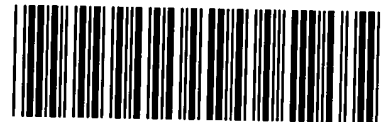


Team 17 Digital Limited

Annual Report and financial statements for the year ended 31 December 2021

Company Number: 02621976

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COMPANIES HOUSE

Team 17 Digital Limited

Officers and professional advisers

Company registration number

02621976

Registered office

3 Red Hall Avenue
Paragon Business Park
Wakefield
WF1 2UL

Directors

D Bestwick
M Crawford

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Team 17 Digital Limited

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Team 17 Digital Limited

Strategic report

For the Year Ended 31 December 2021

Business Review

The ultimate parent company of Team 17 Digital Limited is Team17 Group Plc and KPIs are primarily reviewed for the Group as a whole. These KPIs can be found in the consolidated financial statements. The KPIs used by the Company are:

Revenue and Profit for the year

Revenue for the year ended 31 December 2021 increased to £86,291,000 (2020: £82,948,000) whilst profit after tax increased to £25,997,000 (2020: £23,443,000).

Gross Profit %

This increased to 50% in the year ended 31 December 2021 from 47% in the year ended 31 December 2020.

Profit before tax

This increased to £30,898,000 in the year ended 31 December 2021 from £27,888,000 for the year ended 31 December 2020. As a percentage of revenue this increased to 35.8% from 33.6%.

Cash and cash equivalents

The balance of cash and cash equivalents at 31 December 2021 decreased to £11,246,000 from £58,281,000 at 31 December 2020. This was driven by the business funding acquisition payments of £68,174,000 during the current year for acquisitions across the Group.

Principal risks and uncertainties

Effectively managing our risks

Team 17 Digital Limited is operating in a competitive and dynamic growth market and as such faces a number of strategic and operational risks. Senior management actively manage the Company's risk register which is regularly reviewed by the Board. The identified risks are up to date with the Company's operations and wider environment. The risks are appropriately scored, and the mitigations are evaluated and tested.

The key business and financial risks for the Company are:

Strategic risks

Market growth and disruption – no change from 2020

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

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

Technological change – no change from 2020

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

- The Company has a track record of being one of the first to market across new platforms and distribution channels and remains platform agnostic with no dependency on any specific platform partner. The Company invests in upskilling its workforce to be at the forefront of technological developments. It is therefore able to anticipate changes in technology and delivery and be agile and adaptable in order that it can react swiftly to changes as they emerge and exploit these as opportunities.

Dependence on concentrated customer base – no change from 2020

The Company serves a small but growing number of customers who utilise their proprietary distribution platforms to provide the Company's games to end consumers on a global basis. Any adverse changes in the status of the Company's relationship with its customers could negatively impact financial performance.

- As a result of developing and growing a commercially successful games portfolio over a long period, the Company has developed heavily entrenched partnerships with its customers over more than 20 years that deliver commercial value on both sides. The Company will continue to invest in these relationships to ensure enduring partnerships that grow and prosper. In addition, the Company continues to develop relationships with new and emerging platform partners to ensure that it can continue to remain platform agnostic and maximise all opportunities to distribute its portfolio of existing and new games.

Team 17 Digital Limited

Strategic report (continued)

For the Year Ended 31 December 2021

Strategic risks (continued)

Dependence on key titles to generate significant share of Company revenue – reduced from 2020

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

- The Company has expanded its portfolio of titles over recent years through new titles launched and also acquired more own IP (driving improved margins) as well as other wider genre content added to the portfolio through acquisitions. It has a track record of developing franchises with long lifecycles and potential for multiple follow-on titles. Its Greenlight process is directed at identifying future titles with this same potential and the Company invests in this process to ensure it remains agile to identify new IP in order to continue to grow the portfolio.

Operational risks

The ability to recruit and retain key and skilled personnel – increased from 2020

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

- Although the Company experienced increased pressure in this area towards the end of 2021, employee engagement and remuneration surveys as well as external benchmarking is a core part of the Company's people first approach and ensures this pressure can be successfully managed. The Board believes that the variety of work available for staff, zero crunch approach to working hours, competitive benefits packages and high-quality leadership make Team17 a place where talented individuals want to and can build their careers. The Company has a proactive and direct approach to recruitment offering hybrid working solutions and partners with a number of academic institutions providing a graduate intake each year. The Company is proud of how it continues to successfully develop staff internally, maintaining a succession plan to mitigate the impact should any key personnel choose to leave. Investment has been made in the HR leadership and talent acquisition to support identifying, developing and retaining our individual team members.

