committed to eliminating modern slavery in its supply chain. The Company, ensures that all employment procedures include the appropriate right-to-work screening and expect its partners are also committed to eliminating modern slavery. Going forward the Company intends to reinforce the latter by reviewing its procurement process and providing all of its employees with training on awareness of modern slavery.

The Company is in regular dialogue with existing and potential customers and suppliers in order to understand and respond to their current and future requirements.

## Investor relations & communication

The Company has adopted a communication and reporting structure which sets out the manner of open communication between the Board and all constituent parts of its shareholder base. The Chairman and the Executive Directors have met with shareholders throughout the period. From time-to-time the Company will participate in investor focused conferences and forums, and the Company will endeavour to make prior announcement of such engagements such that shareholders of the Group may wish to attend themselves and meet with those members of the Board and/or senior management who may be present.

Information on the Group is available to shareholders, investors and the public on its website www.codemasters.com, which is informative and current. The Group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. The Group also communicates with shareholders through its Annual Report and Accounts, full-year and half-year announcements, trading updates and the Annual General Meeting and encourages shareholders' participation in face-to-face meetings.

Shareholders are encouraged to contact the Company – this can readily be done by e-mail submission to investor.relations@codemasters.com or the Chairman may be contacted by emailing the Company Secretary at elysium@elysiumfundman.com.

## Annual General Meeting

The matters to be conducted at the Annual General Meeting of the Company are detailed in a separate Notice of the Annual General Meeting, which is issued to shareholders alongside this Annual Report.

# AUDIT COMMITTEE REPORT

## MEMBERSHIP

| Committee membership | Meetings attended/held |
|---|---|
| Ian Gomes (Chair) | **5/5** |
| Gerhard Florin | **5/5** |

## HIGHLIGHTS

- Instigated an audit tender process, which was paused in line with guidance from the FRC following the outbreak of COVID-19.
- Reviewed the criteria for capitalisation of development costs.
- Appointed an external consultant to review the effectiveness of the internal control environment and suggested potential improvements, the executive summary of which concluded:

**“Overall the control environment is considered in good order with management continuing to work towards enhancing the control environment.”**

The Audit Committee Report sets out the details of the composition of the Audit Committee including its responsibilities and seeks to provide an insight into the work undertaken by the Audit Committee during the year ended 31 March 2020.

The Audit Committee was formed, on admission, as per the terms of reference adopted by resolution of the Board on 25 May 2018.

## Committee composition and experience

The members of the Audit Committee are Ian Gomes (Chairman) and Gerhard Florin. Please see pages 36 to 37 for biographical details of Committee members and their relevant experience. Other non-members, including members of senior management and the external auditors, attend meetings by invitation to ensure the Committee is fully informed on relevant and material matters.

The effectiveness of the Audit Committee is reviewed by the Board on an annual basis to ensure the relevant skills, qualifications and experience are held in accordance with the Committee's terms of reference.

## Committee responsibilities

The Audit Committee is established by and responsible to the Board. The Audit Committee has terms of reference in place which have been formally approved by the Board. In all cases having due regard to the interests of shareholders, its role includes:

- monitoring the integrity of the financial statements of the Group (including annual and interim accounts and results announcements);
- undertaking narrative reporting and advising the Board on whether the content of the Annual Report and Accounts provides the necessary information for shareholders to assess the Group's performance, business model and strategy;
- reviewing the effectiveness of the internal control and risk management systems;
- reviewing compliance, whistleblowing and fraud systems;
- reviewing any changes to accounting policies;
- reviewing and monitoring the extent of the non-audit services undertaken by external auditors; and
- advising on the appointment of external auditors.

## Work performed

The Audit Committee met on five occasions during the financial year with the external auditor in attendance at some meetings during the financial year to fulfil the responsibilities identified above. Outside of formal meetings, the Committee maintains a dialogue with key individuals involved in the Group's governance, including the Chairman, Chief Executive Officer, Chief Financial Officer and external audit engagement partner.

The Audit Committee, with appropriate input from the external auditors, display the necessary scepticism their role requires in challenging those areas within the annual accounts where significant judgements have been applied. The primary areas of judgement considered by the Audit Committee in FY20 were:

- Revenue recognition: ensuring the timing of recognition of revenue complies with IFRS 15;
- Intangible Assets: reviewing development expenditure to ensure it meets the requirements of IAS 38;
- Share-based payments: ensuring that the share options have been appropriately valued and accounted for; and
- Acquisition accounting: ensuring that the deferred consideration and purchase price allocation are appropriately accounted for.

Other matters also reviewed or considered by the Audit Committee include:

- The Group's Risk Register;
- Interim results;
- The audit plan provided by the external auditors;
- Audit tender process; and
- Going concern.

## External auditor

Grant Thornton UK LLP was appointed as Group auditor on 25 May 2018. A recommendation was made by the Committee to the Board to propose the reappointment of Grant Thornton at the forthcoming AGM.

The Audit Committee and management were satisfied with the external audit team's knowledge of the business and the scope of their audit was appropriate. All accounting judgements were appropriately challenged.

The Audit Committee monitors procedures to ensure the rotation of external audit engagement partners every five years and audit managers every seven years. The Audit Committee also monitors that at least once every ten years the audit services contract is put out to tender.

## Approval

The Audit Committee Report was approved by the Board on 21 June 2020 and signed on its behalf by:

**Ian Gomes**
Chair of the Audit Committee
21 June 2020

# REMUNERATION COMMITTEE REPORT

The Remuneration Committee Report sets out the details of the Remuneration Committee including its terms of reference, the Group's remuneration policy, and remuneration for the year ended 31 March 2020.

The Remuneration Committee was formed, on admission, as per the terms of reference adopted by resolution of the Board on 25 May 2018.

As an AIM listed company, Codemasters Group Holdings plc is not required to prepare this Remuneration Report in accordance with the Directors' Remuneration Report Regulations 2002 or the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (together 'the Regulations'). However, the Remuneration Committee recognise the importance, and support the principles, of the Regulations and seek to follow them to the extent considered relevant for an AIM listed company and the principles of the QCA Code. The Remuneration Committee will continue to monitor market practice to ensure that this report works towards including disclosures at least as good as market practice for AIM companies. The auditor is not required to report to the shareholders on the Remuneration Committee Report.

## Committee composition and experience

The members of the Remuneration Committee are Gerhard Florin (Chairman) and Ian Gomes. Other non-members attend meetings by invitation to ensure the Committee is fully informed on relevant and material matters. All members of the Remuneration Committee must be Non-Executive Directors and both must be present to form a quorum at a meeting.

Appointments to the Committee shall be for a period of up to three years, which may be extended for two further periods of up to three years, provided the Director still meets the criteria for membership of the Committee.

The Remuneration Committee reports to the Board and the effectiveness of the Remuneration Committee is reviewed by the Board on an annual basis to ensure the relevant skills, qualifications and experience are held in accordance with the Committee's terms of reference.

The Remuneration Committee met four times during the year.

## Committee responsibilities

The Remuneration Committee's terms of reference are approved by the Board and include:

- recommending to the Board a remuneration policy for Directors and Executives and monitoring its implementation;
- approving and recommending to the Board and the Company's shareholders, the total individual remuneration package of the Chairman, each Executive and the Chief Executive Officer (including bonuses, incentive payments and share incentive awards or other share awards);
- approving and recommending to the Board the total individual remuneration package of the Company Secretary and all other senior executives (including bonuses, incentive payments and share incentive awards or other share awards);
- approving the design of, and determine targets for, any performance-related pay schemes operated by the Group; and
- reviewing the design of all equity-based incentive plans for approval by the Board and shareholders, in each case within the terms of the Group's remuneration policy and in consultation with the Chairman and/or the Chief Executive Officer. No Director or member of management may be involved in any discussions as to their own remuneration.

No Director or member of management is involved in any discussions as to their own remuneration. Non-Executive Directors do not have any personal interest in the matters to be decided by the Committee other than as shareholders, nor any potential conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the Group. They do not participate in any bonus, employee share option or pension arrangements.

## Termination policy

The Group does not pay any remuneration to the Directors for loss of office. On termination of appointment, Directors shall only be entitled to such fees as may have accrued at the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date.

## Remuneration policy

The Group's remuneration policy is that the remuneration of the Executive Directors should be sufficiently competitive to attract, retain and motivate Directors to achieve the Group's objectives with due regard to the interests of the shareholders and the financial and commercial health of the Group.

The Executive Directors' service contracts are subject to between six and twelve of months' notice of termination. The Non-Executive Directors have each been appointed under contracts which are subject to three months' notice of termination and terminate with immediate effect if not re-elected.

The elements to the remuneration packages of the Executive Directors and other senior management are as follows:

| Element of remuneration package | Description |
|---|---|
| Basic salary and benefits | Basic salaries are reviewed annually and adjusted where appropriate.<br>Other benefits include health insurance, including relevant family members, death in service cover, Directors & Officers Insurance, car allowance and the option to participate in the Group's fleet insurance scheme. |
| Annual bonus awards | Group policy provides for a bonus incentive scheme.<br>All awards are subject to approval by the Remuneration Committee and all payments are made only when approved by the Remuneration Committee. The awards are performance driven, dependent upon the key thresholds being achieved, the key thresholds relate to revenue and Adjusted EBITDA performance adjusted. |
| Pension arrangements | The Group contributes to a defined contribution pension scheme on behalf of the Executive Directors. |
| LTIP's | The Group policy provides for LTIP options to be granted.<br>All LTIP options are subject to approval by the Remuneration Committee. The awards are based upon a mix of operational and share price targets being met. See next page for further details. |

Non-Executive Directors receive a fixed fee and do not receive any pension payments or other benefits. A fee of £5,000 is payable to the Chair of each of the Audit Committee and the Remuneration Committee for fulfilling that role.

The Non-Executive Directors do not participate in a bonus scheme.

The Non-Executive Directors participate in the NED share option scheme. See next page for further details.

## Implementation of remuneration policy

The Group implemented the Directors' remuneration policy upon admission to AIM which was approved by its shareholders at the Company's first AGM. The remuneration policy has included a review of fees and has taken into consideration the time commitment and skills of the Directors.

## Annual Report on Remuneration

### Directors Emoluments

| Name of Director | Fee/basic salary £ | Pension contributions £ | Taxable benefit £ | Annual bonuses £ | 2020 total £ | 2019 total £ |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Frank Sagnier | 363,154 | 34,007 | 16,557 | 573,394 | 987,112 | 955,264 |
| Rashid Varachia | 250,049 | 23,805 | 2,479 | 351,580 | 627,913 | 615,218 |
| Ian Bell (post appointment only) | 113,840 | – | 13,424 | – | 127,264 | – |
| **Non-Executive Directors** | | | | | | |
| Gerhard Florin | 54,247 | – | – | – | 54,247 | 42,361 |
| Ian Gomes | 45,000 | – | – | – | 45,000 | 38,362 |
| **Total** | **826,290** | **57,812** | **32,460** | **924,974** | **1,841,536** | **1,651,205** |

## Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options for Directors who served during the year are as follows. All options were granted on 1 June 2018. See note 9 for further information.

| Name of Director | Scheme | Number of options | Exercise price (pence) | Latest exercise date |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Frank Sagnier | LTIP | 560,000 | 1 | 31 May 2028 |
| Frank Sagnier | ESOP | 15,000 | 200 | 31 May 2028 |
| Rashid Varachia | LTIP | 420,000 | 1 | 31 May 2028 |
| Rashid Varachia | ESOP | 15,000 | 200 | 31 May 2028 |
| **Non-Executive Directors** | | | | |
| Gerhard Florin | NED | 350,000 | 200 | 31 May 2028 |
| Ian Gomes | NED | 210,000 | 200 | 31 May 2028 |

### Pay ratios

In line with reporting requirements, set out below are the ratios which compare the total remuneration of Frank Sagnier (as shown above) to the remuneration of the 25th, 50th and 75th percentile of our UK employees. The disclosure will build up over time to a rolling ten year period.

| Year | Method | 25th percentile pay ratio | 50th percentile (median) pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 31-Mar-20 | Option C | 71:1 | 43:1 | 24:1 |

Option C in the legislation has been used to calculate the full-time equivalent remuneration for the year for the 25th, 50th and 75th percentile of UK employees, by excluding short term temps which would have distorted the ratio.

The base salary and total remuneration received during the financial year used in the above analysis are set out below:

| Year | 25th percentile £'000 | 50th percentile £'000 | 75th percentile £'000 |
|---|---|---|---|
| Base salary | 14 | 22 | 38 |
| Total remuneration | 14 | 23 | 41 |

## Approval

The Directors' Remuneration Report was approved by the Board on 21 June 2020 and signed on its behalf by:

**Gerhard Florin**
Chair of the Remuneration Committee
21 June 2020

# DIRECTORS' REPORT

**For the year ended 31 March 2020**

The Directors present their report together with the audited financial statements of the Parent Company Codemasters Group Holdings plc and the Group for the year ended 31 March 2020.

## Business review, future developments and financial risk management

Please refer to the Strategic Report on pages 1 to 35 for a review of performance, the likely future developments of the Group and a discussion of the Group's principal risks and uncertainties and how they are mitigated.

## Results and dividends

Group revenue for the year is £76.0 million (2019: £71.2 million) and profit after tax is £11.5 million (2019: £3.7m).

The Directors do not recommend payment of any dividends (2019: £nil).

## Directors

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

- Frank Sagnier
- Rashid Varachia
- Gerhard Florin
- Ian Gomes
- Shibasish Sarkar (resigned 27 June 2019)
- Ian Bell (appointed 10 December 2019)
- Lisa Thomas (appointed 7 April 2020)

The Directors who held office during the year as at 31 March 2020 had the following interests in the ordinary shares of the Company:

| | Ordinary shares | LTIP options (1) | ESOP options (2) | NED Options (3) |
|---|---|---|---|---|
| Frank Sagnier | 3,246,750 | 560,000 | 15,000 | – |
| Rashid Varachia | 1,469,500 | 420,000 | 15,000 | – |
| Ian Bell | 1,200,490 | – | – | – |
| Gerhard Florin | – | – | – | 350,000 |
| Ian Gomes | – | – | – | 210,000 |

1 Nominal value cost options granted under the LTIP.
2. Share options qualifying and granted under the ESOP.
3. Options granted under the NED Plan for Non-Executive Directors.

The market price of the Company's shares at 31 March 2020 was 240p (on IPO date 1 June 2018 200p) and the range of closing market prices during the year was between 193.5p and 317.5p.

## Employees

It is the policy of the Group to encourage the employment, training and advancement of disabled persons.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

During the year the Group has maintained and developed its practice of consulting and communicating with employees and their representatives, including several forums on Workplace and other employee engagement programs. The Directors recognise that employees are integral to the success of the Group and all business decisions are taken with employees in mind. Employees participate directly in the success of the business through bonus schemes and the ESOP scheme.

## Share capital and voting

The entire issued share capital of the Company is comprised of ordinary shares of 1 pence nominal value. The shares have equal voting rights, there are no special rights or restrictions attaching to them or their transfer to other persons. The rights and obligations attaching to these shares are governed by the Companies Act 2006 and the Company's Articles of Association.

Appointment and replacement of Directors and changes to constitution rules governing the appointment and replacement of Directors, and those relating to the amendment of the Company's Articles of Association, are contained within the Articles of Association. A copy of the Company's Articles of Association is available on the Company's website www.codemasters.com

## Political contributions

The Group's made no political contributions in the year ended 31 March 2020 (2019: £nil).

## Corporate governance

The Group's statement on Corporate Governance can be found in the Corporate Governance section of this Annual Report, which is incorporated by reference and forms part of this Directors' Report. Corporate Governance information is also available on the Company's website www.codemasters.com

## Independent auditor

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

**Frank Sagnier**
Chief Executive Officer
21 June 2020

# STATEMENT OF DIRECTORS RESPONSIBILITIES

**For the year ended 31 March 2020**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors confirm that:

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

**Frank Sagnier**
Chief Executive Officer
21 June 2020

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CODEMASTERS GROUP HOLDINGS PLC

## Opinion

**Our opinion on the financial statements is unmodified**

We have audited the financial statements of Codemasters Group Holdings plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2020, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated cash flow statement, company statement of financial position, company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for Opinion

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

**The impact of macro-economic uncertainties on our audit**

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

## Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

## Overview of our audit approach

- Overall materiality: £644,000, which represents 5% of the Group's profit on ordinary activities before taxation and non-recurring items;
- Key audit matters were identified as acquisition of Slightly Mad Studios Pte Ltd, going concern and improper revenue recognition.
- A full scope audit was performed of the financial statements of the parent company, and all components determined to be significant. Full scope procedures were performed for entities comprising 100% of Group's total external revenues and acquisition of Slightly Mad Studios Pte. Ltd.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CODEMASTERS GROUP HOLDINGS PLC continued