IT cyber security/disaster recovery – increased from 2020

The business is dependent on the security, integrity and operational performance of the systems and products it offers as well as the platform partners we work with. A security breach or major system failure could significantly impact the business and its ability to execute on its plans.

- The Company has invested in its IT team and infrastructure, implementing additional cyber security processes and policies and continues to regularly review its IT and security provisions to ensure they are industry leading and in line with best practice. It has put in place business continuity and disaster recovery procedures with scheduled regular testing such that should an event occur, the disruption to the Company can be managed and impact minimised as far as possible.

Intellectual property – no change from 2020

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

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

Financial / Economic risks

Currency risk – no change from 2020

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

- While the longer-term risks of transacting globally cannot be avoided, the Company continually reviews its foreign exchange exposure and where appropriate it can put in place forward contracts to minimise exposure where it makes commercial sense. Pricing in different markets is regularly reviewed and can be flexed if required to minimise margin pressure.

Team 17 Digital Limited

Strategic report (continued)

For the Year Ended 31 December 2021

Financial / Economic risks (continued)

Socio-Economic risks – changed risks from 2020

The risks previously associated with Brexit and Covid-19 continue to exist, however the impact has continued to soften over the last year as both factors are now very much part of the “new normal” way of working. The impact of Brexit on the Company is minimal in terms of direct sales given these are overwhelmingly digital in nature and therefore this risk is no longer deemed to be material to the Company. The ongoing Covid pandemic continues to impact gaming businesses where collaborative working is still an important part of game development and can add complexity and time to the overall process. Geopolitical issues linked to the Russia/Ukraine conflict currently provide further unforeseen risks to either revenues linked to games created or sold in that region or the inflationary impact of supply of fuel and raw materials impacting the cost of living.

- The Company has demonstrated its ability to work from home and continues to actively manage the wellbeing of each of its employees whilst restrictions apply. Policies and processes are in place to support studio/office working with safety of our team of paramount importance. In addition, the Company has invested resources in technology to facilitate and embrace hybrid working that can support a mixture of home and studio or office working.
- The Company continues to take a cautious approach to manage the wider global impacts on its business and employees and has already taken steps to improve salaries to provide greater protection against cost-of living increases and taken into account the impact of Russia/Ukraine on expected trading in 2022 and will continue to monitor the situation, whilst ensuring our focus is to support and protect our employees and global partners.

Compliance with Section 172

The details of compliance with Section 172 are disclosed on page 5 of this Annual Report and Financial Statements. The details of employee, SECR and other stakeholder engagement are included in the “Environmental, Social & Governance Report” section of Annual Report and Financial Statements of Team17 Group plc.

This report was approved by the board on 7 September 2022 and signed on its behalf.



M Crawford
Director

Team 17 Digital Limited

Directors' report

For the Year Ended 31 December 2021

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Principal activities

The principal activity of the Company was that of the development and publishing of video games for the digital and physical market.

Future developments

Trading for the period from 31 December 2021 to the date of this document has continued to be positive and is consistent with the Board's expectations and profitability and cash generation remain encouraging.

The Company has continued to release new games during 2021, with further releases planned during the course of 2022. Through its Greenlight process the Company continues to review and sign new titles to its games label, in addition to maximising the revenue opportunity provided by its substantial back catalogue.

The Company's acquisition of the Hell Let Loose IP in January 2022 underlines part of the Company's strategy to make value enhancing acquisitions that will support the growth ambitions alongside organic growth and the Board expects this to be an ongoing part of the growth strategy.

Results and dividends

The profit for the year, after taxation amounted to £25,997,000 (2020: £23,443,000). The directors have not recommended the payment of a dividend (2020: £Nil).

Directors

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

D Bestwick
M Crawford

Directors' indemnity insurance

The ultimate parent company, Team17 Group Plc, has in place ongoing qualifying third-party indemnity provisions for the benefit of the Directors that have been in place for the current and prior year and up to the date of this report.

Going concern

Management has produced forecasts that have also been sensitised to reflect a severe but plausible downside scenario, which has been reviewed by the Directors. This demonstrates the Company is forecast to generate profits and cash in the year ending 31 December 2022 and beyond and that the Company has sufficient cash reserves to enable the Company to meet its obligations as they fall due for a period of at least 12 months from the release of these results.

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

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Team 17 Digital Limited

Directors' report (continued)

For the Year Ended 31 December 2021

Directors' responsibilities statement (continued)

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Financial risk management

Information regarding the risks and uncertainties of the Company are included within the Strategic Report on pages 1 to 3.