## Key audit matters

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

| Key Audit Matter – Group and parent company | How the matter was addressed in the audit – Group and parent company |
|---|---|
| **Acquisition of Slightly Mad Studios Pte. Ltd.**<br>On 28 November 2019, Codemasters Group Holdings plc finalised the acquisition of Slightly Mad Studios (SMS) Pte. Ltd. and its subsidiaries (SMS Group).<br><br>The acquisition consideration comprised of the initial consideration of £23.3 million settled on the acquisition date, the estimated deferred consideration of £3.7 million to be satisfied upon occurrence of specified events, and the estimated contingent earn-out consideration of £12.2 million to be satisfied based on the adjusted EBITDA for 12 month periods ending 31 December 2020, 2021 and 2022.<br><br>As a result of this acquisition, the Group recorded intangible assets and goodwill of £11.0 million and £24.0 million respectively as stated in note 15. In addition, management have converted the underlying numbers in the SMS group into IFRS and included numerous detailed disclosures in the financial statements in accordance with IFRS 3 'Business Combinations' and the Companies Act 2006.<br><br>For the acquisition accounting, following IFRS 3, management has made significant judgements around estimating the fair values of deferred contingent consideration and the application of management's valuation model to determine the fair value of the identifiable intangible assets and goodwill, these are included in the financial statements at note 3.<br><br>We therefore identified the acquisition of SMS Group, including the conversion to IFRS, the assessment of the accuracy of deferred contingent consideration, the valuation and allocation of the purchase price to the assets and liabilities acquired and associated disclosures, as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>– Obtaining relevant purchase documents to assess whether management had accounted for the acquisition appropriately and to understand the different elements of the purchase consideration and agreed the basis of calculation;<br>– Assessing the conversion of SMS numbers from local GAAP to IFRS, including reading and challenging management's experts paper and considering the need for further adjustments;<br>– Inspecting and challenging the projections for revenue for titles to be released during the earn out period and ensuring that the calculation of deferred contingent consideration is consistent with the purchase documentation and these projections;<br>– Engaging our internal valuations specialists to assist the audit team in assessing the reasonableness of the underlying assumptions used in the management's valuation models performed by management's external expert;<br>– Challenging the identification of intangible assets by obtaining the acquisition agreement and assessing management's identification of intangible assets;<br>– Challenging management's assumptions that all of the payments in respect of the acquisition are consideration rather than potentially post acquisition remuneration;<br>– Challenging the valuation methodology of each intangible asset by engaging our internal valuation specialists to assess whether management's valuation models were in line with relevant valuation standards;<br>– Checking the consistency of the assumptions and information used in estimating the deferred contingent consideration and calculating the fair value of the intangible assets acquired;<br>– Challenging management's assumption with reference to historic data, sensitivity analysis and benchmarking against industry data available. The assumptions include estimates of future revenue, growth rates, EBITDA and discount rates. In addition, we verified the mathematical accuracy of management's model;<br>– Auditing the opening balance sheet on acquisition under IFRS, for example but not limited to, testing a representative sample for cash received after the acquisition date for trade receivables, post acquisition date payments on creditors and recalculated the deferred income as well as considering management's assessment and implementation of IFRS standards; and<br>– Inspecting the disclosure in the financial statements to ensure that is in accordance with the requirements of IFRS 3 and the Companies Act 2006.<br><br>The Group's accounting policy on business combinations is shown in note 2 to the Group financial statements and related disclosures are included in note 17<br><br>**Key observations.**<br>Our audit testing identified a number of adjustments around the determination of the fair values for deferred and earn-out consideration and the purchase price allocation of intangible assets. Through challenge and discussion with management these matters have been resolved and appropriately adjusted within these financial statements. |

| Key Audit Matter – Group and parent company | How the matter was addressed in the audit – Group and parent company |
|---|---|
| **Going concern**<br>As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, Covid-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements.<br><br>As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>– Obtaining and inspecting management's assessment of going concern (including management's reverse stress test) and challenging the assumptions used in the latest budgets and forecasts;<br>– Inspecting the recent operational cash flows and considering this against the cash position of the group;<br>– Performing sensitivity analysis on the budgets to determine the impact that potential changes in performance would have on the group;<br>– Considering external market information that may impact on the group's ability to continue as a going concern; and<br>– Assessing the adequacy of disclosures within the Annual Report and Accounts.<br><br>**Key observations**<br>Based on the procedures performed, we have identified no issues regarding management's assessment of the impact of Covid-19 on the group's forecasts. We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report. |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CODEMASTERS GROUP HOLDINGS PLC continued

| Key Audit Matter – Group | How the matter was addressed in the audit – Group |
|---|---|
| **Improper revenue recognition**<br>Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud. The audit team has assessed the significant risk to be in regard to the Group's bespoke revenue contracts entered into during the year ('other revenue').<br><br>In applying the Group's revenue recognition accounting policy in accordance with IFRS 15 'Revenue from Contracts with Customers' there is significant judgement required in applying the standard's five step model to the Group's other revenue, including:<br>– Identifying the performance obligations in the contracts requires judgement as to whether the Group is obligated to provide a service (such as development), goods (such as Intellectual Property rights), or a combination of these and whether each of the obligations are distinct.<br>– Determining the transaction price requires judgment in assessing the best estimate of variable consideration that is due and to what extent this estimate should be constrained so as to quantify an amount highly improbable to reverse.<br>– Allocating the transaction price to the performance obligations in the contract requires judgement in allocating the amount of revenue in respect of each performance obligation as the bespoke contracts entered into during the year do not have observable stand-alone selling prices for their associated performance obligations.<br><br>Recognising revenue when (or as) the entity satisfies a performance obligation requires judgement as to whether revenue should be recognised at a point in time or over time. Where revenue is recognised over time, significant management judgement is required in assessing the stage of completion at each reporting date.<br><br>As the Group's other revenue is material to the financial statements and involves a significant level of judgment, we identified improper revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement | Our audit work on other revenue included, but was not restricted to:<br>– considering the stated accounting policy in respect of revenue recognition, testing whether revenue had been accounted for in accordance with the accounting policy and evaluating whether these are consistent with IFRS 15 'Revenue from Contracts with Customers';<br>– performing an assessment of design effectiveness of controls through walkthroughs of systems and controls in place around the recording of other revenue;<br>– comparing significant contract revenue to the Group's accounting policy to determine whether it has been recognised in line with the policy by:<br>  – confirming a valid contract existed with the customer by reference to evidence such as written agreements;<br>  – challenging whether the identification of performance obligations within the contract by management is appropriate;<br>  – challenging the appropriateness of the transaction price ascertained by management by reference to relevant contract(s) and to assumptions made<br>  – determining whether the allocation of transaction price to performance obligations is appropriate by challenging management on the methods used to determine the standalone selling price of performance obligations and the assumptions used within those methods;<br>  – challenging whether management's assessment as to whether performance obligations have been met, including the percentage of completion assessment made by management where performed over time is appropriate in light of relevant evidence, including actual costs incurred and forecasts of costs yet to be incurred until the performance obligations are satisfied; and<br>  – checking the mathematical accuracy of calculations.<br><br>The Group's accounting policies on revenue recognition are shown in note 2 to the financial statements and related disclosures are included in note 5.<br><br>Key judgements and estimates made in relation to this matter are described in note 3.<br><br>**Key observations**<br>Our audit testing did not identify any material deviations in the Group's revenue recognition accounting policy from IFRS 15. In addition, our audit work did not identify any material errors in the occurrence, completeness or accuracy of other revenue recognised during the year or any material instances of revenue not being recognised in accordance with stated accounting policies. |

## Our application of materiality

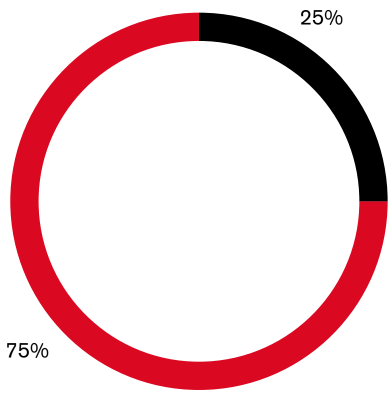
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

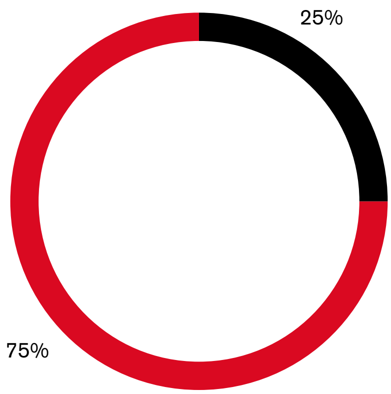
| Materiality measure | Group | Parent |
|---|---|---|
| Financial statements as a whole | £644,000 which is 5% of profit before tax. This benchmark is considered the most appropriate because this is one of the key metrics to the users of the financial statements.<br><br>Materiality for the current year is higher than the level that we determined for the year ended 31 March 2019. | £464,000 which is 2% of total assets restricted to component materiality for the Group financial statements. This benchmark is considered the most appropriate because the company acts as a holding company and does not trade.<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 March 2019. |
| Performance materiality used to drive the extent of our testing | 75% of financial statement materiality. | 75% of financial statement materiality. |
| Specific materiality | We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions. | We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions. |
| Communication of misstatements to the audit committee | £32,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | £32,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

**Overall materiality – Group**




**Overall materiality – Parent**




Tolerance for potential uncorrected mis-statements

Performance materiality

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CODEMASTERS GROUP HOLDINGS PLC continued

## An overview of the scope of our audit

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

- assessment of the Group's internal controls environment, including its IT systems and controls;
- evaluation by the audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the Group's current assets and liabilities, total assets and liabilities, revenues and profit before taxation;
- full scope audit procedures were performed by the audit team over the financial statements of the parent company, Codemasters Group Holdings plc, and its trading subsidiaries Codemasters Software Company Limited and Slightly Mad Studios Limited, which were determined to be significant;
- targeted audit procedures were performed by the audit team over the financial information of the subsidiary undertakings, Codemasters Development Company Limited, Slightly Mad Studios Pte. Ltd. and IoTech Finance Sarl;
- all other remaining entities are subject to analytical review for Group purposes;
- this approach resulted in full scope audit procedures being performed over 100% of the Group's total external revenues and acquisition of Slightly Mad Studios Pte. Ltd.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

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

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

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

## Use of our report

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

**Philip Sayers FCA BFP**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
23 June 2020

# CONSOLIDATED INCOME STATEMENT

**For the year ended 31 March 2020**

| | Note | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|---|
| **Revenue** | 5 | **76,049** | 71,219 |
| Cost of sales | | **(10,861)** | (8,831) |
| **Gross profit** | | **65,188** | 62,388 |
| Distribution costs | | **(9,272)** | (10,397) |
| Administrative expenses: | | | |
| – research expenses, amortisation and impairment of intangible assets | | **(38,447)** | (38,172) |
| – creative sector relief | | **9,113** | 7,278 |
| – other administrative expenses | | **(8,168)** | (6,068) |
| – share based payments | | **(1,135)** | (6,725) |
| Total administrative expenses | | **(38,637)** | (43,687) |
| Non-recurring items | 6 | **(1,415)** | – |
| **Operating profit** | 7 | **15,864** | 8,304 |
| **Analysed as:** | | | |
| – operating profit | | **15,864** | 8,304 |
| – non-recurring items | | **1,415** | – |
| – amortisation & impairment of capitalised development costs and computer software | | **24,521** | 27,470 |
| – interest on unwinding of licensing agreements (restricted to represent cash basis) | | **(1,274)** | (2,001) |
| – depreciation of tangible fixed assets | | **2,155** | 1,430 |
| – capitalisation of development costs | | **(27,055)** | (23,231) |
| – share based payments | | **1,135** | 6,725 |
| – SMS milestone payment adjustment | | **1,391** | – |
| **Adjusted EBITDA** | | **18,152** | 18,697 |
| **Non-recurring items** | 6 | **–** | (1,500) |
| Interest receivable and similar income | 11 | **110** | 328 |
| Interest payable and similar charges | 12 | **(3,729)** | (4,230) |
| **Net interest payable** | | **(3,619)** | (3,902) |
| **Profit on ordinary activities before taxation** | | **12,245** | 2,902 |
| Tax (charge) / credit on profit on ordinary activities | 14 | **(777)** | 771 |
| **Profit on ordinary activities after taxation** | | **11,468** | 3,673 |
| **Profit attributable to:** | | | |
| Owners of the parent | | **11,571** | 3,722 |
| Non controlling interest | | **(103)** | (49) |
| **Profit for the financial period** | | **11,468** | 3,673 |
| | | **Pence** | Pence |
| **Earnings per share** | 32 | | |
| **Basic earnings per share** | | **8.1** | 3.0 |
| **Diluted earnings per share** | | **8.0** | 3.0 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 March 2020**

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| **Profit for the financial period** | **11,468** | 3,673 |
| Other comprehensive (loss): | | |
| Items that will be reclassified subsequently to profit or loss: | | |
| Currency translation of foreign subsidiaries | **(154)** | (28) |
| **Total comprehensive income for the period** | **11,314** | 3,645 |
| Total comprehensive income / (loss) attributable to: | | |
| Owners of the parent | **11,417** | 3,694 |
| Non controlling interests | **(103)** | (49) |
| **Total comprehensive income** | **11,314** | 3,645 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 March 2020**

| | Called up share capital £000 | Share premium account £000 | Merger reserve £000 | Other reserve £000 | Profit and loss account £000 | Currency Translation Reserve £000 | Total attributable to owners of the parent £000 | Non-controlling Interest £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2018 | 43,687 | 82,524 | 8,816 | – | (224,079) | (1,086) | (90,138) | (10,134) | (100,272) |
| Profit/(loss) for the year | – | – | – | – | 3,722 | – | 3,722 | (49) | 3,673 |
| Other comprehensive income: | | | | | | | | | |
| Net exchange differences on translation of foreign subsidiaries | – | – | – | – | – | (28) | (28) | – | (28) |
| Total comprehensive income / (loss) for the year | – | – | – | – | 3,722 | (28) | 3,694 | (49) | 3,645 |
| Transactions with owners: | | | | | | | | | |
| Pre-IPO transactions | | | | | | | | | |
| Cancellation of deferred shares | (8,198) | – | – | – | 8,198 | – | – | | – |
| Share-based payments charge | – | – | – | – | 13,231 | – | 13,231 | – | 13,231 |
| Issue of 150,010,000 Class 1 shares of £0.0001 to acquire non-controlling interests | 15,000 | – | – | – | (24,680) | – | (9,680) | 9,680 | – |
| Capitalisation of £68,522,884.09 of loans into 685,228,840,900 Class 1 ordinary shares of £0.0001 | 68,523 | – | – | – | – | – | 68,523 | – | 68,523 |
| Capitalisation of interest on related party loans released | – | – | – | – | 48,538 | – | 48,538 | – | 48,538 |
| Pre-IPO capital reduction | (117,687) | (82,524) | – | – | 200,211 | – | – | – | – |
| Bonus issue of 21,000 Class 1 Ordinary Shares of £0.00001 each | – | – | – | – | – | – | – | – | – |
| Issue 7,500,000 ordinary shares of 1p each | 75 | 14,925 | – | – | – | – | 15,000 | – | 15,000 |
| Capitalisation of IPO transaction costs | – | (174) | – | – | – | – | (174) | – | (174) |
| Post IPO transactions | | | | | | | | | |
| Charge for equity settled share based payments | – | – | – | 1,243 | – | – | 1,243 | – | 1,243 |
| Total from transactions with owners | (42,287) | (67,773) | – | 1,243 | 245,498 | – | 136,681 | 9,680 | 146,361 |
| At 31 March 2019 | **1,400** | **14,751** | **8,816** | **1,243** | **25,141** | **(1,114)** | **50,237** | **(503)** | **49,734** |
| Profit/(loss) for the year | **–** | **–** | **–** | **–** | **11,571** | **–** | **11,571** | **(103)** | **11,468** |
| Other comprehensive income / (loss): | | | | | | | | | |
| Net exchange differences on translation of foreign subsidiaries | **–** | **–** | **–** | **–** | **–** | **(154)** | **(154)** | **–** | **(154)** |
| Total comprehensive income / (loss) for the year | **–** | **–** | **–** | **–** | **11,571** | **(154)** | **11,417** | **(103)** | **11,314** |
| Transactions with owners: | | | | | | | | | |
| Charge for equity settled share based payments | **–** | **–** | **–** | **1,135** | **–** | **–** | **1,135** | **–** | **1,135** |
| Issue of 9,523,809 ordinary shares of 1p each to acquire SMS | **95** | **19,904** | **–** | **–** | **–** | **–** | **19,999** | **–** | **19,999** |
| Issue of 1,787,014 ordinary shares of 1p to acquire SMS | **18** | **–** | **3,865** | **–** | **–** | **–** | **3,883** | **–** | **3,883** |
| Issue of 17,940 ordinary shares of 1p each for employee exercise of options | **–** | **36** | **–** | **–** | **–** | **–** | **36** | **–** | **36** |
| Capitalisation of share issue transaction costs | **–** | **(575)** | **–** | **–** | **–** | **–** | **(575)** | **–** | **(575)** |
| Total from transactions with owners | **113** | **19,365** | **3,865** | **1,135** | **–** | **–** | **24,478** | **–** | **24,478** |
| At 31 March 2020 | **1,513** | **34,116** | **12,681** | **2,378** | **36,712** | **(1,268)** | **86,132** | **(606)** | **85,526** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 31 March 2020**

Registered number 06123106

| | Note | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Intangible assets | 15 | **93,931** | 29,619 |
| Tangible assets | 16 | **10,390** | 9,078 |
| Deferred tax asset | 14 | **1,958** | 3,247 |
| | | **106,279** | 41,944 |
| **Current assets** | | | |
| Inventories | 18 | **622** | 351 |
| Trade and other receivables | 19 | **18,211** | 9,206 |
| Creative sector tax credit receivable | | **11,830** | 7,082 |
| Cash at bank and in hand | 20 | **25,563** | 18,436 |
| | | **56,226** | 35,075 |
| **Total Assets** | | **162,505** | 77,019 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 23 | **(752)** | (100) |
| Trade and other payables | 22 | **(45,515)** | (6,228) |
| | | **(46,267)** | (6,328) |
| **Current liabilities** | | | |
| Loans and borrowings | 23 | **(1,633)** | (173) |
| Trade and other payables | 21 | **(28,207)** | (19,339) |
| Provisions for liabilities | 25 | **(872)** | (1,445) |
| | | **(30,712)** | (20,957) |
| **Total Liabilities** | | **(76,979)** | (27,285) |
| **Net assets** | | **85,526** | 49,734 |
| **Capital and reserves** | | | |
| Called up share capital | 26 | **1,513** | 1,400 |
| Share premium account | | **34,116** | 14,751 |
| Merger reserve | | **12,681** | 8,816 |
| Other reserve | | **2,378** | 1,243 |
| Profit and loss account | | **36,712** | 25,141 |
| Currency translation reserve | | **(1,268)** | (1,114) |
| **Total shareholders' surplus attributable to owners of the parent** | | **86,132** | 50,237 |
| Non-controlling interest | 17 | **(606)** | (503) |
| **Total equity** | | **85,526** | 49,734 |

The Group's Financial statements on pages 56 to 95 were approved and authorised by the Board of Directors on 21 June 2020 and were signed on its behalf by:

**Frank Sagnier**
Chief Executive Officer
21 June 2020

**Rashid Varachia**
Chief Financial Officer
21 June 2020

# CONSOLIDATED CASH FLOW STATEMENT

**For the year ending 31 March 2020**

| | Note | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the financial year before taxation | | **12,245** | 2,902 |
| Adjustments for: | | | |
| Amortisation of intangible fixed assets | | **27,557** | 27,645 |
| Impairment of intangible fixed assets | | **–** | 2,600 |
| Depreciation of tangible fixed assets | | **784** | 384 |
| Profit on sale of tangible fixed assets | | **–** | (8) |
| Creative sector relief recognised | | **(9,113)** | (7,278) |
| Share based payments | | **1,135** | 6,725 |
| Interest receivable | 11 | **(110)** | (328) |
| Interest charged | 12 | **2,326** | 2,046 |
| Exchange movement on borrowings | 12 | **1,403** | 2,184 |
| Exchange losses | | **479** | 70 |
| Amounts representing net changes in working capital: | | | |
| (Increase)/decrease in trade and other receivables | | **(8,740)** | (5,966) |
| (Increase)/decrease in inventories | | **(271)** | (169) |
| Increase/(decrease) in trade and other payables | | **(898)** | (7,643) |
| Increase/(decrease) in provisions | | **(573)** | (1,945) |
| **Cash from operations** | | **26,224** | 21,219 |
| Creative sector relief received | | **7,236** | 3,206 |
| Income taxes paid | | **(286)** | (67) |
| **Net cash generated from operating activities** | | **33,174** | 24,358 |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of tangible fixed assets | | **–** | 8 |
| Interest received | | **110** | 49 |
| Payments to acquire tangible fixed assets | | **(1,484)** | (2,010) |
| Net cash in respect of acquisition | | **(16,243)** | – |
| Payments to acquire or develop intangible fixed assets | | **(26,272)** | (22,338) |
| **Net cash used in investing activities** | | **(43,889)** | (24,291) |
| **Cash flow from financing activities** | | | |
| Proceeds from borrowings | | **–** | 92 |
| Loan repayments | | **(719)** | (5,816) |
| IFRS 16 lease repayments | | **(774)** | – |
| Interest paid | | **(12)** | (15) |
| Proceeds from issue of share capital | | **20,035** | 15,000 |
| Costs of issuing share capital | | **(575)** | – |
| **Net cash generated from financing activities** | | **17,955** | 9,261 |
| **Net increase in cash and cash equivalents** | | **7,240** | 9,328 |
| **Cash and cash equivalents at the beginning of the period** | | **18,436** | 9,136 |
| Exchange loss on cash and cash equivalents | | **(113)** | (28) |
| **Cash and cash equivalents at the end of the period** | | **25,563** | 18,436 |
| **Cash and cash equivalents consist of:** | | | |
| Cash at bank and in hand | 20 | **8,403** | 8,386 |
| Short term deposits | 20 | **17,160** | 10,050 |
| **Cash and cash equivalents at the end of the period** | | **25,563** | 18,436 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended 31 March 2020**



## 1 General information

Codemasters Group Holdings plc ('the Company') is a public company limited by shares incorporated and domiciled in England and Wales. The Company was initially incorporated as a private limited company in 2007 and re-registered as a public limited company on 22 May 2018. The Company's shares were admitted to AIM on 1 June 2018. The Registered Number is 06123106 and the Registered Office is Codemasters Campus, Stoneythorpe, Southam, Warwickshire, CV47 2DL. A list of the Company's subsidiaries is presented in note 17.

The Company, together with its subsidiaries (the 'Group') is engaged in the development and sale of video games.

## 2 Accounting policies

**Basis of preparation**

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (together 'IFRS'). They have been prepared on the assumption that the Group operates on a going concern basis, under the historical cost convention.

The Consolidated Financial Statements for the year ended 31 March 2020 (including comparatives) were approved and authorised for issue by the Board of Directors on 19 June 2020 (note 34). Under the Securities regulations in the UK, amendments to the financial statements are not permitted after approval.

The Consolidated Financial Statements of the Group are prepared in Sterling, which is the functional currency of the parent and rounded to the nearest £000, except for earnings per share and certain share-based payments disclosures.

The principal accounting policies of the Group are set out below. These policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial information unless otherwise stated.

The Group has taken the merger relief that is required by s162 of The Companies Act 2006 in respect of the fair value of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Slightly Mad Studios.

**Basis of consolidation**

The Consolidated Financial Statements incorporate financial information of the Company and all its subsidiary undertakings made up to 31 March 2020 and for the comparative year ended 31 March 2019. Subsidiaries are entities which the Company has control over. 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. Control over a subsidiary is gained where the Company acquires or owns more than 50% of the voting rights in that entity.

All transactions 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 are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Where necessary, adjustments are made to the financial information of subsidiaries to bring accounting policies used in line with those used by the Group. Any profit or loss arising from intercompany transactions is eliminated on consolidation.

The Group attributes total comprehensive income or loss of subsidiaries between owners of the parent and the non-controlling interests based on their respective ownership interests.

**Going concern**

The Directors have reviewed the budgets and cash flow projections prepared by management and approved by the Directors for the three-year period ending 31 March 2023 and consider the forecasts to be prudent and that they reflect the underlying strength of the business and its strategy. The Directors have also reviewed the impact of COVID-19 on the underlying business and its cash position and consider the Group to continue to be in a strong position for the foreseeable future. In a worse case scenario, if there were no boxed retail sales and all other sales reduced by over 15% in the next twelve months, the Group would still breakeven from a profit or loss perspective without any mitigating actions being taken in lowering the cost base. This worse case scenario would still leave the Group with a positive cash balance in twelve months.

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

## 2 Accounting policies (continued)

**Revenue recognition**

The Group's revenue is driven by sales of interactive entertainment software, brought to market as 'boxed' products sold in retail outlets or digital products which are downloadable. Products are sold via distribution partners, the most significant being Koch who manage the majority of the Group's distribution of boxed and some digital product.

Revenue comprises:

- Boxed product to retailers and external distributors/wholesalers. Revenue is recognised upon performance of the obligation to the customer which when delivery and transfer of the legal ownership of the products passes to the customer. Revenue is recorded after the impact of variable consideration constraint arising for subsequent returns and price protection claims. Settlement terms for boxed product is typically 30 days from the end of the month of the revenue being recognised.
- Digital content is created by the online stores in the form of download keys using the Group's IP. Such revenue is recognised via a royalty at an agreed rate with the customer generated at the point a product is downloaded by an end user from the Group's customer (the online store). Codemasters sales based royalty revenue is recognised at the point the end user has downloaded the product. Codemasters' customer is the online retailer for digital product. Revenue is recognised as the unit price received from the platforms in relation to their onward sales to their customers from the number of downloaded items from their online stores, typically Microsoft (Xbox), Sony (PlayStation) or Steam (PC). The online stores remit an agreed percentage of the price paid by their customer to the Group. Whilst settlement terms vary by provider, they are between 30 days from the end of the month of the revenue being recognised and 45 days from the end of the quarter of the revenue being recognised. Digital sales also include the sales of game keys to other online platforms. The revenue for these sales is recognised at the point of sale of the keys.
- The Group also receives digital revenue from providers of subscription services. The Group's customer are the providers of online subscription services who will typically pay the Group a fee to include a product within their wider subscription package. For such arrangements the Group does not have control in relation to the arrangements between the subscription providers and their subscribers and as such the provider and not the consumer of the subscription service is considered to be the Group's customer. Digital revenue associated with subscription services is recognised at a point in time when the Group has met its performance obligations associated with that service. This is when the customer is provided with the right of use licence for the game to be made available on a subscription service.
- The Group receives mobile income through Apple and Android where it sells certain of its games through these distribution channels. These sales are recognised as gross sales with the commissions deducted by Apple and Android treated as a cost of sale. Other mobile income is received from advertising partners and third parties where the Group receives royalties, where the Group only recognises its share of the sale.

To assist in the development of products, the Group receives advances from its main distribution partner. These are recognised as a liability within the Statement of Financial Position. At this point no revenue is recognised as no sales of product have occurred. All funding is less than 12 months. The balance held is repaid as sales of the product are remitted directly from customers to the distribution partner.

**Revenue recognition – other revenue:**

Other revenue comprises various types of income. Revenue in respect of each agreement is recognised dependent upon the specific performance obligations of that agreement.

Other revenue is derived from a small number of specific contracts; the performance obligations of such contracts are unique to that contract. As such management assesses when to recognise revenue in relation to these contracts on a contract by contract basis using the criteria of IFRS 15. Namely for each contract management follows a five-step process:

1. identifying the contract with the customer;
2. identifying the performance obligations within the contract;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and
5. recognising revenue when/as performance obligations are satisfied.

Where a contract provides that cash is received greater than a year before the associated revenue is recognised, management will consider whether there is a financing element to that contract.

Other revenue driven from the ad hoc sales of titles or licenses to distribute titles are recognised when the performance obligations of such agreements are met by the Group. Where possible the Group pursues minimum payments in advance of completion of such agreements. Where balances are received in advance, they are recognised as a liability until the performance obligations are met by the Group.

Revenue from sales of licenses are either recognised when the performance obligations of the contract are met at a point in time or over the development phase where not distinct dependent upon the specific nature of the licence agreement.

Specific arrangements are summarised as follows:

– Sale of product via other contracts with customers. Typical contracts generating revenue of this type include where a third party requests the modification of a Codemasters product for a particular market or device. The invoice profile for these contracts is bespoke for each contract but generally is invoiced in line with milestone deliverables as per each contract. Each contract is assessed separately using the five-step method above, with the fair value of revenue allocated against the performance obligations in the contract. Variable consideration is considered for each contract and constraint is applied where appropriate. Where work is undertaken over time for a bespoke product with no alternative use and an enforceable right to payment revenue associated to each performance obligation is recognised over time with the proportion of input costs incurred over the expected total costs to fulfil that contract.
– Provision of product and training to third parties relates to the specific arrangements whereby the Group has provided its own IP source code and training to a third party in order for them to develop a new title. The fair value of the source code, training and consultancy services provided under that contract have been assessed reviewing the expected value of each element to the customer when comparing the training and consultancy expectations in the open market. Variable consideration is considered for each contract and constraint is applied where appropriate. Under this agreement revenue in relation to the fair value of the delivery of the Group's IP is recognised at the point in time the IP is delivered to the customer. Revenue in relation to training and consultancy services are recognised over time in accordance with the timing of the delivery of those services.
– The residual method has been adopted in respect of two contracts in the year in order to determine the fair value of elements of the contracts. This has been achieved by comparing the value to similar contracts with the same counter party and similar performance obligations, uplifted for an appropriate inflationary method either linked to general price inflation or specific performance of the particular game franchise and thus the amount of revenue relating to each deliverable has been determined.

**Cost of sales**

Costs of sales comprise costs incurred by the Group that are directly incurred for the purpose of being able to recognise revenue in relation to a specific contract with a customer. Typically, these comprise the following:

– Manufacturing costs in relation to boxed products;
– Where revenue recognised generates an onward royalty to licensors of intellectual property rights included within the Group's products, these royalties are recognised as a cost of sale;
– Commission deducted by Apple and Android on mobile revenue from sales through their platforms; and
– Development costs incurred specifically for the fulfilment of revenue generating contracts with customers, such as internal development costs for certain business development arrangements with customers to create a specific version of a game for a specific market.

All of the above costs are incurred in line with the timing of associated revenues.

**Distribution costs**

Costs incurred directly in respect of bringing products to market. These will include marketing costs and commissions to distributors. Costs are recognised at the point the cost is incurred, which includes recognition of commission in line with the timing of revenue recognised.

**Non-recurring items**

Items that are non-recurring in nature and of a significant size are considered to be appropriate to be classed as 'non-recurring items'. Any such items are presented separately on the face of the Income Statement to highlight them to the user of the Consolidated Financial Statements.

**Capitalised development costs**

Costs relating to the development of new products are capitalised and disclosed as an intangible asset once the Group has determined that: -

– the product is technically and commercially feasible. For products developed via proven game engine technology, this may occur early in the development cycle.
– the project is clearly defined, and associated costs are separately identifiable.
– future revenues are expected to exceed current and future costs of the product.
– the Group has the intention, ability and resources to complete development of the product.

Development costs will include advances payable to external developers under development agreements and the direct payroll and overhead costs of the internal development teams. Capitalised development costs are those that are directly attributable to a game, such as internal labour or external costs incurred on that title. Studio overheads such as those relating to certain general and administrative overheads are allocated on the proportion of development staff time spent working on a product as a total of all staff time in that studio.

## 2 Accounting policies (continued)

**Capitalised development costs** (continued)
Development costs not capitalised relate to costs attributable to a product that has been released (such as additional features or maintenance work as these costs are not material and would be amortised over a period of less than 12 months). In addition, where costs are incurred on amended versions of a previously released title and those costs are not material, such as a conversion onto a different console, these costs are not capitalised.

Capitalised development expenditure for each unreleased product is reviewed at the end of each accounting period and where the circumstances which have justified the initial capitalisation of the expenditure, as set out above, no longer apply, or are considered doubtful, the previously capitalised development expenditure, to the extent to which it is considered to be irrecoverable, is immediately impaired on a project by project basis.

In addition, where the forecast revenue for a product does not exceed the current and future costs of the product, a provision for impairment is recognised immediately.

On product release, Codemasters capitalised development costs are amortised over a year in the following proportions:
- 65% in month 1 of release.
- 35% equally over the next 11 months.

SMS capitalised development costs are amortised in a straight line over three years.

Amortisation is recognised within 'research expenses, amortisation and impairment of intangible assets' within the Income Statement.

Capitalised development costs are removed from the schedule of intangible fixed assets 3 years after the product release or on removal from catalogue if earlier.

**Licences, copyrights, patents and trademarks and game IP**
The cost of other licences, patents and trademarks, which have been treated as intangible fixed assets, are released to the Income Statement on a straight-line basis, within 'research expenses, amortisation and impairment of intangible assets' over a period in accordance with the terms of the contract or if not defined, a three-year period.

Where a licensing agreement involving a minimum payment by the Group is signed relating to game development and the associated product is yet to be released, the associated liability is recorded within other payables within the Statement of Financial Position. Upon recognition, the corresponding asset value is recognised at the discounted value of the guarantee and is held as an intangible asset within the Statement of Financial Position.

On product release, Codemasters capitalised licenses are amortised over a year in the following proportions:
- 65% in month 1 of release.
- 35% equally over the next 11 months.

SMS capitalised licences are amortised in a straight line basis over three years.

Licenses paid on games which are under development are written off where impairment of the game development cost is also required (see capitalised development costs policy above). Management also regularly reviews the carrying value of capitalised licenses for impairment and will charge any irrecoverable advances to the Income Statement.

Capitalised licenses (and capitalised development costs) are amortised over a year to allocate the development cost proportionally in line with the expected revenue profile associated to that product.

The fair value of game IP is recognised on consolidation following an acquisition. It is amortised over the expected useful economic life of each individual IP acquired.

**Computer Software**
Computer software is classified within intangible fixed assets. Computer software assets are initially recorded at cost. Cost comprises the purchase price and costs directly incurred in bringing the asset into use. Amortisation is provided on a straight-line basis over its expected useful life of three years. These are amortised within 'research expenses, impairment and amortisation of intangible assets' in the Income Statement.

**Tangible fixed assets**
All tangible fixed assets are initially recorded at cost. Cost comprises the purchase price and costs directly incurred in bringing the asset into use.

The Group has adopted a 'deemed cost' value for land and buildings. This reflects the value of the tangible assets at the date of transition to IFRS (1 April 2015).

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value of each asset, on a straight-line basis over its expected useful life, as follows:

| | | |
|---|---|---|
| Freehold buildings | – | 50 years |
| Leasehold improvements | – | shorter of useful life of asset or lease term |
| Fixtures and fittings | – | 6 years |
| Computer equipment | – | 3 years |
| Right of use asset | – | Over the lease term |

Assets under construction are not depreciated until the asset is completed and ready for use.

Subsequent expenditure to freehold property, which provides an enhancement of the economic benefits of the asset, is depreciated over its individual useful economic life.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. When an impairment test is conducted, the recoverable amount is assessed by reference to the higher of the value in use (net present value of expected future cash flows of the relevant cash generating unit), or the net realisable value.

**Inventories**
Inventories comprise finished goods for resale and components thereof and are stated at the lower of cost and net realisable value being estimated selling price less costs to sell. Cost is determined on a first-in, first out (FIFO) method and includes the purchase price of materials of game discs, boxes, manuals, printing and royalties to the console manufacturers.

**Royalty advances and minimum guarantees**
The initial measurement of non-refundable royalty advances and minimum guarantees are based on the Group's expected performance against the contractual obligations of the agreement and recognised at their discounted value of expected future cashflows. Royalty costs are recognised in the period to which they relate. Subsequent measurement is required where the contractual obligations of the agreement are not expected to be met and a liability is recognised of the expected onerous portion of the agreement based on forecast sales. Royalty advances are written down to the estimated amount that will be recoverable from future royalty payments to the licensor.

**Financial assets and liabilities**
Financial assets and liabilities are recognised on the date on which the Group becomes a party to the contractual provisions of the instrument giving rise to the asset or liability. Any impairment of a financial asset is charged to the Income Statement when incurred. Financial assets are derecognised when the Group's rights to cash inflows from the asset expire. Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

The Company's principal financial assets and liabilities are measured as follows:
- 'trade and other receivables' – these are short-term financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods directly to a receivable, or advances money, with no intention of trading the loan or receivable. Subsequent to initial recognition, loans and receivables are included in the Statement of Financial Position at amortised cost using the effective interest method less any amounts written off to reflect an expected credit loss, with changes in carrying amount recognised in the Income Statement within other administrative expenses. A provision is made for all expected credit losses for trade and other receivables when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group assess each receivable on a customer by customer basis for the expected lifetime credit loss. Where an expected credit loss is identified an impairment is made against the receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, default or delinquency in payments, and the unavailability of credit insurance at commercial rates are considered indicators that the receivable may be impaired. When these factors are confirmed for a trade receivable it is considered uncollectible and a default event is triggered. At this point it is written off against the credit loss provision account. Subsequent recoveries of amounts previously written off are credited against other administrative expenses in the Income Statement.
- 'cash and cash equivalents' – these comprise bank balances, bank overdrafts and cash in hand (classified as 'cash at bank and in hand'). The Group also holds cash in bank deposit accounts deposits with an original maturity of three months or less with banks and financial institutions (classified as 'short-term deposits').