Section 172 statement

In compliance with S172 of Companies Act 2006, the Board recognises the importance of engagement with its stakeholders and the link this has to the long term success of the Company. Through the discussions, presentations and reviews held at the Board meetings throughout the year, the Board are able to ensure that the Company maintains an effective working relationship with a wide range of stakeholders as well as its shareholders. Updates from senior members of the management team provide engagement with the development programs including third party development partners, access to understanding of customer and community programs and insight into the Company's gaming platform partner relationships and future initiatives alongside clear internal employee engagement programs for example via the Team17 Engagement Committee (TEC). In addition, the Executive Directors maintain a face to face dialogue with shareholders at least twice a year with external feedback shared directly with the Board. The annual strategic planning and budgeting process also provides the Board with the opportunity to understand and challenge the long term business strategy to help deliver growth and future success of the Company through its team and the products they create, develop and publish.

Independent auditors

During the current and previous year, PricewaterhouseCoopers LLP were appointed as independent auditors of the Company. PricewaterhouseCoopers LLP offer themselves for reappointment in accordance with the Companies Act 2006.

The financial statements on pages 9 to 27 were approved by the Board of Directors on 7 September 2022 and signed on its behalf by:



M Crawford
Director

Independent auditors' report to the members of Team 17 Digital Limited

Report on the audit of the financial statements

Opinion

In our opinion, Team 17 Digital Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: Statement of Financial Position as at 31 December 2021; Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Team 17 Digital Limited (continued)

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to overstatement of revenue and profits. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluated compliance with tax laws and regulations during the year through our testing of tax balances, including Video Games Tax Relief
- Understanding and evaluating management's processes and controls designed to prevent and detect irregularities and non-compliance with laws and regulation and fraud;
- Reviewing minutes of meetings of those charged with governance;
- Challenging assumptions made by management in the selection and application of significant accounting judgements and estimates; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and the consolidation journals.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Independent auditors' report to the members of Team 17 Digital Limited (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
7 September 2022

Team 17 Digital Limited
Statement of Comprehensive Income
For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	5	86,291	82,948
Cost of sales		(43,253)	(43,718)
Gross profit		43,038	39,230
Administrative expenses		(12,111)	(11,407)
Operating profit	6	30,927	27,823
Finance income	9	10	108
Finance costs	10	(39)	(43)
Profit before taxation		30,898	27,888
Tax on profit	11	(4,901)	(4,445)
Profit and total comprehensive income for the financial year		25,997	23,443

All amounts relate to continuing operations.

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

The notes on pages 12 to 27 form part of these financial statements.

Team 17 Digital Limited
Registered Number: 02621976
Statement of Financial Position
At 31 December 2021

	Note	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Fixed assets					
Intangible assets	12		20,478		6,287
Tangible assets	13		1,436		1,353
Right-of-use assets	14		1,276		1,378
Deferred tax asset	19		314		81
			<u>23,504</u>		<u>9,099</u>
Current assets					
Trade and other receivables	15	75,544		21,877	
Tax receivables				775	
Cash and cash equivalents	17	<u>11,246</u>		<u>58,281</u>	
		86,790		80,933	
Current liabilities					
Trade and other payables	16	(14,504)		(20,257)	
Lease liabilities	18	<u>(136)</u>		<u>(145)</u>	
		(14,640)		(20,402)	
Net current assets			72,150		60,531
Total assets less current liabilities			<u>95,654</u>		<u>69,630</u>
Non-current liabilities					
Lease liabilities	18	(1,191)		(1,320)	
Provisions		<u>(109)</u>		<u>(76)</u>	
			(1,300)		(1,396)
Net assets			<u>94,354</u>		<u>68,234</u>
Capital and reserves					
Called up share capital	20		-		-
Share premium account	20		6		6
Profit and loss account	20		94,348		68,228
Total Equity			<u>94,354</u>		<u>68,234</u>

The notes on pages 12 to 27 form part of these financial statements.

The financial statements on pages 9 to 27 were approved by the board of directors and authorised for issue on 7 September 2022, and were signed on its behalf by:



M Crawford
Director

Team 17 Digital Limited
Statement of Changes in Equity
For the year ended 31 December 2021

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2020	-	6	44,628	44,634
Profit for the year	-	-	23,443	23,443
Share based compensation	-	-	157	157
At 31 December 2020	-	6	68,228	68,234
Profit for the year	-	-	25,997	25,997
Share based compensation	-	-	123	123
At 31 December 2021	-	6	94,348	94,354

All balances are rounded to the nearest £'000. Further details of called up share capital is included in note 20.

The notes on pages 12 to 27 form part of these financial statements.

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

1. General information

Team 17 Digital Limited is a private company limited by shares and incorporated in the United Kingdom and registered in England and Wales. The address of its registered office is 3 Red Hall Avenue, Paragon Business Park, Wakefield, WF1 2UL. The registered number of the Company is 02621976.

The principal activity of the company is that of the development and publishing of video games for the digital and physical market.

2. Significant Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

Financial reporting standard 101 – reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 "Financial Instruments: Disclosures"
- The requirements of paragraphs 91-99 of IFRS 13 "Fair Value Measurement"
- The requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - Paragraph 79(a)(iv) of IAS 1;
 - Paragraph 73(e) of IAS 16 "Property, Plant and Equipment"
 - Paragraph 118(e) of IAS 38 "Intangible Assets"; and
- The requirements of paragraphs 10(d), 10(f), 16 38A, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 "Presentation of Financial Statements"
- The requirements of IAS 7 "Statements of Cash Flows"
- The requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- The requirements of paragraph 17 and 18A of IAS 24 "Related Party Disclosures"
- The requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 "Impairment of Assets"
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

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

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

Adoption of New and Revised Standards

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting year. The following have not been adopted by the Company in preparing the financial statements for the year ended 31 December 2021:

- IAS 1 "Classification of liabilities" effective 1 January 2023
- Amendments to IFRS 3 "Business combinations"; IAS 16 "Property, plant and equipment", IAS 37 Provisions, contingent liabilities and contingent assets" (effective 1 January 2022)
- Amendments to IAS 1 "Presentation of financial statements" (effective 1 January 2023)
- Amendments to IAS 8 "Accounting policies" (effective 1 January 2023)

The application of the standards and interpretations not yet applied is not expected to have a material impact on the Company's financial performance or position or give rise to additional disclosures in the financial statements.

Changes in accounting policies and estimates

During the year the Company has reviewed the development costs capitalisation policy and the related amortisation profile. The growth of titles being released into early access and the continued provision of titles to new platforms under license deals has led to a change in the amortisation profile and a revision to the capitalisation policy. Further details about these revisions can be found on pages 13 and 14.

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

2. Significant Accounting Policies (continued)

Going concern

Management has produced forecasts that have also been sensitised to reflect a plausible downside scenario as a result of the Covid-19 pandemic and its impact on the global economy, that have been reviewed by the Directors. These demonstrate the Company is forecast to generate profits and cash in the year ending 31 December 2022 and beyond and that the Company has sufficient cash reserves to enable the Company to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

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

Share based Compensation

The Company has awarded share options to various employees and Directors. These shares are separated into the following types of schemes:

- Employee share options – The only performance criteria included on these options is for the employee to remain in the Company for a specified period of time. The fair value has been estimated based on the share price at award date.

The fair value of these options is recognised as an expense in the Statement of Comprehensive Income over the vesting period of the options with a corresponding credit included within retained earnings. Employers National Insurance due on the share options are included over time within the Statement of Comprehensive Income based on the estimated liability due at exercise whilst the credit is included within trade and other payables. The accumulated share option value is adjusted for any lapsed share options on a monthly basis.

Brands

Where an acquisition of IP does not fall under the scope of IFRS 3 “Business Combinations”, it is accounted for under IAS 38 “Intangible Assets”. The cost of such intangible assets is the purchase price plus any directly attributable cost of preparing the asset for its intended use. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. An asset is only recognised if the following conditions are met:

- It meets the definition of an intangible asset under “IAS 38 Intangible Assets”;
- the asset is separable or arises from contractual or legal rights;
- sufficient information exists to measure reliably the fair value of the asset.

Internally Generated Intangible Assets

Intangible assets are measured on initial recognition at cost. Intangible assets are measured on initial recognition at cost. Development costs are the only identified category of internally generated intangible assets that meet criteria for capitalisation under IAS 38 Intangible Assets. Costs that do not meet the criteria are recognised in the Statement of Comprehensive Income when they are incurred.

Development Costs

These are internally generated intangible assets arising from the Company’s development activities and are recognised only if all of the following conditions are met:

- it meets the definition of an intangible asset under “IAS 38 Intangible Assets”;
- completion of the intangible asset is technically feasible so that it will be available to generate economic benefits;
- the Company intends to complete the intangible asset and has the ability to generate probable future economic benefits that will flow to the Company;
- the expenditure attributable to the intangible asset during its development, can be measured reliably; and
- the Company has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

As part of the review of development costs undertaken during the year, the capitalisation policy was refined with the costs incurred between the early access and full release games now being capitalised if they meet the criteria to be capitalised. This has been applied since 1 January 2021. See note 12 for further details of the impact.