## 2 Accounting policies (continued)

**Financial assets and liabilities** (continued)

- 'trade and other payables' – these arise when the Group receives goods or services directly from a creditor or supplier with no intention of trading the liability and are typically non-interest bearing and following initial recognition are included in the Statement of Financial Position at amortised cost. If the arrangements of an instrument constitute a financing transaction, such as payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not market rate, the financial liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost. The unwinding of the discount is recognised as a finance cost in the Income Statement in the period it arises.
- 'bank loans and overdrafts' – these are initially recorded at fair value based on proceeds received net of issue costs. Finance charges on bank loans are charged to the Income Statement within 'interest payable and other similar charges', so as to recognise the finance costs (being the difference between net proceeds received and total amounts payable to discharge the loan) on a constant rate on the carrying amount of the loan and recognised in interest payable and similar charges.
- 'other loans' – these are recorded initially at the fair value based on proceeds received net of direct issue costs and are subsequently stated at amortised cost. Direct issue costs are apportioned to each tranche of debt raised and charged to the Income Statement, within 'interest payable and other similar charges', over the term of the debt or instrument, so that the amount charged is at the effective interest rate on the carrying amount. Finance charges, including premiums payable on settlement, or redemption and direct issue costs, are recognised in a similar manner to bank loans stated above where the finance charges are calculable.
- 'forward foreign exchange contracts' – these are recorded at fair value, the aggregate gain or loss on all open contracts is recognised within other administrative expenses in the Income Statement. The fair value asset/liability is recognised within trade and other receivables/payables within in the Statement of Financial Position. Were the value of open contracts to be a material amount it would be recognised on the face of the Statement of Financial Position. The fair value is determined by the counterparty to the forward contracts, a financial institution using a Level 2 hierarchy, which is a fair value estimate based upon a directly observable market.

**Current taxation**

Tax on the profit or loss for the period comprises current tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, where it would be recognised in either other comprehensive income or in equity, respectively.

Current tax is the expected payable amount arising from the taxable income in the period, using tax rates enacted or substantively enacted at the end of the applicable financial period. This amount is adjusted in respect of any adjustment to current taxes from any previous financial period.

**Deferred taxation**

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income.

An estimate of the expected cash saving from utilised tax losses over the next two financial years is recognised at the reporting date as a deferred tax asset. Movement on deferred tax is recognised within the tax charge line of the Income Statement, with the corresponding asset included on the Statement of Financial Position.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the average tax rates and laws enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised in full, although IAS 12 'Income Taxes' specifies limited exemptions. As a result of these exemptions, the Group does not recognise deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries. Deferred tax liabilities are recognised on the increase in the fair value of any game IP acquired.

**Creative sector relief**

Creative sector relief, which is Video Games Tax Relief ('VGTR') tax credits are only recognised where the Directors believe that a tax credit will be recoverable. This is based upon the Group's experience of obtaining the required certification to facilitate its titles in development to qualify for VGTR and success of previous submitted claims. An estimate is made throughout the year, and a receivable recognised, based on qualifying expenditure during the year. VGTR is recognised in the Income Statement in the creative sector relief line. The figure is included within the operating profit of the business as it materially impacts operating profit, Adjusted EBITDA and the cash generation of the business.

**Operating leases**
IFRS 16 – Leases replaces IAS 17 – Leases. The adoption of this new standard has resulted in the Group recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low value or having a remaining lease term of less than 12 months from the date of initial application, being 1 April 2019. A portfolio interest rate was used as a practical expedient on the introduction of IFRS 16.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

At 1 April 2019, the Group has elected to measure the right of use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right of use assets at the date of initial application, the Group has relied on its historic assessment as to whether the leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low value assets, the Group has applied the optional exemptions to not recognise right of use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.6%.

The impact of the adoption of IFRS 16 on the Statement of Financial Position is shown in notes 16 and 27. The impact in the Income Statement has been to replace lease payments of £430,000 with depreciation of £432,000 and interest costs of £66,000.

In the year ended 31 March 2019, operating leases are those where substantially all of the risks and rewards incidental to ownership are retained by the lessor. Rentals payable under operating leases are expensed to the income statement on a straight-line basis over the period of the lease agreements. Lease incentives received are deferred on the statement of financial position and amortised to the income statement over the period of the lease.

**Finance leases**
On transition to IFRS 16, the Group has taken advantage of the exemptions available not to remeasure assets previously held as finance leases. In the prior year, finance leases were those where substantially all of the risks and rewards incidental to ownership of the asset have passed to the Group. Assets acquired through such leases were treated as if purchased outright, capitalised in the Statement of Financial Position and depreciated over the shorter of the lease term and their useful life. The capital elements of future obligations under leases were included as liabilities in the Statement of Financial Position. The interest elements of the lease obligations were charged in the Income Statement over the periods of the leases.

**Pensions**
Pension contributions are made to personal pension plans for certain employees on a defined contribution basis. Contributions are charged to the Income Statement as they become payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

**Employee share schemes**
The Group issues equity-settled share options and equity awards to certain employees, which are measured at fair value and recognised as an expense in the Income Statement with a corresponding increase in reserves, where material to the financial statements.

The fair values of the options and equity awards are measured at the dates of grant, taking into account the terms and conditions upon which the awards are granted using an industry accepted simulation model. The fair value is recognised over the period during which employees become conditionally entitled to the awards, subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market-based performance conditions not being met. The total amount recognised in the Income Statement as an expense is adjusted to reflect the actual number of awards that vest.

## 2 Accounting policies (continued)

**Employee share schemes** (continued)
The Group also issues cash-settled share-based payments to certain executive management of the Group. Where such schemes have been entered into, approved by the Group's shareholders and it is probable that a liability could be triggered, the fair value of the expected payment is included within the relevant financial period. The Group uses experts to estimate the fair value of any such agreements at the grant date. The valuation is calculated using the Black Scholes Model and the Monte Carlo method for LTIP's. The fair value is recognised as a separate expense on the face of the Income Statement and within equity in the Statement of Financial Position. Further details regarding the Group's exposure to cash-settled share-based payments are discussed in note 9.

**Provision for claims and price protections**
Where revenue is recognised and the terms and conditions of the sale allow variable consideration where the customer is able to make a claim for returns or price protection allowances, an estimate of the likely obligation is made and deducted from revenue at the date revenue is recognised. The Group estimates the amount of the provision for returns and price protections using the 'most likely amount' approach. The Group's estimate of the transaction price includes the variable amounts where it is highly probable that a significant reversal of revenue will not occur once any uncertainty surrounding the claims and provision protection is resolved. The resulting provision is based on the assessment of a number of factors including (but not limited to) historical performance of similar titles, consumer sell-through and chart-tracking data, the level of customer reorders and the level of inventory in channel.

The Group is not subject to any contractual arrangements to accept returned products but may on an ad hoc basis agree to a commercial arrangement for returns of boxed products. In the event a product is returned, the value of the revenue associated to that return is allocated as a utilisation of the price protection provision in place at the point the goods are received back by the Group.

At each reporting date an estimate is also undertaken of the likely exposure the Group has to returns of boxed products that have not been sold through to the end consumer. An exercise is undertaken along with the estimate of the potential exposure to price protection provisions and where the risk of material returns of products sold in the current or preceding financial year is identified, a provision for returns is recorded.

**Provisions for leasehold property dilapidations**
Management estimate the expected liability for property repair or dilapidations that are expected to arise in accordance with the relevant lease agreement the Group is party to. Where the expected costs of dilapidations are individually not material to the accounts they are classified within accruals and other payables within the Statement of Financial Position. A separate provision is recorded where they are individually material.

**Contingencies**
The Group makes and is subject to claims and actions. The facts and circumstances relating to particular cases are evaluated regularly in determining whether the likelihood is 'probable' that there will be a future inflow or outflow of funds and, once established, whether an asset or provision relating to a specific litigation should be recognised or adjusted. Accordingly, significant management judgement relating to contingent liabilities is required, since the outcome of litigation is difficult to predict.

**Foreign currencies**
Transactions in foreign currencies are recorded at the rate ruling when the transactions occur. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the period end date. All exchange differences are taken to the Income Statement, exchange differences arising on foreign currency borrowings are classified within 'interest payable and other similar charges'; all other exchange differences are classified within other administrative expenses.

Where monetary assets denominated in a foreign currency forms part of the net investment in another Group Company in the form of long-term loans and deferred trading balances and there is no intention to settle the loan in the foreseeable future, any exchange differences are recognised in other comprehensive income.

Where non-monetary assets are denominated in a foreign currency, these are measured at the exchange rate at the date of recognition and not revalued at the reporting date.

On consolidation, the results of the overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the period end date. Exchange differences arising from the use of the closing rate to retranslate opening net assets denominated in foreign currencies are recognised in other comprehensive income. The cumulative gain or loss arising from the retranslation of overseas operations assets since transition to IFRS (1 April 2015) are recognised within the Currency translation reserve in equity. Any such gains or losses prior to that date in accordance with IFRS1 are recognised within the profit and loss reserve within the Statement of Financial Position.

On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to a profit or loss and are recognised as part of the gain or loss on disposal.

**Capital and reserves**

The following reserves are shown within the statement of changes in equity:

- Called up share capital – called up and issued ordinary share capital of the Parent Company.
- Share premium account – the amount of proceeds received in consideration for called up share capital that is in excess of the nominal value of the shares purchased.
- Merger reserve – an equity account derived following a historic capital restructuring in 2007.
- Other reserve – an equity account comprising the historic fair value of equity settled share-based payments recognised in the Group's accounts.
- Profit and loss account – historic cumulative balance of Group comprehensive income/expense.
- Currency translation reserve – historic cumulative gain or loss of translation of net assets of foreign subsidiaries since transition to IFRS on 1 April 2015.
- Non-controlling interest – historic cumulative balance of comprehensive income/expense that is due to minority shareholdings in the Codemasters Studios Sdn Bhd.

**Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP measure used by the Group, which is defined as profit before finance costs on borrowings, tax, capitalisation of development costs, depreciation, amortisation (restricted to show the net cash impact of the licence), non-recurring items, share-based payments and an adjustment in respect of the net milestone payments received within SMS.

Adjusted EBITDA is a key trading performance indicator used by the Board of Directors to monitor the underlying operational cash earnings of the Group. The adjustments when compared to operating profit as presented in the Income Statement relate to mainly non-cash items.

The items excluded from adjusted EBITDA are as follows:

- Amortisation and impairment of capitalised development costs and computer software – these are non-cash entries impacted by the timing of releases and the period over which they are amortised, their exclusion enables visibility of the development costs incurred by the Group in the period.
- Interest on unwinding of licensing agreements – interest is recorded below operating profit within the Income Statement. The interest cost in relation to licensing agreements is included within the Adjusted EBITDA calculation as it forms a recurring cost, which is necessary for the Group to be able to release certain titles. All licensing costs are considered together by the Board of Directors and hence are included in the Adjusted EBITDA calculation. Following the extension of a contract, the interest adjustment has been restricted so that the charge more accurately represents the cash cost of the current year licences.
- Depreciation – As noted within the capitalised development cost accounting policy, overheads (which include depreciation) are allocated to games in proportion of the development headcount and a percentage of the payroll costs per game as a proportion of total payroll costs. As such, some of the depreciation figure is subsequently capitalised within capitalised development costs.
- Capitalisation of development costs – the qualifying costs of development that are incurred prior to the release of a product are capitalised and held as an intangible asset prior to the release of that product, their exclusion (as with the exclusion of amortisation) enables visibility of the development costs incurred by the Group in the period.
- Share-based payments – in the current and prior financial year there have been material costs included in the Income Statement that relate to the share-based payment charges arising from the grant of share options to Executive management as part of the schemes granted prior to the IPO. These were non-cash charges that arose as part of the pending transaction. Following the Company's admission to AIM, there have been further share options granted. These are also non-cash charges. Share-based payments in the form of both cash-settled and equity-settled schemes have been removed from the Adjusted EBITDA calculation as they are non-cash charges that do not directly reflect the underlying performance of the Group.
- Adjustment for SMS milestone payments received – where SMS develop their titles on behalf of a publisher, they receive milestone payments which aren't reflected within revenue until the games are released. Therefore, the net movement in these payments is adjusted for so it reflects the cash position.

## 2 Accounting policies (continued)

**Business combinations**

The Group applied 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 interest 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 as non-recurring expenses on the face of the Income Statement. Goodwill is the difference between the fair value of the assets and Game IP acquired, and the fair value of the consideration payable. An impairment review is undertaken at each reporting date with any impairment losses being charged to the Statement of Comprehensive Income as incurred.

## 3 Critical accounting estimates and judgements

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

**Material judgements:**

***Impairment of capitalised development costs***

Prior to each reporting date, the Directors assess for indicators of impairment within the carrying value of capitalised development costs held on a game by game basis. This does not constitute a full impairment review but considers where a potential impairment may be present and identify where a further detailed review including an assessment of the asset/assets under IAS 38 may be required.

The Directors have considered the carrying value of the level of capitalised development costs held as an intangible asset, they have compared the carrying value to the future cash flows arising from that cash generating unit (‘CGU’). Where the Group’s forecasts indicate that there may be a shortfall of expected future cash flows when compared to the carrying value of a CGU, an impairment charge is recognised.

After assessing the carrying value of the intangible asset associated to the capitalised development costs of each CGU at the reporting date, which is shown net of any impairment charge posted, the Directors are confident that the forecast cash generation from each CGU is in excess of the intangible asset held.

The forecast cash generation is taken from the Group’s forecasts which cover the trading expectations for a minimum of two years after the reporting date. The forecast revenue and cash generation from each CGU are separately identifiable within the Group forecasts. The forecast cash generation for each CGU represents significant assumptions regarding its commercial performance, should the assumptions prove to be significantly incorrect there would be a risk of material adjustment in the financial year following the release of that product.

***Deferred tax asset***

Deferred tax assets have been recognised which are contingent and dependent upon future trading performance. The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The Group has substantial tax losses available to be utilised against its future trading profits. From 1 April 2017 onwards UK tax laws have been amended to prevent unlimited utilisation of tax losses going forward. The Group has an expectation that a tax charge will occur and therefore recognised an asset for deferred tax. To recognise the cash benefit to the Group of these losses, management assessed the expected taxable profit for the subsequent two financial years and recognised the level of deferred tax asset in relation to the cash benefit of utilising those losses. Given the inherent uncertainty of any market, it is considered appropriate to recognise only two years of deferred tax asset. The Directors use trading forecasts and the current UK tax law to determine the value of the deferred tax asset recorded.

***Acquisition accounting***

The acquisition of Slightly Mad Studios (SMS) includes an element of contingent consideration. In establishing the fair value of the contingent consideration, the Directors have been required to make several judgements and estimates. The Directors engaged a firm of professional valuation experts to provide advice in respect of the judgements that needed to be made. The judgements, including the estimates including forecast sales and cashflows over the earnout period, include the discount rate to apply to these, identifying the CGU’s acquired and their useful economic lives and determining the IRR to use in the calculation of the intangible asset value for each CGU identified. The Directors consider that the amounts payable in respect of the acquisition of SMS should be treated as consideration. This is based on the fact that there are only narrow circumstances (which are considered to be protective rights) when deferred consideration would be not be payable and that Ian’s emoluments are commensurate with his role and those of the other Executive Directors.

***Principal vs agent assessment***
Management have reviewed the contractual agreements with its distributors and customers to assess whether the agreement is under a principal or agent arrangement. This is a material judgement as the disclosure of revenue is significantly different between a principal and agent scenario. The Group is responsible for fulfilling the contract, holds the risk of inventory and has discretion in setting prices for distributors to deal with customers. As such management have assessed under IFRS 15 'Revenue from Contracts with Customers' that the contractual arrangements with its distributors for boxed revenue the Group is the principal within the arrangements and revenue is recognised on a gross basis. For mobile income, the management have determined that the Group acts as principal in relation to sales of in app purchases through the Apple and Android platforms and income from these sources is recognised on a gross basis. Where the Group receives royalties from advertising and similar arrangements, management view is that the Group is merely acting in the capacity of an agent and such income is recognised on a net basis.

***Bespoke contracts with customers – assessment of fair value***
The Group agrees bespoke contracts with customers on an ad hoc basis to deliver product or provide licences to distribute the Group's products. These agreements are often bespoke in nature with no standard selling price available to be able to compare the fair value of the contracts against. Management review these contracts and allocate the fair value of the revenue in accordance with IFRS 15, by identifying the performance obligations stated in the contract and allocating the revenue against these obligations. The assumptions used in the allocation of revenue on these contracts in accordance with IFRS 15 involve considerable judgement. In some instances, for certain contracts using different assumptions could lead to a materially different profile of revenue recognition across periods. When the Group enters into such agreements, management assesses each contract separately and other available information to determine the fair value of the performance obligations in accordance with IFRS 15.

Also, where assessing the fair value of revenue to separate performance obligations within a specific contract delivered across more than one accounting period could materially impact the revenue recognised within a particular financial period. In the current financial period this has involved assessing the fair value of source code and training/consultancy to be provided on a specific contract over a certain period. The judgements used have allocated fair value based upon an assessment of the market value of those elements to the customer in relation to a bespoke contract entered into by the Group. It has also involved assessing the fair value of the provision of keys and games within other contracts where a residual valuation method has been adopted to assess the market value of those elements to the customer in relation to a bespoke contract entered into by the Group.

***Long term licensing arrangements***
Where the Group enters into long term licensing arrangements, the liability for future years cash outflows are discounted. The Directors use a discount rate calculated on the blended interest rate provide by its bankers for loans of equivalent value and maturity as the expected outflows.

***Creative sector relief***
The process of recording the creative sector relief (in the form of VGTR tax credits) involves creating a judgement of the tax credit to be accrued at the period end.

VGTR is a tax credit available on costs incurred in relation to video games that have passed the British Film Institute Cultural Test. Management estimates the potential VGTR claim using the directly attributable costs incurred on those products in development that have passed the Cultural Test. Management also makes an assessment of the likely costs incurred on those games that will not qualify for VGTR. Examples of such costs include subcontractor costs in excess of a £1 million limit per product or post release maintenance or patchwork costs.