The policy is expanded to capitalise spend on titles between early access and full release. Where development costs incurred do not meet the recognition criteria set out, expenditure is recognised as an expense in cost of sales in the year in which it is incurred.

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

2. Significant Accounting Policies (continued)

Development Costs (continued)

Disposal of development costs

Development costs on third-party games are disposed of at the date that Team17 ceases to generate revenue from the games.

Amortisation

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

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

Amortisation on development costs

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

As part of the current year review, an adjustment to the amortisation policy is needed to ensure that the rate and period of amortisation applied is in line with the consumption of benefits. As per the stages of development identified above, the following amortisation policies will be applied:

Stages of development	Start of amortisation	End of amortisation	Amortisation policy	Previous policy
Development costs until release into early access	Early access release date	Earlier of 2 years (as per policy) or Full release date ¹	Over 2 years Month 1 – 30% Month 2-12 – 40% Month 13-24 – 30%	85% reducing balance over 2 years
Development costs between early access and full release	Full release date	2 years (as per policy)	Over 2 years Month 1 – 30% Month 2-12 – 40% Month 13-24 – 30%	Not previously capitalised
Console Porting	Launch on platform	2 years (as per policy)	Over 2 years Month 1 – 30% Month 2-12 – 40% Month 13-24 – 30%	85% reducing balance over 2 years
License Contract Costs	Launch on platform	Launch on platform	Fully released at launch	Fully released at launch

¹At the point of full release of a title, any unamortised balance of development costs incurred prior to early access release are combined with the development costs incurred between early access and full release making a single asset.

The revision to the amortisation policy has been treated as a revision in accounting estimate and therefore the adjustment has been included in the current year results and not retrospectively adjusted. The revised amortisation profile reduced the amortisation by £702,000 for the year ended 31 December 2021.

Amortisation on brands

The useful economic life of a brand asset is assessed at the point of acquisition based on forecasted benefits and then reassessed each year for any changes to this life. Amortisation commences at the point of acquisition and is recognised in the Statement of Comprehensive Income in administrative expenses for brand assets. Amortisation is calculated over the estimated useful life of the brand which is 10 years straight line.

Impairment of Non-financial Assets

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

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

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

2. Significant Accounting Policies (continued)

Impairment of Non-financial Assets (continued)

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

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

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

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

Property, plant and equipment

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

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

- Short-term leasehold property – straight-line over the life of the lease
- Plant and machinery - 3 years straight-line
- Fixtures and fittings - 6 years straight-line
- Motor vehicles - 5 years straight-line

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

Trade and other receivables

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 90 days past due.

IFRS 16 "Leases"

A lease liability reflecting future lease payments and a right-of-use asset for lease contracts are recognised at the lease commencement date. The value of the assets and liabilities recognised is calculated from the total of the future lease payments discounted for the incremental borrowing rate at the date of application. Interest on the lease liability is calculated on a monthly basis and recognised in the Statement of Comprehensive Income. The right-of-use assets created are depreciated over the length of the lease and the depreciation is included in the Statement of Comprehensive Income. Lease incentives affect the total of the future lease payments and therefore are included within the right-of-use assets and lease liabilities recognised at the commencement date.

The incremental borrowing rate is decided on through discussion with our bankers and comparison to other businesses in the industry.

Right-of-use assets

Right-of-use assets are recognised where the Company is a lessee. The amount recognised as an addition is the total of the future lease payments discounted for the incremental borrowing rate at the date of application. Depreciation is calculated on a straight-line basis over the length of the contract taking into consideration any break clauses included within the lease.

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

2. Significant Accounting Policies (continued)

Financial instruments

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

Financial assets

Initial recognition and measurement

In accordance with IFRS 9, "Financial Instruments" the Company has classified its financial assets as "Financial assets at amortised cost". The Company determines the classification of its financial assets at initial recognition.

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

Subsequent measurement

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

Financial assets carried at amortised cost

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

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

- (i) the asset is held within a business model with the objective of collecting the contractual cash flows; and
- (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

The Company does not hold any material financial assets at fair value through other comprehensive income or at fair value through profit or loss. The Company does not hold any derivatives and does not undertake any hedging activities.

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

Cash and cash equivalents

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

Subsequent Measurement

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets measured at amortised cost. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For other financial assets at amortised cost, the Company determines whether there has been a significant increase in credit risk since initial recognition. The Company recognises 12-month expected credit losses if there has not been a significant increase in credit risk and lifetime expected credit losses if there has been a significant increase in credit risk.

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

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

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

2. Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

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

The Company's financial liabilities include trade and other payables, loans and other borrowings.

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

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

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

Derecognition

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

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

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

Offsetting of financial instruments

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

Provisions

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

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

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The Company supplies a single product range into a single marketplace and so there is considered to be only one segment.

Foreign currency

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

Pensions

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

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

2. Significant Accounting Policies (continued)

Revenue recognition

Revenue includes income from the release of full games and early access versions of self-published games. The Company designs, produces and sells video games based on its own and third-party intellectual property to digital and physical distributors, who are considered to be the Company's customers when assessing revenue recognition. The majority of the Company's revenue is in the form of royalties received from third-party distributors who have a license to sell the Company's games to consumers. Revenue is recognised at the point at which the distributor sells the content to the consumer. The transaction price is the amount the Company is entitled to in accordance with the contractual arrangement with the third party.

The Company also receives revenue where the Company agrees to make a game available to a third-party platform for their customers to download for an agreed period of time for a fixed fee and with minimal future performance obligations required by the Company. These contracts are determined as right to use contracts in accordance with IFRS 15 and the fixed fee is recognised on the date the game is first made available on the third-party platform. Any additional revenue earned based on volume of sales in these contracts are recognised as usage-based royalties when usage occurs. If any contract includes a break clause then the revenue recognised excludes the amount that would be foregone if the break clause was exercised. The remaining revenue is recognised once the break clause has expired.

Finance income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Taxation

Current tax

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

Video Games Tax Relief ("VGTR")

VGTR tax credits are included within current tax. They are only recognised where the Directors believe that a tax credit will be recoverable. This is based upon the Company'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 tax receivable off-set against the income tax liability recognised, based on qualifying expenditure during the year.

Deferred tax

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

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

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

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

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

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

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

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

Development costs capitalisation and impairment (Judgement)

The Company invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done together with any agreements made with the rights holders of a specific game. Judgements are based on the information available at each year end. Economic success of any development is assessed on a reasonable basis and a review for indicators of impairment is completed by game at each year end date. The net book values of the development intangible assets including rights acquired at 31 December 2021 are £9,678,000 (2020: £6,287,000). Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows.

During the year the Company refined its capitalisation policy and has assessed in line with IAS 38 "Intangible assets" that development costs on titles between early access and full release of a game should be capitalised.

Useful life of intangible assets (Estimate)

Amortisation of intangible assets is calculated over the useful economic lives of the assets. The estimates of useful economic lives are reviewed at least annually for any changes to this estimate.

The useful life of brands was initially estimated as 10 years after looking at expected future revenues from titles utilising those brands along with future releases planned.

The estimates of useful life for capitalised development costs continue to be included as two years. The review of economic benefits undertaken during the year looked at the gross contribution (revenue less royalties) of all titles in the Company's portfolio and adjusted for outliers. This model showed that gross contribution was heavily weighted towards the first month and also towards the first year to reflect the sales curve of games. In line with this the amortisation profile was revised to be 30% in the first month after release of the title, 40% in months 2-12 and 30% over months 13-24.

Revenue Recognition (Judgement)

In applying IFRS 15, the Company is required to make a judgement on whether certain revenue contracts containing a license provide either a right to use or right to access the IP. Licenses that meet all three specific criteria as described in paragraph 11.256 of IFRS 15 are considered to provide a right to access the IP. If any of these three criteria are not met then the contract should be treated as a right to use the IP. The Company considers that all of their license contracts to date provide a right to use the asset and all new contracts are reviewed against the criteria to ensure the correct treatment is applied.

4. Segmental Analysis

The Company supplies a single product range into a single marketplace and so there is considered to be only one segment for reporting to the chief operating decision maker, that of the development and publishing of video games for the digital and physical market.

All non-current assets are located in the UK.

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

5. Revenue

All revenue was generated by the sale of goods.

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

Four (2020: three) customers each contributed over 10% of the total revenue in 2021 with total revenue derived from these customers being £70,244,000 (2020: £58,977,000)

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

	2021 £'000	2020 £'000
Internal IP	20,141	17,289
Third party	66,150	65,659
	<u>86,291</u>	<u>82,948</u>

6. Operating profit

The operating profit is stated after charging:

	2021 £'000	2020 £'000
Amortisation of development costs (note 12)	5,290	4,028
Amortisation of brand	1,200	-
Depreciation of tangible assets (note 13)	413	402
Depreciation of right-of-use assets (note 14)	148	135
Loss on disposal of fixed assets	27	24
Loss on foreign exchange	149	107

Fees payable to the Company's auditors for the audit of the Company were £200,000 (2020: £144,000) and were paid by the ultimate parent Company, Team17 Group Plc.