The Group undertakes detailed estimates using up to date requirements for measuring the VGTR credit and seeks detailed advice from external professional experts in order to support the level of accrued claim. However, the accrued claim is subject to review and approval by HMRC prior to being settled.

**Significant estimates:**
***Returns and price protection provision***
The returns and price protection provision is required under IFRS 15 as it reflects the variable consideration constraint on boxed revenue. The estimate for the level of price protection provision as an estimate of the future level of returns and retrospective discounts provided against the current revenue recognised requires considerable judgement and estimates based upon historical performance of similar titles, market conditions and forecast for future performance.

A provision is applied to all sales of boxed product dependent upon the expectation at the time and this is applied where the terms and conditions of sale allow for the customer to make a claim for returns or price protection allowances.

Following the release of a product, where the actual level of discounts and returns is significantly higher or lower than the estimated amount there could be a material movement in the level of revenue recognised in any affected period.

## 3 Critical accounting estimates and judgements (continued)

**Significant estimates:** (continued)
Included within the price protection provision is a provision for returns of boxed products. Historically the level of exposure to boxed returns has been low around period ends. However, an assessment is undertaken at the end of each financial period based upon the level of stock in channel held.

A provision is made where the estimate of potential exposure from product returns is considered material. Where the provision is not considered material, this is included within the wider price protection provision.

As an example, with regard to the potential sensitivity and potential fluctuations in estimation assumptions, if the estimated provision per unit in channel with customers was increased or decreased by 10% as at the end of March 2020, the level provision would increase/decrease by approximately £90,000.

***Amortisation of capitalised development costs***
The Directors have considered that the appropriate period to amortise development costs is over a 12-month period.

Amortisation is also weighted with a greater proportion of amortisation in the immediate period following release. The estimate of amortisation is matched against the sales profile of recent titles. This policy is reviewed periodically and amended to reflect updating trends in product lifecycle and to ensure that the carrying value of any intangible asset is not impaired.

IAS 38 suggests that an amortisation profile should be over a fixed period on a flat rate. However, the revenue profile of the Group's products is historically driven in the immediate months following release. The Directors consider that it is appropriate for the amortisation period to be based upon the expected revenue profile. Following an assessment of the proportions of sales recognised over time on a number of titles, undertaken in 2018, it was determined that the majority of a titles, cash inflows were received within a year following release and this was the most appropriate time period to amortise the associated development costs. In addition, whilst there are revenues generated from products released more than one year previously, these revenues are less significant percentage of revenue from that product. Using a 12-month period represents a prudent assessment of each product.

If the amortisation were changed to a straight-line basis over 12-months, then the amortisation charge would have been £2.2 million higher in the year.

***Share-based payments***
The estimation of the Group's potential exposure to liabilities from cash-settled share-based payments are subject to a number of variables and assumptions, many of which can have a material impact on the level of expense/liability recognised. In order to ensure that the correct valuation methodology is undertaken in line with IFRS 2 'Share-Based Payments', the Directors engaged a firm of Valuation Experts to provide the calculation on the LTIP's. The calculations are created following detailed discussions with Directors regarding the factors that will influence the inputs into the valuation, such as the review of the agreements in place and the probability of an exit event or a synthetic exit event. The experts also use a standard valuation model to deliver a reasonable estimate in line with IFRS requirements.

The estimation of the Group's potential exposure to liabilities from equity-settled share-based payments are subject to a number of variables and assumptions many of which can have a material impact on the level of expense/liability recognised. In order to ensure that the correct valuation methodology is undertaken in line with IFRS 2 'Share-Based Payments', the Directors use a standard valuation model, which has been based upon those used by an independent expert firm of Valuation Experts to who have undertaken previous valuations of the cash-settled schemes. As with the cash-settled schemes, calculations are created following a detailed review of the factors that will influence the inputs into the valuation.

The fair values of all of the LTIP share options are impacted by market performance conditions, which are linked to the Company's share price. The fair value is also impacted by other variable inputs such as the risk-free interest rate, which has been estimated using a UK Gilt yield at the time of the option grant and market volatility. Management has used the same volatility estimate as used by the Valuation Experts for the cash-settled share-based payments schemes.

In addition, the LTIP scheme has non-market performance conditions, which are dependent upon the Group delivering profit growth (measured by growth in Adjusted EBITDA). The fair value of the LTIP equity-settled share options is dependent upon the Directors assessment of potential profit growth over a three-year period, which is inherently uncertain.

If the share price performance conditions are not met, then the annual cost of the LTIP share options would be £0.1 million lower.

## 4 Segmental analysis

Management identified one operating segment in the business, being the sale of internally developed video games. The single operating segment is reported in a manner consistent with the internal reporting to the Board for monitoring and strategic decisions.

## 5 Group revenue

Revenue is attributable to the principal continuing activity of the Group, being the sale of internally developed video games. An analysis of revenue by geographical market of destination is shown below:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| United Kingdom | **7,519** | 8,993 |
| Rest of Europe | **29,181** | 36,403 |
| United States | **30,715** | 10,290 |
| Australia | **2,522** | 1,843 |
| Rest of the World | **6,112** | 13,690 |
| | **76,049** | 71,219 |

An analysis of revenue by income stream is shown below:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| **Boxed revenue** | **24,600** | 29,069 |
| Digital downloads | **38,142** | 23,627 |
| Digital revenue associated with subscription services | **5,343** | 7,098 |
| **Total digital revenue** | **43,485** | 30,725 |
| **Other revenue streams** | | |
| Sale of product via other contracts with customers | **6,642** | 5,616 |
| Provision of product or training to third parties | **1,143** | 5,642 |
| Other revenue | **179** | 167 |
| **Total other revenue streams** | **7,964** | 11,425 |
| | **76,049** | 71,219 |

Included in the above figures are 44.0% (2019: 29.2%) of sales concentrated across three customers in the year ended 31 March 2020 where revenue per individual customer was greater than 10% of total sales.

For some specific contracts, the performance obligations of meeting these are recognised over time. The split of revenue recognised at a point in time is shown below:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Recognition of revenue: | | |
| Upon delivery of product/service | **69,406** | 69,438 |
| Over a period of time | **6,643** | 1,781 |
| | **76,049** | 71,219 |

The revenue recognised over a period of time in 2020 relates to eleven separate contracts (2019: two), where the contractual revenue assigned against the performance obligation of delivering those contracts is recognised using an input method, whereby revenue is apportioned based upon the proportion of development costs incurred at the period end of the total expected costs to satisfy the applicable performance obligations of those contracts during the reporting period.

## 5 Group revenue (continued)

Where the Group has entered into contracts with customers and has received monies in advance of satisfying the performance obligations of those contracts, such monies are recognised as a deferred income liability. The deferred income liability as at 31 March 2020 is as follows:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Opening deferred income liability – 1 April | **(2,256)** | (3,569) |
| Revenue recognised in the period | **2,256** | 3,569 |
| Additional contract liabilities incurred | **(2,974)** | (2,256) |
| Deferred income liability 31 March – revenue recognised in future periods | **(2,974)** | (2,256) |

Where the Group has entered into contracts with customers and receives monies after satisfying the performance obligations of those contracts, such monies are recognised as an accrued income asset. The accrued income asset as at 31 March 2020 is as follows:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Opening deferred income asset – 1 April | **5,911** | 854 |
| Revenue recognised in the period | **(5,911)** | (854) |
| Additional contract assets in the period | **9,151** | 5,911 |
| Accrued income asset 31 March – revenue recognised in future periods | **9,151** | 5,911 |

Where the Group has entered into contracts that are unsatisfied or partially satisfied, the following aggregated amounts of transaction prices will be recognised in a future period:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Recognised within: | | |
| Less than 1 year | **21,149** | 5,062 |
| Greater than 1 year but less than 2 years | **–** | 621 |
| Future revenue to be recognised from contracts with customers | **21,149** | 5,683 |

## 6 Non-recurring costs

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Professional and other IPO fees | **–** | 1,500 |
| Professional fees associated with acquisition | **1,415** | – |
| | **1,415** | 1,500 |

## 7 Operating profit

The following items are included within operating profit in the consolidated Income Statement:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Inventories recognised as an expense | **8,211** | 7,253 |
| Depreciation of owned fixed assets | **332** | 384 |
| Depreciation of right of use assets | **452** | – |
| Amortisation and impairment of intangible fixed assets | **27,557** | 30,246 |
| Research and development expenses not capitalised | **10,890** | 7,926 |
| Net foreign exchange loss | **479** | 70 |

## 8 Directors' emoluments

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Aggregate emoluments | **1,784** | 1,595 |
| Pension contributions | **58** | 56 |
| | **1,842** | 1,651 |

During the year the Group contributed to two Directors' personal pension plans (2019: two).

The emoluments, excluding pension costs, of the highest paid Director were £987,000 (2019: £955,000). The pension contributions paid by the Group for the highest paid Director amounted to £34,000 (2019: £33,000).

In May 2018, two Directors were granted, and exercised equity-settled share options, prior to the IPO of the Company. These equity-settled share options replaced cash-settled share options that were granted to them in March 2017. Following the Company's IPO four Directors (including two Non-Executive Directors) were granted further equity-settled share-based payments as part of the LTIP, ESOP and NED schemes. Further details regarding these schemes are detailed in note 9.

In addition to the above costs a total of £620,000 (2019: £5,755,821) has been recognised in the Income Statement in respect of equity-settled share-based payments relating to four Directors (which include two Non-Executive Directors).

Details regarding the emoluments of each Director of the Group are shown within the Remuneration Committee Report on page 45.

## 9 Share-based payments

**Cash-settled share-based payments – pre-IPO scheme**

In March 2017 certain senior executives were awarded cash-settled share-based incentive schemes linked to various financial measures of the Group's performance. The scheme was accounted for as cash-based share-based payments in the financial statements for the year ended 31 March 2018. The total amount accrued at 31 March 2018 was £7,750,000 plus employers NIC of £1,069,500.

A new scheme was introduced on 18 May 2018 with the old scheme replaced.

The new scheme provided four senior executives with a call option to purchase a fixed number of preferred shares for £0.1339 per share at the time from the major shareholder Reliance Big Entertainment (Singapore) Pte. Ltd. ('Reliance'). A total of 12,587,500 options were granted (representing 9.5% of issued share capital at the time). The options vested immediately so could be exercised at any time up to the end of the option period, which was 31 December 2022.

As the options vested immediately and were exercised immediately, the options had no effective life; the options were also over shares not publicly traded at the time. As such, it was not appropriate to use the Black Scholes method of valuation.

## 9 Share-based payments (continued)

**Cash-settled share-based payments – pre-IPO scheme** (continued)

Valuation of the share options was carried out using the best available market value for the shares at that time. Three days before the new scheme was granted a small number of shares were sold by a minority shareholder to Reliance. Using the price paid for these shares, a third-party valuation of the Group commissioned by the Directors indicated that the value of the Group was £156.5 million.

A share transaction on 15 May 2018 was completed at a premium when compared to underlying market value at that time. An 11% discount was applied to £156.5 million giving a valuation of £139.3 million. As the share options represented 9.5% of the Group at the time, a fair value of £13.2 million was attributed to the options.

This amount has been charged to the Income Statement in the year ended 31 March 2019 (offset by the £7.75 million accrual release associated with the cancelled cash-settled share options).

**Equity-settled share-based payments – post-IPO schemes**

As part of Codemasters Group Holdings plc admission to AIM on 1 June 2018, three equity-settled share option plans were created:

- ESOP scheme for all permanent employees
- NED scheme for Non-Executive Directors
- LTIP scheme for Executive management team

The ESOP scheme is available to all employees (subject to certain criteria). The options vest one third on the first anniversary of the date of grant, and then monthly thereafter to be fully vested after three years from the date of grant.

If an employee leaves the Group the options cease to vest at the date the Group receives their resignation. The employee can then exercise any vested options up to 6 months after leaving the Group.

The NED scheme has provided share options under the same terms as the ESOP scheme and the same fair value of the options would be applied as to the ESOP scheme. Share options under the NED scheme have been made available to two of the Group's Non-Executive Directors who were in office during the year.

The executive management team each received options under the LTIP scheme to the total of 1% of issued share capital at the time of grant (1,400,000 options granted). The LTIP scheme has both market and non-market conditions for vesting and therefore has been valued separately to the ESOP and NED schemes. The market and non-market conditions relate to the Company's share price growth and the Group's adjusted EBITDA growth respectively.

The exercise price for the LTIP scheme is £0.01 per share. No shares vest until at least three years after grant. The market and non-market conditions apply to 50% of the options each therefore have been considered separately.

Further share options have been granted throughout the period to employees who met the length of service requirement at the applicable dates, as shown below.

Share options and exercise prices as follows for the current financial year:

| | LTIP | | NED | | ESOP | |
|---|---|---|---|---|---|---|
| | Number of shares | Exercise price per share £ | Number of shares | Exercise price per share £ | Number of shares | Exercise price per share £ |
| **Options outstanding at 31 March 2019** | **1,190,000** | **–** | **560,000** | **–** | **1,253,635** | **–** |
| Further options granted 1 April 2019 | 210,000 | 0.01 | – | – | 89,035 | 2.41 |
| Further options granted 10 July 2019 | – | – | – | – | 175,106 | 2.19 |
| Further options granted 23 October 2019 | – | – | – | – | 83,878 | 2.13 |
| Further options granted 22 January 2020 | – | – | – | – | 61,929 | 2.90 |
| Further options granted 10 March 2020 | – | – | – | – | 215,658 | 2.16 |
| Options lapsed | – | – | – | – | (170,816) | |
| Options exercised in year | – | – | – | – | (17,940) | |
| **Options outstanding at 31 March 2020** | **1,400,000** | **–** | **560,000** | **–** | **1,690,485** | **–** |
| **Options exercisable at 31 March 2020** | **–** | **–** | **–** | **–** | **743,254** | **–** |

The fair value of LTIP's was determined by using the Monte Carlo calculation method, all other options granted were determined using a Black Scholes calculation method. The following inputs have been used in carrying out the valuation of the outstanding options:

| | LTIP | ESOP | | | | |
|---|---|---|---|---|---|---|
| | **1 April 2019** | **1 April 2019** | **10 July 2019** | **23 October 2019** | **22 January 2020** | **10 March 2020** |
| Share price at Issue date £ | **2.43** | **2.33** | **2.18** | **2.15** | **3.00** | **2.74** |
| Exercise price of option £ | **0.01** | **2.41** | **2.19** | **2.13** | **2.90** | **2.16** |
| Effective option term | **10 years** | **6 years** | **6 years** | **6 years** | **6 years** | **6 years** |
| Risk-Free Interest Rate | **1.28%** | **0.80%** | **0.55%** | **0.47%** | **0.47%** | **0.47%** |
| Volatility | **25.00%** | **40.00%** | **40.00%** | **40.00%** | **40.00%** | **40.00%** |
| Probability of market condition being met | **50.00%** | **N/A** | **N/A** | **N/A** | **N/A** | **N/A** |
| Weighted average remaining contractual life | **8.2 years** | **5.0 years** | **5.3 years** | **5.6 years** | **5.8 years** | **6.0 years** |
| **Fair value per option £** | **2.64** | **0.88** | **0.83** | **0.83** | **1.19** | **1.26** |

The Group have considered the volatility of comparable quoted companies as a guide for the volatility assumptions in the valuation of the incentive schemes.

## 10 Staff costs

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Wages and salaries | **25,145** | 23,278 |
| Share based payments | **1,135** | 6,725 |
| Social security costs | **2,820** | 2,187 |
| Pension costs | **1,015** | 858 |
| Death in service and incapacity | **108** | 90 |
| | **30,223** | 33,138 |

Staff costs include £15.7 million (2019: £15.8 million) of costs in respect of employees whose value of time is capitalised within the development costs of games (note 15).

Share-based payments expenses are shown less £nil (2019: £nil) of estimated social security costs, which are included within those expenses accordingly.

The average monthly number of employees during the year was as follows:

| | **Year ended 31 Mar 2020 No.** | Year ended 31 Mar 2019 No. |
|---|---|---|
| Management & administration | **102** | 88 |
| Development | **476** | 416 |
| | **578** | 504 |

## 11 Interest receivable and similar income

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Bank interest | **110** | 50 |
| Interest and principal on loan released following settlement agreement | **–** | 278 |
| | **110** | 328 |

In the year ended 31 March 2019, a commercial agreement with Malta Enterprise Limited was reached in August 2018 for full and final settlement in relation to an outstanding facility payable by Codemasters (Malta) Limited. This left a residual balance of 322,000 (£278,000) in respect of the book value of principal and interest, which was released to the Income Statement.

## 12 Interest payable and similar charges

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Bank interest & similar charges | **65** | 17 |
| Interest payable & similar charges on other loans | **932** | 28 |
| Interest on unwinding of minimum licensing agreements | **1,274** | 2,001 |
| Interest on unwinding of right of use assets | **55** | – |
| Foreign exchange loss on borrowings and licensing agreements | **1,403** | 2,184 |
| | **3,729** | 4,230 |

## 13 Auditors remuneration

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of group financial statements | **279** | 95 |
| Fees payable to the Company's auditor for other services: | | |
| Audit related assurance services | **10** | 10 |
| Services related to corporate finance transactions | **–** | 662 |
| Other non-audit services not covered above | **40** | 119 |
| | **329** | 886 |

## 14 Tax on profit on ordinary activities

**a) Tax on profit on ordinary activities**

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax charge | **(263)** | (67) |
| Overseas tax charge | **(456)** | – |
| **Total current tax charge** | **(719)** | (67) |
| **Deferred tax** | | |
| UK corporation tax (charge) / credit | **(58)** | 838 |
| **Total deferred tax** | **(58)** | 838 |
| **Tax (charge) / credit on profit on ordinary activities** | **(777)** | 771 |

**b) Factors affecting current tax charge**

The tax assessed on the profit on ordinary activities for the year differs from the main rate of corporation tax in the UK of 19.0% (2019: 19.0%). The differences are reconciled below:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| **Profit on ordinary activities before taxation** | **12,245** | 2,902 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax of 19% | **2,327** | 551 |
| Effect of: | | |
| Disallowed expenses | **753** | 2,401 |
| Deferred tax recognised | **58** | (838) |
| Non-taxable income | **(1,623)** | (1,950) |
| Capital allowances more than depreciation | **(204)** | (199) |
| Withholding tax | **432** | – |
| Tax losses carried forward | **182** | – |
| Creative sector tax relief | **(218)** | (9) |
| Brought forward losses used | **(930)** | (794) |
| Prior year corporation tax paid | **–** | 67 |
| Total tax charge / (credit) | **777** | (771) |

As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, the amount of the potential recognised deferred tax asset at 31 March 2020 is computed at the rate of 19%, reflecting the fact that losses are expected to be utilised prior to 31 March 2022 and using the applicable corporation tax rate for those periods. The unrecognised deferred tax asset is computed at a rate of 19% reflecting the fact that the balances are proposed to be utilised post 1 April 2022.