7. Staff numbers and costs

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

	2021 No.	2020 No.
Staff	<u>246</u>	<u>228</u>

The aggregate payroll costs of these persons were as follows:

	2021 £'000	2020 £'000
Wages and salaries	8,363	8,450
Social security costs	871	943
Other pension costs	389	364
Share based compensation	123	157
	<u>9,746</u>	<u>9,914</u>

8. Directors' remuneration

There are no directors' emoluments included in the Statement of Comprehensive Income for the year as the directors were remunerated by Team17 Group Plc, the ultimate parent company of the Group.

During the year retirement benefits were accruing to Nil directors (2020: Nil) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £Nil (2020: £Nil) and company pension contributions of £Nil (2020: £Nil).

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

9. Finance income

	2021 £'000	2020 £'000
Other interest receivable	10	108

10. Finance costs

	2021 £'000	2020 £'000
Lease liability interest payable	39	43

11. Taxation

	2021 £'000	2020 £'000
Current tax		
Current year tax	6,133	5,240
Video Games Tax Relief claim	(652)	(986)
<i>Adjustments in respect of prior year:</i>		
Video Games Tax Relief claim	245	133
Other	(592)	322
	5,134	4,709
Deferred tax		
Origination and reversal of temporary differences	(233)	(264)
Total tax charge	4,901	4,445

The other adjustments in respect of prior year relates to additional Video Games Tax Relief tax credits claimed on finalisation of the tax computations. The tax assessed for the year is lower than (2020: lower than) the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%). The differences are explained below:

	2021 £'000	2020 £'000
Profit before taxation	30,898	27,888
Taxation using the UK Corporation Tax rate of 19% (2020: 19.00%)	5,871	5,299
Effects of:		
Expenses not deductible for tax purposes	29	12
R&D Relief	-	(97)
Video Games Tax Relief	(652)	(986)
Adjustments to tax charge in respect of prior years	(347)	187
Change in deferred tax rate	-	30
Total tax charge for the year	4,901	4,445

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. At the balance sheet date, deferred taxes have therefore been measured using the tax rate at the date that the deferred tax asset or liability unwinds of 19-25% (2020: 19%).

TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

12. Intangible assets

	Development Costs £'000	Brand £'000	Total £'000
Cost			
At 1 January 2020	13,830	-	13,830
Additions	7,512	-	7,512
At 31 December 2020	21,342	-	21,342
Additions	9,081	12,000	21,081
Disposals	(1,002)	-	(1,002)
At 31 December 2021	29,421	12,000	41,421
Accumulated amortisation			
At 1 January 2020	11,027	-	11,027
Charge for the year	4,028	-	4,028
At 31 December 2020	15,055	-	15,055
Charge for the year	5,290	1,200	6,490
Disposals	(602)	-	(602)
At 31 December 2021	19,743	1,200	20,943
Net book value			
At 31 December 2021	9,678	10,800	20,478
At 31 December 2020	6,287	-	6,287

Development costs

During the year the capitalisation policy was refined to capitalise development costs from early access of a title up until its full release. In addition, costs incurred in porting games to new platforms are also capitalised where the expenditure is expected to be significant.

The amortisation policy has been revised from 1 January 2021 to amortise the asset over 2 years split as follows:

Month 1	30%
Month 2-12	40%
Month 13-24	30%

Amortisation of development costs is included in cost of sales in the Statement of Comprehensive Income.

Acquisition of Golf With Your Friends

On 4 January 2021, Team 17 Digital acquired the Golf With Your Friends IP from Entertainment Holdings Pty Ltd, a company incorporated in Australia, for £12,000,000. This consideration is made up of an initial cash payment of £9,000,000 and deferred cash consideration of £3,000,000 paid within 12 months of the acquisition date. The purchase is not being accounted for as a business combination under IFRS 3 due to the assets being acquired comprising a single group of assets under the concentration test as set out in "Definition of a Business (Amendments to IFRS 3)" by the IASB issued in October 2018. As such the acquisition is considered an asset purchase under IAS 38 "Intangible Assets". Amortisation is calculated over the assets' estimated useful life using the following policy and included in administrative expenses in the Statement of Comprehensive Income:

Golf With Your Friends Brand	10 years straight line
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TEAM 17 DIGITAL LIMITED
Notes to the financial statements
For the year ended 31 December 2021