**c) Deferred tax**

The Group has recognised deferred tax assets in relation to tax losses that are expected to be utilised in the subsequent two financial years. Due to changes in UK tax legislation introduced from 1 April 2017, these losses are limited to the first £5 million of taxable profits and 50% of any additional profits. There is now a reasonable expectation that tax will need to be paid in future periods. As at 31 March 2020 the Group has recognised a deferred tax asset of £3.2 million (2019: £3.2 million) in respect of expected tax losses that the Group expect to utilise in the subsequent two financial years. The deferred tax asset is partly offset by a deferred tax liability of £1.2 million arising on the uplift in the fair value of game IP acquired with the acquisition of SMS.

The Group has not recognised deferred tax assets in relation to accelerated capital allowances, other timing differences and any additional tax losses that are not estimated to be utilised over the subsequent two financial years.

As at 31 March 2020 and the prior period any deferred tax asset not shown on the face of the balance sheet is unrecognised.

The Group has £23.8 million of deferred tax assets unrecognised at the year-end (2019: £20.7 million).

## 15 Intangible fixed assets

| | Development Costs £000 | Licences Patents Trade Marks & Game IP £000 | Computer Software £000 | Goodwill £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2018 | 65,445 | 18,995 | 634 | – | 85,074 |
| Additions | 23,231 | – | 177 | – | 23,408 |
| Disposals | (5,533) | – | – | – | (5,533) |
| **At 31 March 2019** | **83,143** | **18,995** | **811** | **–** | **102,949** |
| **On acquisition** | **–** | **11,033** | **–** | **24,027** | **35,060** |
| **Additions** | **27,055** | **29,167** | **587** | **–** | **56,809** |
| **Disposals** | **(14,842)** | **–** | **–** | **–** | **(14,842)** |
| **At 31 March 2020** | **95,356** | **59,195** | **1,398** | **24,027** | **179,976** |
| **Accumulated amortisation** | | | | | |
| At 1 April 2018 | 40,025 | 8,217 | 375 | – | 48,617 |
| Amortisation | 24,696 | 2,776 | 174 | – | 27,646 |
| Impairment | 2,600 | – | – | – | 2,600 |
| Disposals | (5,533) | – | – | – | (5,533) |
| **At 31 March 2019** | **61,788** | **10,993** | **549** | **–** | **73,330** |
| **Amortisation** | **24,223** | **3,036** | **298** | **–** | **27,557** |
| **Disposals** | **(14,842)** | **–** | **–** | **–** | **(14,842)** |
| **At 31 March 2020** | **71,169** | **14,029** | **847** | **–** | **86,045** |
| **Net book amount** | | | | | |
| **At 31 March 2020** | **24,187** | **45,166** | **551** | **24,027** | **93,931** |
| At 31 March 2019 | 21,355 | 8,002 | 262 | – | 29,619 |

As at 31 March 2020, included within development costs are £20.4 million of costs incurred on products yet to be released (2019: £17.3 million). £3.0 million of the increase is relation to the acquisition of SMS.

The carrying values of all intangible assets are reviewed at the end of each reporting period against the expected future cashflows from that title. In the prior year, following the release of ONRUSH in June 2018, its trading performance and associated future trading expectations of the title led to an impairment review for that asset. Following that review a £2.6 million impairment of the ONRUSH asset was recognised.

Please see note 17 for details of the acquisition of SMS.

The goodwill was reviewed for impairment as at the acquisition date. The Directors reviewed the budgets and longer-term forecasts for the underlying CGU's and the wider business. The goodwill is in respect of the workforce and IP of future games it may develop and is based on the future cashflows of SMS. These have been discounted at a WACC of 11.6% and a growth rate of 2.5%, which were determined by a firm of professional valuation experts. A period of four years was reviewed. The Directors reviewed the underlying estimates and assumptions at the year end and consider that no impairment is necessary.

## 16 Tangible fixed assets

| | Freehold land & buildings £000 | Leasehold improvements £000 | Fixtures, fittings & computer equipment £000 | Right of use asset £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2018 | 7,687 | 363 | 9,522 | – | 17,572 |
| Exchange translation adjustment | – | – | 25 | – | 25 |
| Additions | – | – | 1,997 | – | 1,997 |
| Disposals | – | – | (697) | – | (697) |
| At 31 March 2019 | **7,687** | **363** | **10,847** | **–** | **18,897** |
| Adjustment on transition to IFRS 16 | **–** | **–** | **(568)** | **1,985** | **1,417** |
| On acquisition | **–** | **–** | **92** | **432** | **524** |
| Exchange translation adjustment | **–** | **–** | **(16)** | **–** | **(16)** |
| Additions | **–** | **–** | **1,484** | **39** | **1,523** |
| Disposals | **–** | **–** | **–** | **–** | **–** |
| **At 31 March 2020** | **7,687** | **363** | **11,839** | **2,456** | **22,345** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2018 | 1,999 | 112 | 6,941 | – | 9,052 |
| Exchange translation adjustment | – | – | 34 | – | 34 |
| Charge for year | 148 | 8 | 1,274 | – | 1,430 |
| Disposals | – | – | (697) | – | (697) |
| At 31 March 2019 | 2,147 | 120 | 7,552 | – | 9,819 |
| Adjustment on transition to IFRS 16 | – | – | (248) | 248 | – |
| Exchange translation adjustment | – | – | (19) | – | (19) |
| Charge for year | 148 | 7 | 1,372 | 628 | 2,155 |
| Disposals | – | – | – | – | – |
| **At 31 March 2020** | **2,295** | **127** | **8,657** | **876** | **11,955** |
| **Net book amount** | | | | | |
| **At 31 March 2020** | **5,392** | **236** | **3,182** | **1,580** | **10,390** |
| At 31 March 2019 | 5,540 | 243 | 3,295 | – | 9,078 |

Included in freehold land and buildings is land with a carrying amount of £150,000 (2019: £150,000) that is not depreciated. The carrying value of right of use assets includes leasehold property of £1,391,000, motor vehicles of £45,000 and fixtures, fittings & computer equipment of £144,000.

The Group had capital commitments at the reporting date of £1,136,000 (2019: £nil).

£1,370,000 of the depreciation charge for the year has been capitalised within the capitalised development cost intangible asset (2019: £1,068,000).

## 17 Investments

Details of the Group's investments in which the Company held 20 percent or more of the nominal value of shares as at 31 March 2020, were as follows:

| Name of Company | Class of share held | Held by the Company | Held by the Group | Nature of Business |
|---|---|---|---|---|
| Codemasters Holdings Limited | Ordinary | 100% | 100% | Intermediate holding company |
| Codemasters Group Limited | Ordinary | – | 100% | Intermediate holding company |
| The Codemasters Software Company Limited | Ordinary | 100% | 100% | Development, marketing & Distribution of video games |
| Codemasters Development Company Limited | Ordinary | – | 100% | Development of video games |
| Codemasters Studios Sdn Bhd | Ordinary | 70% | 70% | Development of video games |
| Codemasters Limited | Ordinary | – | 100% | Dormant |
| Slightly Mad Studios Pte. Ltd. | Ordinary | 100% | 100% | Intermediate holding company |
| Slightly Mad Studios Limited | Ordinary | – | 100% | Development of video games |
| IoTech Finance Sarl | Ordinary | – | 100% | Intermediate holding company |
| IoTech Engine Limited | Ordinary | – | 100% | Development of video games |
| IoTech Studios Limited | Ordinary | – | 100% | Dormant |
| Middleware Limited | Ordinary | – | 100% | Development of video games |
| SMS Apollo Limited | Ordinary | – | 100% | Development of video games |
| SMS Hydra Limited | Ordinary | – | 100% | Development of video games |
| SMS Phoenix Limited | Ordinary | – | 100% | Development of video games |
| SMS Virgo Limited | Ordinary | – | 100% | Development of video games |

Please note that the above is reflective of the following that took place in the year ended 31 March 2020:
- Codemasters Group Holdings plc acquired the entire issued share capital of Slightly Mad Studios Pte. Ltd., and its subsidiaries on 28 November 2019.

All of above entities are consolidated into the Consolidated Financial Statements.

Codemasters Studios Sdn Bhd is incorporated in Malaysia, its principal business address is No.91-3 Jalan Metro Perdana Barat 1, Taman Usahawan Kepong, Off Jalan Kepong, Kepong, 52100 Kuala Lumpur, Malaysia.

Slightly Mad Studios Pte. Ltd. is incorporated in the Republic of Singapore, its principal business address is 1 Scotts Road, #21-10, Shaw Centre, Singapore 228208.

IoTech Finance Sarl is incorporated in Luxemburg, its principal business address is 153-155 Rue de Kiem, L-8030 Strassen, Grand Duchy of Luxemburg.

All of the other entities above are incorporated in England and Wales and have a principal business address of Codemasters Campus, Stoneythorpe, Southam, Warwickshire, CV47 2DL.

### Subsidiaries with non-controlling interests

As at 31 March 2020 the group included one subsidiary with non-controlling interests; at 31 March 2019 for part of the previous year the Group included three subsidiaries (excluding dormant entities) with non-controlling interests. As noted above, following the acquisition of shares in The Codemasters Software Company Limited (CSCL) and Codemasters Studios Sdn Bhd (CSSB) on 16 May 2018, CSCL and Codemasters Development Company Limited became wholly owned subsidiaries and the ownership of CSSB increased to 70%. The impact on the non-controlling interest percentage are summarised below:

| | **31 Mar 2020 %** | 31 Mar 2019 % |
|---|---|---|
| **Subsidiary** | | |
| Codemasters Studios Sdn Bhd | **30.00** | 30.00 |

Summarised financial information for the entities is set out below:

| Codemasters Studios Sdn Bhd | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Total comprehensive income @ 30% (FY19: 30%) | **(103)** | (50) |
| Total assets | **1,866** | 1,847 |
| Total liabilities | **(3,347)** | (2,996) |
| Equity attributable to owners of the parent | **(387)** | (146) |
| Non-controlling interests | **(606)** | (503) |

**Additions**

On 28 November 2019, Codemasters Group Holdings Plc acquired 100% of the issued share capital of Slightly Mad Studios Pte. Ltd (SMS), a company based in Singapore, but which has its trading subsidiaries in the UK. SMS was acquired as it is another producer of AAA rated racing games, bringing diversified revenue streams through its owned IP and license to produce the Fast & Furious movie game, thus cementing the Group's leadership in the racing category of video games.

| Fair value of consideration transferred | £000 |
|---|---|
| Amount settled in cash | **19,411** |
| Amount settled in shares | **3,882** |
| Fair value of deferred consideration | **15,932** |
| **Total** | **39,225** |
| **Fair value of recognisable amounts of identifiable net assets** | |
| Property, plant and equipment | **524** |
| Intangible assets | **11,033** |
| **Total non-current assets** | **11,557** |
| Trade and other receivables | **5,318** |
| Cash and cash equivalents | **3,168** |
| **Total current assets** | **8,486** |
| Borrowings | **(1,967)** |
| Trade and other payables | **(1,647)** |
| **Total current liabilities** | **(3,614)** |
| Deferred tax on uplift in fair value of intangibles acquired | **(1,231)** |
| **Total non-current liabilities** | **(1,231)** |
| **Identifiable net assets** | **15,198** |
| **Goodwill on acquisition** | **24,027** |
| Consideration settled in cash | **19,411** |
| Cash and cash equivalents acquired | **(3,168)** |
| **Net cash outflow on acquisition** | **16,243** |
| **Acquisition costs charged to expenses** | **1,415** |

The purchase consideration includes deferred contingent consideration of £15,932,000, which is based on a multiple of the expected EBITDA, adjusted for milestone payments and capitalised development costs, expected to be achieved by the SMS group and is calculated over a three-year forecast period to 31 December 2022. In the Directors view, this basis of calculating the contingent consideration is intended to determine the fair value of the acquired business. The contingent consideration is the probability weighted average of the present value of the cash outflow and has been arrived at using a discount rate of 11.6% under a level 3 hierarchy of IFRS 13. The cash outflow will be settled 70% in cash and 30% in shares in Codemasters Group Holdings plc. At 31 March 2020, there has been no change in the estimate of the probable cash outflow owing to the sensitivities used in the calculations.

The maximum deferred contingent consideration payable is $165 million.

The deferred consideration includes $5,000,000 in shares on the release of Fast & Furious Crossroads.

There is no expected credit loss on the cashflow of any receivables acquired.

## 17 Investments (continued)

**Additions** (continued)

Acquisition related costs of £1.4 million are not included as part of the consideration and have been recognised as a non-recurring expense in the Income Statement.

The intangible assets of £11,033,000 relate to the probability weighted average of the present value of the games and game engine acquired using a multi-period excess earnings model under level three of IFRS 13.

Goodwill of £24,027,000 is primarily related to the substantial skill and expertise of SMS's workforce which complement those of Codemasters current staff.

As noted above, given there is no change in the estimated future cashflows, this forms the basis of the impairment assessment at the reporting date. The inputs of this assessment are as described above.

During the period from acquisition to 31 March 2020, the SMS group contributed revenue of £764,000, Adjusted EBITDA loss of £(883,000) and a loss after tax of £(812,000). If the SMS group been acquired on 1 April 2019, it would have contributed revenue of £3,147,000, Adjusted EBITDA loss of £(2,792,000) and a loss after tax of £(1,884,000).

## 18 Inventories

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| Finished goods | **622** | 351 |

## 19 Trade and other receivables

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| Trade Receivables due within one year: | | |
| Neither past due nor impaired | **4,952** | 1,912 |
| Past due: 0-30 days | **754** | 99 |
| Past due: 31-60 days | **567** | 217 |
| Past due: 61-90 days | **203** | – |
| Past due: More than 91 days | **210** | – |
| Trade receivables past due and impaired | **107** | 102 |
| Less provision for expected credit loss | **(107)** | (102) |
| **Trade receivables net** | **6,686** | 2,228 |
| Amounts due from related undertaking | **–** | 1 |
| Other receivables | **389** | 82 |
| Fair value of forward foreign exchange contracts | **–** | 252 |
| Other taxation | **99** | 13 |
| Prepayments | **849** | 719 |
| Corporation tax recoverable | **1,037** | – |
| Accrued income | **9,151** | 5,911 |
| | **18,211** | 9,206 |

Trade receivables and accrued income are all current and any fair value difference is not material. Trade and other receivables are considered past due once they have passed their contracted due date. Trade receivables are reviewed for impairment on a customer by customer basis.

Of the net trade receivables balance 85% was concentrated across six customers (each with 5% or more), (2019: 88% across three customers).

Accrued income relates to uninvoiced business development income on contracts signed close to the reporting date and digital sales made to digital sellers (typically Sony, Microsoft and Steam), which are invoiced shortly after the period end following third party confirmation of the revenue to be recognised. There have been no historic credit losses associated with these balances, no provision for expected credit losses are required.

**Credit loss allowance**

Management has reviewed each of the trade and other receivables on a customer by customer basis and using a credit risk matrix has assessed the level of potential credit loss that the Group is exposed to. The majority of the Group's customers are the leading platforms in the video games industry and other blue-chip organisations, which are not considered to be a credit risk. In addition, the trading history with these businesses also assists in enabling management to assign minimal risk to these customers. The Group also takes steps to minimise its exposure to credit risk and hence following the assessment on a customer by customer basis there is only one that has been included in the credit loss allowance in the current and prior year. The loss allowance and the movement from prior reporting periods are shown below.

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| At 1 April | **102** | 95 |
| Increase in exposure | **5** | 7 |
| Receivables written off as not-collectable | **–** | – |
| **At 31 March** | **107** | 102 |

## 20 Cash and cash equivalents

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash at bank and in hand | **8,403** | 8,386 |
| Short term deposits | **17,160** | 10,050 |
| | **25,563** | 18,436 |

The following amounts were held in foreign currencies:

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| Euros | **2,100** | 339 |
| United States Dollars | **2,385** | 1,790 |
| | **4,485** | 2,129 |
| Other currencies: | | |
| Malaysian Ringitts | **17** | 13 |
| | **4,502** | 2,142 |

## 21 Trade and other payables: amounts falling due within one year

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| Trade payables | **5,858** | 4,117 |
| Other taxation & social security | **736** | 431 |
| Other payables | **11,711** | 5,089 |
| Accruals | **6,928** | 7,163 |
| Deferred income | **2,974** | 2,539 |
| | **28,207** | 19,339 |

Trade payables are all current and any fair value difference is not material.

Included within the increase of other payables are the element of the contingent consideration on the acquisition of SMS of £3.7 million and an increase in royalty liabilities of £3 million.

The deferred income balance of £3.0 million (2019: £2.5 million) includes £1.6 million relating to the fair value of the milestone payments and royalty advances received by SMS from the external publisher they have agreements with. The balance of £1.4 million is on the underlying Codemasters business and relates to separate contracts with a small number of third parties. These amounts represent monies received in advance of performance obligations being met in respect of these contracts.

## 21 Trade and other payables: amounts falling due within one year (continued)

**Loans and borrowings falling due in less than one year:**

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Bank loan (note 23) | **752** | – |
| Finance leases (note 27) | **881** | 173 |
| **Total (note 23)** | **1,633** | 173 |

## 22 Creditors: amounts falling due after more than one year

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Trade & other payables | **45,515** | 6,228 |
| Finance leases | **752** | 100 |
| | **46,267** | 6,328 |

The increase in trade and other payables is predominantly due to an increase of £27.1 million in the amounts due under a long-term licencing agreement following its extension and £12.2 million contingent consideration for the acquisition of SMS.

## 23 Loans and borrowings

The loans and borrowings payable by the Group are summarised as follows:

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Bank loan | **752** | – |
| Finance leases | **1,633** | 273 |
| | **2,385** | 273 |

The maturity profile of loans and borrowings as at 31 March was as follows:

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Amounts falling due within one year | **1,633** | 173 |
| Amounts falling due within one to two years | **412** | 87 |
| Amounts falling due within two to five years | **340** | 13 |
| | **2,385** | 273 |

The bank loan is held by SMS and is due for repayment within the year ended 31 March 2021.

## 24 Financial instruments

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Financial assets held at amortised cost:** | | |
| Trade receivables | **6,686** | 2,228 |
| Cash and cash equivalents | **25,563** | 18,436 |
| | **32,249** | 20,664 |

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Financial assets held at fair value:** | | |
| Forward foreign exchange contracts | **–** | 252 |
| | **–** | 252 |

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Financial liabilities held at amortised cost:** | | |
| Loans and borrowings | **(2,385)** | (273) |
| Trade payables | **(5,858)** | (4,117) |
| Other payables | **(41,294)** | (11,144) |
| | **(49,537)** | (15,534) |

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Financial liabilities held at fair value:** | | |
| Other payables | **(15,932)** | – |
| | **(15,932)** | – |

The fair value of the other payables held at amortised cost includes the long-term licensing agreement which was extended during the year.

The fair value of the other payables held at fair value includes the deferred contingent consideration payable on the acquisition of SMS.

There were no forward exchange contracts outstanding at 31 March 2020.

## 25 Provisions for liabilities

| | Provision for future credits & price protection £000 |
|---|---|
| **As at 31 March 2018** | 3,391 |
| Charge in the year | 5,016 |
| Released in the year | (2,278) |
| Utilised in the year | (4,684) |
| **As at 31 March 2019** | **1,445** |
| Charge in the year | **5,916** |
| Released in the year | **–** |
| Utilised in the year | **(6,489)** |
| **As at 31 March 2020** | **872** |

Provisions for future returns and price protections represent the Directors' best estimate of the likely future discounts of the present obligations arising for credits and to give price protection to customers and returns. It is anticipated that the majority of provisions will be utilised within 12 months of the reporting date. Amounts utilised in the period include credits applied to outstanding trade receivables.

## 26 Called up share capital

At period end date the composition of Codemasters Group Holdings plc share capital was:

| | 31 Mar 2020 | | 31 Mar 2019 | |
|---|---|---|---|---|
| | £000 | Voting Rights % | £000 | Voting Rights % |
| **Allotted and fully paid** | | | | |
| 151,328,763 (2019: 140,000,000) Ordinary shares of £0.01 | **1,513** | **100** | 1,400 | 100 |
| | **1,513** | **100** | 1,400 | 100 |

The Companies Act 2006 does not require a company to have an authorised share capital, furthermore the Company's articles of association do not contain a provision expressly limiting the number of shares that can be issued by the Company.

The rights and obligations attached to the share capital of the Company set out in the articles of association are summarised below.

Ordinary shares – following the pre-IPO group restructuring in May 2018 is only one class of share capital. All of the issued share capital of the Company are ordinary shares of 1 pence each. All shares have equal rights in terms of voting, transferability and distribution of capital

Prior to the pre-IPO group restructuring the following classes of share capital were held by the Company:

i) Class 1 ordinary shares
- Class 1 ordinary shareholders are entitled to receive notice of, attend, speak and vote at General Meetings of the Company.
- The shares are not redeemable.
- All ordinary shares (i.e. Class 1, Class 2B and Class 2C) rank after all preferred shares but pari passu with other classes of ordinary shares in relation to dividends and distribution of capital (including on a winding up) as if the same together constituted one class.

ii) Class 2B ordinary shares
- Class 2B ordinary shareholders are not entitled to receive notice of, attend, speak or vote at General Meetings of the Company.
- The shares are not redeemable.
- All ordinary shares (i.e. Class 1, Class 2B and Class 2C) rank after all preferred shares but pari passu with other classes of ordinary shares in relation to dividends and distribution of capital (including on a winding up) as if the same together constituted one class.

iii) Class 2C ordinary shares
- Class 2C ordinary shareholders are not entitled to receive notice of, attend, speak or vote at General Meetings of the Company.
- The shares may be reclassified as deferred shares at any time at the discretion of the Company.
- The shares are not redeemable.
- All ordinary shares (i.e. Class 1, Class 2B and Class 2C) rank after all preferred shares but pari passu with other classes of ordinary shares in relation to dividends and distribution of capital (including on a winding up) as if the same together constituted one class.

iv) Preferred shares
- Preferred Shares rank in priority of all other shares of the Company in respect of distributions of dividend and capital (including on a winding up) and are not redeemable, the 10% annual cumulative preferred yield will only become payable on a liquidation, reduction of capital, sale or asset sale.

v) Deferred shares
- The deferred shareholders have no entitlement to receive notice of, attend, speak or vote at General Meetings of the Company.
- The deferred shares are not entitled to any participation in the profits or the assets of the Company.
- All deferred shares from time to time in issue may be redeemed by the Company at any time at the discretion of the Board for £1.00 in aggregate without obtaining the sanction of the holder or holders.

**Pre-admission group restructuring**
As referred to above, the Group undertook a reorganisation and debt restructuring prior to converting to a public limited company and being admitted to AIM.

This series of transactions were all planned together as one single transaction and as such the Directors have accounted for them as if it were a single transaction. The purpose of these transactions was to bring all of the shareholdings of Reliance in the Group into the Company, recapitalise the Company and simplify the capital structure. This was achieved through the following steps:

The restructuring took place between 8 May 2018 and 21 May 2018, in a series of steps whereby, inter alia:
- the 819,839,142,440,000 deferred shares of £0.00000001 each in the Company were cancelled and extinguished, which was reflected by a reduction in share capital of £8.2 million and a corresponding increase in profit and loss reserves;
- Reliance transferred 23,333 ordinary shares in Codemasters Studios Sdn Bhd to the Company in consideration for the allotment and issue of 10,000 Class 1 ordinary shares of £0.0001 each in the Company to Reliance;
- Reliance transferred 333 ordinary shares in The Codemasters Software Company Limited to the Company in consideration for the allotment and issue of 150,000,000,000 Class 1 ordinary shares of £0.0001 each in the Company to Reliance. The impact of this and the above transaction was to increase share capital of the Company by £15 million and reduce non-controlling interest by £9.5 million, with the balance recognised as a reduction to profit and loss reserves;
- aggregate initial principal loans due from the Group to Reliance of £68,522,884.09 were converted to equity through the issue of 685,228,840,900 Class 1 ordinary shares of £0.0001 each in the Company to Reliance and all of the accrued interest on the loans was waived by Reliance, as a result of which the aggregate amount of the loans plus accrued interest subsequently payable by the Group to Reliance was reduced to US$5,000,000. The release of the accrued interest reduced the loan payable with a corresponding increase in profit and loss reserves;
- the share capital was reduced through the cancellation of 794,499,302,609 Class 1 ordinary shares of £0.0001 each, 1,466,513,690 Class 2C ordinary shares of £0.00000001 each and 26,311,491 Preferred shares of £1.00 each, and through the reduction of the nominal value of each class of shares to one tenth of their prior value and the cancellation of all except £0.21 of the share premium. The reduction in share capital led to a corresponding increase of £117.8 million in profit and loss reserves;
- the Preferred shares were subdivided and re-designated into Class 1 ordinary shares of £0.00001 each and all Class 2B shares of £0.00001 each were re-designated as Class 1 ordinary shares of £0.00001 each;
- there was a bonus issue of 21,000 Class 1 ordinary shares of £0.0001 each in the Company; and
- all of the Class 1 ordinary shares of £0.0001 each in the Company in issue as a result of the above steps were consolidated and subsequently re-designated as ordinary shares of 1 pence each in the Company.

As a result of the above steps, at 21 May 2018, the issued share capital of the Company was £1,325,000, comprising of 132,500,000 Ordinary Shares of £0.01 each.

**Conversion to plc**
On 22 May 2018, the Company converted to a public limited company and changed its name from Codemasters Group Holdings Limited to Codemasters Group Holdings plc.

**Executive Share Option Plan (ExSOP): issue of shares under The Codemasters Employees' Share Trust**
On 17 April 2007 an offshore Employees Share Trust was created called The Codemasters Employees' Trust, the parties to the Trust being Codemasters Group Limited and EES Trustees International Limited.

The Trust provided a discretionary settlement for the benefit of employees and former employees of the Company, and of any other company which is from time to time a subsidiary of the Company.

The Trust has been funded by a Loan Facility Agreement between Codemasters Group Limited and the Trustee. Loans totalling £2,218,569 were provided to the Trust in 2007. This has enabled the Trustee to participate in the Executive Share Option Plan (ExSOP) and acquire under a Joint Ownership Agreement with selected employees of Codemasters Group shares in the Group.

The loan was fully impaired in the accounts of Codemasters Group Limited in 2011, when it was understood that the market value of the shares held was insufficient for the Trust to repay the loan.

Following the capital restructuring of the Group that was disclosed in the financial statements of the Company for the year ended 30 June 2009, the shares held by the Trust were predominately deferred shares and other non-voting Class 2B ordinary shares.

## 26 Called up share capital (continued)

**Executive Share Option Plan (ExSOP): issue of shares under The Codemasters Employees' Share Trust** (continued)
The deferred shares were cancelled as part of the wider pre-admission group restructuring in May 2018. In addition, an agreement was reached between the Trust and the joint shareholder (an individual) to sell their jointly owned shares to Reliance.

Following the settlement of that transaction the Trust was left with no remaining assets, in order to settle the outstanding balance, the Trust repaid £228,000 following receipt of a gift (for the purpose of repaying the loan). The residual £1.9 million loan was written off.

Subsequent to the settlement of all of the outstanding liabilities of the Trust, a Deed of Termination was entered into in August 2018 and the Trust was terminated with effect from 31 August 2018.

## 27 Leases

Lease liabilities presented in the Statement of Financial Position are as follows:

| | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|
| Within one year | **881** | 187 |
| Due after more than one year | **752** | 110 |
| In greater than five years | **–** | – |
| | **1,633** | 297 |

The Group has leases for studios and motor vehicles. With the exception of short-term and leases of low value underlying assets, each lease is reflected in the Statement of Financial Position as a right of use asset and a lease liability. The Group depreciates right of use assets in a consistent manner to its tangible fixed assets.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments as at 31 March 2020 are as follows:

| | **Less than one year £000** | **Due between one and two years £000** | **Due between two and five years £000** | **Total £000** |
|---|---|---|---|---|
| **31 March 2020** | | | | |
| Lease payments | **964** | **475** | **431** | **1,870** |
| Finance charges | **(83)** | **(63)** | **(91)** | **(237)** |
| **Net present values** | **881** | **412** | **340** | **1,633** |

The following is a reconciliation of total operating lease commitments at 31 March 2019 (as disclosed in the financial statements to 31 March 2019) to the lease liabilities recognised at 1 April 2019:

| | **1 Apr 2019 £000** |
|---|---|
| Total operating lease commitments disclosed at 31 March 2019 | 1,729 |
| Less recognition exemptions: | |
| Leases of low value assets | (102) |
| **Operating lease liabilities before discounting** | **1,627** |
| Discounted using incremental borrowing rate | (210) |
| **Operating lease liabilities** | **1,417** |
| Finance lease obligations | 273 |
| **Total lease liabilities recognised under IFRS 16 at 1 April 2019** | **1,690** |

See note 12 for details of interest on unwinding of right of use assets and the consolidated cashflow statement for the cash outflows on lease repayments. Note 16 includes the details of the right of use assets.

## 28 Pension Commitments

There was £192,000 outstanding in respect of pension contributions unpaid as at 31 March 2020 (2019: £115,000). The Group has no obligations to defined benefit pension schemes.

## 29 Financial risk management

The Group uses a number of financial instruments. These include cash (including in foreign currency denominations), loans, forward foreign exchange contracts and trade receivables and payables that arise from its operations. The purpose of these financial instruments is to provide finance for the Group's operations. There is an inherent risk to the Group of using these financial instruments.

The main risks arising from the Group's financial instruments are financial risk, liquidity and interest rate risk, credit risk and currency risk, these are described below:

– *Financial risk management:* The Group's operations expose it to a variety of financial risks that include liquidity and interest rate risk, credit risk and currency risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Directors are implemented by the Group's finance department. There are processes in place to manage the financial risks listed.
– *Liquidity and interest rate risk:* The Group actively manages a mixture of financing that is designed to ensure the Group has sufficient available funds for operations and planned expansions. Financing used by the Group throughout the period has included loans for the development of specific games and other working capital loans. The Group has both interest-bearing assets and interest-bearing liabilities. The Group has a policy of maintaining debt at fixed rate where possible to give certainty of future interest cash flows. The Group has settled the large historic shareholder loans and other loans in the year ended 31 March 2019. The only external borrowings at 31 March 2020 relate to a small amount of lease liabilities and a bank loan acquired with IoTech Finance Sarl which is due for repayment in June 2020.

The table below analyses the Group's financial liabilities into relevant maturity groupings based upon the remaining period at the period end date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Due between zero and three months £000 | Due between three and six months £000 | Due between six and nine months £000 | Due between nine and twelve months £000 | Due between one and two years £000 | Due between two and five years £000 | Due more than five years £000 |
|---|---|---|---|---|---|---|---|
| **31 March 2020** | | | | | | | |
| Borrowings | **973** | **220** | **220** | **220** | **412** | **340** | **–** |
| Trade & other payables | **19,372** | **5,139** | **1,848** | **1,848** | **8,020** | **30,536** | **6,959** |
| | **20,345** | **5,359** | **2,068** | **2,068** | **8,432** | **30,876** | **6,959** |

| | Due between zero and three months £000 | Due between three and six months £000 | Due between six and nine months £000 | Due between nine and twelve months £000 | Due between one and two years £000 | Due between two and five years £000 | Due more than five years £000 |
|---|---|---|---|---|---|---|---|
| **31 March 2019** | | | | | | | |
| Borrowings | 43 | 43 | 43 | 44 | 87 | 13 | – |
| Trade & other payables | 15,327 | 1,094 | 1,459 | 1,459 | 3,358 | 2,870 | – |
| | 15,370 | 1,137 | 1,502 | 1,503 | 3,445 | 2,883 | – |

The outstanding borrowings relating to a bank loan which is due for repayment in June 2020 and lease liabilities which are at fixed interest rates.

## 29 Financial risk management (continued)

**Sensitivity to interest rate fluctuations:**
If the average rate payable on the floating rate borrowings in the year to the 31 March 2020 was 1% higher throughout the period, the profit before tax would have been approximately £nil (2019: £150 lower). If the interest rate on these liabilities was 1% lower the profit before tax for the period would be approximately £nil (2019: £150 higher). In FY20 the only floating rate borrowings the Group was exposed to as at 1 April 2019 were settled in early April 2019.

*Credit risk:* The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is considered to be minimal as the cash is held with parties with high credit ratings as assigned by internationally recognised rating agencies.

The Group has implemented policies that require appropriate credit checks on potential customers before digital sales are made. There are very few new digital sales providers introduced to the Group and low risk customers are accepted, as such there is minimal risk from such areas. Exposure to credit risk has been mitigated further with the Group entering into distribution agreements with partners.

The Group mitigates the credit risk of business development or one-off transactions by pursuing a minimum guarantee payable in advance of the deliverable to the customer. The revenue recognised for any such transactions is only recognised when the performance obligations of the agreement are met, with the balance held as a creditor for any cash received in advance of that point.

The Group's method of assessing the expected credit loss is discussed in detail in note 19.

Currency risk: The Company seeks to balance the flows of revenues and costs across currencies to minimise the exposure to currency risk. Financial instruments are considered where appropriate to hedge such risk. Revenue is generated in Sterling, Euros and US Dollars. Those currencies are held and used to settle liabilities in the same currency. Any excess currencies are then converted into Sterling.

Summarised in the table below are financial assets and liabilities denominated by currency:

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Trade receivables:** | | |
| United States Dollars | **5,539** | 1,871 |
| Euros | **567** | 274 |
| Sterling | **549** | 83 |
| Other currency | **31** | – |
| | **6,686** | 2,228 |

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Loans and borrowings** | | |
| United States Dollars | **–** | – |
| Euros | **752** | – |
| Sterling | **1,633** | 273 |
| | **2,385** | 273 |

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| **Other financial liabilities** | | |
| United States Dollars | **18,624** | 11,843 |
| Euros | **2,425** | 523 |
| Sterling | **41,779** | 2,894 |
| Other currency | **4** | 1 |
| | **62,832** | 15,261 |

## 30 Reconciliation of liabilities arising from financing activities

| | Borrowings < 1 year £000 | Lease liabilities < 1 year £000 | Borrowings > 1 year £000 | Lease liabilities > 1 year £000 | Total £000 |
|---|---|---|---|---|---|
| **31 March 2018** | 121,669 | 150 | – | 202 | 122,021 |
| Cash flows: | | | | | |
| Repayments | (5,645) | (178) | – | – | (5,823) |
| Proceeds | – | 31 | – | 61 | 92 |
| Non-cash: | | | | | |
| Interest rolled up | 1,352 | 15 | – | – | 1,367 |
| Loans converted into equity | (68,523) | – | – | – | (68,523) |
| Interest released | (50,167) | – | – | – | (50,167) |
| Exchange movements | 1,314 | – | – | – | 1,314 |
| Reclassifications | – | 155 | – | (163) | (8) |
| **31 March 2019** | – | 173 | – | 100 | 273 |
| Cash flows: | | | | | |
| Repayments | **–** | **(185)** | **–** | – | **(185)** |
| Proceeds | **(719)** | **–** | **–** | – | **(719)** |
| Non-cash: | | | | | |
| Interest rolled up | **–** | **12** | **–** | **–** | **12** |
| On acquisition | **1,471** | **–** | **–** | **–** | **1,471** |
| Right of use liability | **–** | **791** | **–** | **742** | **1,533** |
| Exchange movements | **–** | **–** | **–** | **–** | **–** |
| Reclassifications | **–** | **90** | **–** | **(90)** | **–** |
| **31 March 2020** | **752** | **881** | **–** | **752** | **2,385** |

## 31 Related party transactions

**Transactions with key management personnel:**

Key management of the Group are the Directors and the Senior Executive team. Key management personnel remuneration includes the following expenses:

| | **Year ended 31 Mar 2020 £000** | Year ended 31 Mar 2019 £000 |
|---|---|---|
| **Short-term employee benefits:** | | |
| Salaries including bonuses | **2,098** | 2,188 |
| Share based payments | **438** | 5,771 |
| Social security costs | **283** | 479 |
| | **2,819** | 8,438 |
| **Post employment benefits:** | | |
| Defined contribution pension plans | **87** | 91 |
| | **2,906** | 8,529 |

Included within social security costs above is £nil (2019: £nil) of estimated National Insurance costs in relation to share-based payments.

Until 27 June 2019 when Shibasish Sarkar left his role as Non-Executive Director, Reliance was considered to be a related party. During this time, the Group engaged BIG Animation I Pvt Ltd ('Reliance Animation') (a connected party of Reliance) to provide quality assurance services. During this period, the total amount of services provided by Reliance Animation was £139,000 (full year 2019: £366,000).

There were no loans made to Directors or any employees of the Group in the reporting period.

## 32 Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of Codemasters Group Holdings plc as the numerator.

The weighted average number of shares outstanding has been calculated in accordance with IAS 33 paragraphs 26 & 27.

See note 26 for further details regarding the classes of shares in issue prior to the pre-IPO restructuring and the transactions that took place as part of that restructuring.

The reconciliation of the weighted average number of shares for the purpose of diluted earnings per share in the calculation of basic earnings per share is as follows:

| Weighted number of shares in issue | 31 Mar 2020 | 31 Mar 2019 |
|---|---|---|
| **Total of shares in issue** | **143,680,295** | 122,200,151 |
| **LTIP** | **1,212,975** | 529,999 |
| **NED** | **67,409** | 323,001 |
| **ESOP** | **143,771** | 805,713 |
| **Total options not exercised** | **1,424,155** | 1,658,713 |
| **Total diluted shares** | **145,104,450** | 123,858,864 |
| **Adjusted earnings per share** | **£000** | £000 |
| Adjusted EBITDA | **18,152** | 18,697 |
| Tax (charge)/credit on profit on ordinary activities | **(777)** | 771 |
| Less non-cash tax items (deferred tax charged to income statement) | **58** | (838) |
| Cash interest | **98** | 34 |
| **Adjusted net income** | **17,531** | 18,664 |
| **Basic earnings per share (pence)** | **8.1** | 3.0 |
| **Diluted earnings per share (pence)** | **8.0** | 3.0 |
| **Adjusted earnings per share (pence)** | **11.6** | 13.3 |

For diluted earnings per share, the weighted average number of shares in issue has been adjusted to assume conversion of all potentially dilutive options and warrants for the applicable period.

Given the variances in shares in issue across the presented periods (as a result of the pre-IPO capital restructuring), adjusted earnings per share is presented. Adjusted earnings per share is adjusted net income (which is a non-GAAP measure used as a proxy for cash earnings) across the presented periods divided by the number of shares in issue at 31 March 2020.

Adjusted net income is a non-GAAP measure, which is defined as Adjusted EBITDA (see accounting policies), less cash interest and tax paid. Deferred shares that were in issue in the prior year have not been included in the calculation for weighted average number of shares.

The basic adjusted earnings per share calculation in accordance with IAS 33 is 12.2 pence per share (2019: 15.3 pence per share).

The adjusted diluted earnings per share calculation in accordance with IAS 33 is 12.1 pence per share (2019: 15.1 pence per share).

In the above years there were no dividends issued.

## 33 Post reporting date events

No adjusting or significant non-adjusting events have occurred between the 31 March 2020 reporting date and the date of signing of the Group financial statements.

## 34 Authorisation of financial statements

The Consolidated Financial Statements for the year ended 31 March 2020 (including comparatives) were authorised and approved by the Board of Directors on 21 June 2020.

**Frank Sagnier**
Chief Executive Officer
21 June 2020

**Rashid Varachia**
Chief Financial Officer
21 June 2020

# COMPANY STATEMENT OF FINANCIAL POSITION

**As at 31 March 2020**

| | Note | **31 Mar 2020 £000** | 31 Mar 2019 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 6 | **78,255** | 37,894 |
| **Current assets** | | | |
| Trade and other receivables | 7 | **8,428** | 9,980 |
| Trade and other payables | 8 | **(3,812)** | (59) |
| **Net current assets** | | **4,616** | 9,921 |
| **Non-current liabilities** | | | |
| Other payables | 9 | **(12,179)** | – |
| **Total non-current liabilities** | | **(12,179)** | – |
| **Net assets** | | **70,692** | 47,815 |
| **Capital and reserves** | | | |
| Called up share capital | | **1,513** | 1,400 |
| Share premium account | | **34,116** | 14,751 |
| Merger Reserve | | **3,865** | – |
| Other reserve | | **2,378** | 1,243 |
| Profit and loss account | | **28,820** | 30,421 |
| **Total shareholders' funds** | | **70,692** | 47,815 |

The Company loss for the period was £1,601,000 (2019: £86,825,000).

The Company Financial Statements on pages 96 to 101 were authorised and approved by the Board of Directors on 21 June 2020 and were signed on its behalf by:

**Frank Sagnier**
Chief Executive Officer
21 June 2020

**Rashid Varachia**
Chief Financial Officer
21 June 2020

The notes on pages 98 to 101 form part of these Company Financial Statements

# COMPANY STATEMENT OF CHANGES IN EQUITY

**For the year ending 31 March 2020**

| | Called up share capital £000 | Share premium account £000 | Merger Reserve £000 | Other Reserve £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|---|---|---|
| At 1 April 2018 | 43,687 | 82,524 | – | – | (152,541) | (26,330) |
| Loss for the year and total comprehensive income | – | – | – | – | (86,825) | (86,825) |
| Transactions with owners: | | | | | | |
| Cancellation of deferred shares | (8,198) | – | – | – | 8,198 | – |
| Share based payments charge | – | – | – | – | 13,231 | 13,231 |
| Release Codemasters Software Company loan interest – pre-IPO restructure | – | – | – | – | (391) | (391) |
| Issue of 150,010,000 Class 1 shares of £0.0001 to acquire non-controlling interests | 15,000 | – | – | – | – | 15,000 |
| Capitalisation of £68,522,884.09 of loans into 685,228,840,900 Class 1 ordinary shares of £0.0001 | 68,523 | – | – | – | – | 68,523 |
| Capitalisation of interest on related party loans released | – | – | – | – | 48,538 | 48,538 |
| Pre-IPO capital reduction | (117,687) | (82,524) | – | – | 200,211 | – |
| Bonus issue of 21,000 Class 1 Ordinary Shares of £0.00001 each | – | – | – | – | – | – |
| Issue 7,500,000 ordinary shares of 1p each | 75 | 14,925 | – | – | – | 15,000 |
| Capitalisation of IPO transaction costs | – | (174) | – | – | – | (174) |
| Charge for equity settled share based payments | – | – | – | 1,243 | – | 1,243 |
| Total from transactions with owners | (42,287) | (67,773) | – | 1,243 | 269,787 | 160,970 |
| At 31 March 2019 | **1,400** | **14,751** | **–** | **1,243** | **30,421** | **47,815** |
| Loss for the year and total comprehensive income | **–** | **–** | | **–** | **(1,601)** | **(1,601)** |
| Transactions with owners: | | | | | | **–** |
| Issue of 9,523,809 ordinary shares of 1p each to acquire SMS | **95** | **19,904** | **–** | **–** | **–** | **19,999** |
| Issue of 1,787,014 ordinary shares of 1p to acquire SMS | **18** | **–** | **3,865** | **–** | **–** | **3,883** |
| Issue of 17,940 ordinary shares of 1p each for employee exercise of options | **–** | **36** | **–** | **–** | **–** | **36** |
| Capitalisation of share issue transaction costs | **–** | **(575)** | **–** | **–** | **–** | **(575)** |
| Share based payments charge | **–** | **–** | **–** | **1,135** | **–** | **1,135** |
| Total from transactions with owners | **113** | **19,365** | **3,865** | **1,135** | **–** | **24,478** |
| At 31 March 2020 | **1,513** | **34,116** | **3,865** | **2,378** | **28,820** | **70,692** |

## 1 General information

Codemasters Group Holdings plc ('the Company') is a public company limited by shares incorporated and domiciled in England and Wales. The Company was initially incorporated as a private limited company in 2007 and re-registered as a public limited company on 22 May 2018. The Company's shares were admitted to AIM on 1 June 2018.

The Registered Number is 06123106 and the Registered Office is Codemasters Campus, Stoneythorpe, Southam, Warwickshire, CV47 2DL. A list of the Company's subsidiaries is presented in note 17 to the Group financial statements.

The Company, together with its subsidiaries (the 'Group') is engaged in the development and sale of video games. The principal activity of the Company is that of a holding company.

## 2 Accounting policies

**Basis of preparation**

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

The financial statements of the Company are prepared in Sterling, which have been rounded to the nearest £000.

The Directors have reviewed the budgets and cash flow projections prepared by management and approved by the Directors for the three-year period ending 31 March 2023 and consider the forecasts to be prudent and that they reflect the underlying strength of the business and its strategy. The Directors have also reviewed the impact of COVID-19 on the underlying business consider the Company to continue to be in a strong position for the foreseeable future.

The Company therefore continues to adopt the going concern basis in preparing its financial statements.

A number of exemptions from the requirements in IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- to prepare a statement of cash flows (and related notes to the statement of cash flows);
- to produce a Statement of Financial Position at the beginning of the earliest comparative period;
- the requirements under IAS 1 to provide capital management disclosures;
- the requirement under IAS 24 related party disclosures to disclose related party transactions entered into between two or more members of the Group as they are wholly owned within the Group;
- the requirement under IAS 24 to disclose key management personnel compensation;
- the requirements under IAS 1 to present a reconciliation for the number of shares outstanding at the beginning and end of the period;
- the requirements under IFRS 2 in respect of Group-settled equity share-based payments and Group-settled cash share-based payments; and
- the requirements under FRS101 8(e) in respect of the fair value disclosures under IFRS13 paragraphs 91-99, as these are disclosed in the Group accounts.

The parent Company has taken the merger relief that is required by s162 of The Companies Act 2006 in respect of the fair value of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Slightly Mad Studios.

**Company Income Statement**

The Company has not presented its own Income Statement as permitted by Section 408 of the Companies Act 2006. The Company's loss after taxation for the year was £1.6 million (2019: £86.8 million).

**Dividends**

There have been no dividends paid in the period and there have been no dividends proposed and approved by the Company's shareholders at this time. However, in the event that a dividend is approved by the Company's shareholders, it will be recognised as a liability in the Company's financial statements in the period in which it has been approved.

**Investments**

Investments in Group undertakings are stated at cost. Prior to the end of each reporting period the carrying amount of investments are reviewed for impairment. Where the forecast cash generation or underlying net asset values of the investments in Group undertakings are less than the cost of the investment and impairment is recognised immediately in the Income Statement.

**Financial assets and liabilities**
Financial assets and liabilities are recognised on the date on which the Company becomes a party to the contractual provisions of the instrument giving rise to the asset or liability. Any impairment of a financial asset is charged to the Income Statement when incurred. Financial assets are derecognised when the Company's rights to cash inflows from the asset expire. Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

The Company's principal financial assets and liabilities are measured as follows:
- 'Amounts due from related undertakings' – these relate to balances due from other directly/indirectly held subsidiaries. These are short-term financial assets driven by transactions within the Group. Subsequent to initial recognition, these balances are included in the Statement of Financial Position at cost less any amounts written off or provided when there is evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Changes in carrying amounts are recognised in the Income Statement within other administrative expenses.
- 'Cash and cash equivalents' – these comprise deposits with an original maturity of three months or less with banks and financial institutions, bank balances, bank overdrafts and cash in hand.
- 'Amounts due to related undertakings' – these relate to balances due to other directly/indirectly held subsidiaries or the majority shareholder in the Company. These are short-term financial liabilities driven by transactions within the Group. If the arrangements of an instrument include an amount financed at a rate of interest, then the interest element is charged to the Income Statement in line with the specified criteria in the applicable contract.
- 'Other payables' – these relate to the contingent consideration on the acquisition of SMS and are initially recorded at fair value based on calculations at the time of the acquisition.

**Current taxation**
The policy for current tax is consistent with the Group. Due to the presence of brought forward losses there are not expected to be any current tax liabilities on any profits generated.

**Deferred taxation**
The policy for deferred taxation is consistent with the Group. Where there is no expectation of any brought forward tax losses being utilised by the Company in the next two financial periods, no deferred taxation asset is recognised.

Deferred tax liabilities are generally recognised in full, although IAS 12 'Income Taxes' specifies limited exemptions. As a result of these exemptions, the Company does not recognise deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries.

**Employee share schemes**
The Company's accounting policy for cash-settled share options is consistent with the Group's accounting policies. Where equity-settled share awards are made to employees of the Company's subsidiaries, the fair value of these awards are recognised as an investment in the company employing the individuals receiving the awards and a corresponding amount recognised in other reserves. These awards are accounted for in the Income Statements of the company employing the individuals. The fair values of the awards are calculated in a consistent manner with those described in the Group's accounting policies.

**Foreign currencies**
Transactions in foreign currencies are recorded at the rate ruling when the transactions occur. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the period end date. All exchange differences are taken to the Income Statement, exchange differences arising on foreign currency borrowings are classified within 'interest payable and other similar charges'; all other exchange differences are classified within other administrative expenses.

**Capital and reserves**
The following reserves are shown within the statement of changes in equity:
- Called up share capital – called up and issued share capital of the Parent Company. This is ordinary shares following admission to AIM. See note 26 of the Group financial statements for further details regarding the Company's issued share capital.
- Share premium account – the amount of proceeds received in consideration for called up share capital that is in excess of the nominal value of the shares purchased.
- Other reserve – an equity account comprising the historic fair value of equity settled share-based payments recognised in the company's accounts.
- Profit and loss account – historic cumulative balance of Group comprehensive income/expense.

**Critical accounting estimates and judgements**
The critical accounting estimates set out in the Group accounts also apply to the Company.

## 3 Remuneration of Directors and auditors

Details of Directors' remuneration are shown in the Directors' Remuneration Report on page 45 of the Annual Report. Details of auditor remuneration are shown in note 13 of the Group financial statements.

## 4 Share-based payments

The Company has provided both cash-settled share-based payment arrangements and equity-settled share-based payment arrangements in the current year. Details regarding these are provided in note 9 of the Group financial statements.

Details regarding the elements relating to senior executives can also be found in the Remuneration Committee Report.

The Company recognised total expenses of £1.1 million (2019: £5.8 million) in respect of share-based payment charges in the year ended 31 March 2020.

## 5 Staff costs

All of the employees within the Group are employed either by The Codemasters Software Company Limited, Codemasters Studios Sdn Bhd, Slightly Mad Studios Limited or Slightly Mad Studios Pte. Ltd. There are no employees or staff costs directly incurred by the Company.

## 6 Investments in subsidiary undertakings

| | Investments In subsidiaries £000 | Share based payments £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2019 | 66,871 | 1,243 | 68,114 |
| Additions | 39,226 | 1,135 | 40,361 |
| **At 31 March 2020** | **106,097** | **2,378** | **108,475** |
| **Impairment** | | | |
| At 1 April 2019 | 30,220 | – | 30,220 |
| **At 31 March 2020** | **30,220** | **–** | **30,220** |
| **Net book value** | | | |
| **At 31 March 2020** | **75,877** | **2,378** | **78,255** |
| At 31 March 2019 | 36,651 | 1,243 | 37,894 |

The carrying value of the investments in subsidiaries undertaking has been reviewed at the reporting date. An impairment charge of £nil (2019: £nil), which recognises that there has been no change in the investment in subsidiaries undertaking measured against the higher of the recoverable amount or the value in use.

The Company is the owner of all of the equity share capital, either itself or through subsidiary undertakings, listed in note 17 of the Group financial statements, with the exception of Codemasters Studios Sdn Bhd, which the Company owns 70%.

In addition to the shareholding in Codemasters Studios Sdn Bhd, the Company directly holds 100% (2019: 100%) of the share capital of Codemasters Holdings Limited and the Codemasters Software Company Limited (2019: 100%).

The additions in the year are the acquisition of 100% of the issued share capital of Slightly Made Studios Pte. Ltd. Please see Group note 17 for further details.

Share-based payments relate to the fair value of the equity-settled share options in the Company's shares that are settled by the Codemasters Software Company Limited ('CSCL'). All of the employees that have been awarded these options are employed by CSCL, with the fair value of these options recognised over the vesting period. See note 9 of the Group Financial Statements for further details.

Further details regarding the registered offices and reporting dates of the Company's subsidiaries are provided in note 17 to the Group financial statements.

## 7 Trade and other receivables

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Trade receivables due within one year: | | |
| Neither past due nor impaired | **2** | 2 |
| **Trade receivables net** | **2** | 2 |
| Amounts due from related undertaking | **8,426** | 9,978 |
| | **8,428** | 9,980 |

Amounts due from related undertakings relate to loans or trading balances with the Codemasters Software Company Limited and Codemasters Studios Sdn Bhd, these are Sterling balances, non-interest bearing and where formalised by loan documentation are repayable on demand.

All of the amounts due from related undertakings are considered recoverable.

## 8 Trade and other payables

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Other payables | **3,753** | – |
| Amounts due to related undertaking | **59** | 59 |
| | **3,812** | 59 |

Amounts due to related undertaking relates to a balance payable to Digital Computers Limited. The balance has been formalised via a promissory note, payable to the order of Digital Computers in Sterling and is non-interest bearing. The other payables are the deferred contingent consideration due in respect of the acquisition of SMS.

## 9 Non-current liabilities

| | 31 Mar 2020 £000 | 31 Mar 2019 £000 |
|---|---|---|
| Other payables | **12,179** | – |

The other payables are the deferred contingent consideration due in respect of the acquisition of SMS.

## 10 Related party transactions

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

Details of Directors interest in the Company's issued share capital are provided in the Directors' Report.

# COMPANY INFORMATION

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