13. Tangible assets

	Short-term leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2020	866	1,149	101	246	2,362
Additions	18	318	-	2	338
Disposals	(4)	(148)	(80)	(6)	(238)
At 31 December 2020	880	1,319	21	242	2,462
Additions	46	486	-	-	532
Disposals	-	(675)	(21)	-	(696)
At 31 December 2021	926	1,130	-	242	2,298
Accumulated depreciation					
At 1 January 2020	21	780	49	34	884
Charge for the year	71	274	17	40	402
Disposals	-	(127)	(45)	(5)	(177)
At 31 December 2020	92	927	21	69	1,109
Charge for the year	85	289	-	39	413
Disposals	-	(639)	(21)	-	(660)
At 31 December 2021	177	577	-	108	862
Net book value					
At 31 December 2021	749	553	-	134	1,436
At 31 December 2020	788	392	-	173	1,353

14. Right-of-use assets

	Buildings £'000	Total £'000
Cost		
At 1 January 2020 and 31 December 2020	1,570	1,570
Additions	46	46
At 31 December 2021	1,616	1,616
Accumulated depreciation		
At 1 January 2020	57	57
Charge for the year	135	135
At 31 December 2020	192	192
Charge for the year	148	148
At 31 December 2021	340	340
Net carrying amount		
At 31 December 2021	1,276	1,276
At 31 December 2020	1,378	1,378

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15. Trade and other receivables

Amounts falling due within one year

	2021 £'000	2020 £'000
Trade receivables	1,170	1,513
Accrued income	12,891	13,875
Amounts owed by group undertakings	59,487	5,528
Other receivables	1,433	487
Prepayments	563	474
	<u>75,544</u>	<u>21,877</u>

Amounts owed by group undertakings are unsecured, repayable on demand and are not interest bearing. Trade receivables, accrued income and other receivables are stated after provision for impairment of £Nil (2020: £Nil).

16. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	2,481	576
Amounts owed to group undertakings	-	4,908
Corporation tax	585	-
Other taxation and social security	415	258
Other payables	466	1,096
Accruals and deferred income	10,557	13,419
	<u>14,504</u>	<u>20,257</u>

Amounts owed to group undertakings balances are unsecured, payable on demand and are not interest bearing.

17. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank and in hand	<u>11,246</u>	<u>58,281</u>

18. Lease liabilities

	2021 £'000	2020 £'000
Lease liabilities:		
Current	136	145
Non-current	1,191	1,320
	<u>1,327</u>	<u>1,465</u>

Interest expense during the year on the above lease liabilities included in finance costs was £39,000 (2020: £43,000). The total cash outflow for leases during the year was £218,000 (2020: £165,000).

19. Deferred tax assets

	Arising on intangible fixed assets £'000	Accelerated depreciation for tax purposes £'000	Other short- term timing differences £'000	Total £'000
<i>Recognised deferred tax asset/ (liability)</i>				
At 1 January 2020	(224)	(47)	19	(252)
(Charge)/Credit for the year	(181)	(122)	636	333
At 31 December 2020	(405)	(169)	655	81
Credit/(Charge) for the year	201	(16)	48	233
At 31 December 2021	<u>(204)</u>	<u>(185)</u>	<u>703</u>	<u>314</u>

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20. Called up share capital

	2021 £'000	2020 £'000
Authorised, allotted, called up and fully paid		
120,000 (2020: 120,000) Ordinary shares of £0.001 each	-	-

Amounts above are below the rounding off figures applied by the Company in the financial statements for both the current and previous year.

Share Capital

Represents the nominal value of the shares that have been issued.

Share premium account

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

Retained earnings

Includes all current and prior year retained profits and losses.

21. Share based compensation

The following share schemes have been awarded to employees of the Company but not yet vested at 31 December 2021:

Share scheme name	Award date	Vesting date	Maximum number of share options outstanding	Exercise price per share option
Free shares	4 April 2019	4 April 2022	72,000	£Nil
Senior management share options (Issue 1)	8 April 2019	8 April 2022	10,393	£Nil
Senior management share options (Issue 2)	18 December 2019	18 December 2022	17,392	£Nil
Senior management share options (Issue 3)	22 April 2020	21 April 2023	3,208	£Nil
Senior management share options (Issue 4)	6 May 2020	5 May 2023	8,023	£Nil
Senior management share options (Issue 5)	1 May 2021	30 April 2024	37,014	£Nil
Share Incentive Plan (See note below)	Monthly award	3 years from award date	18,488	£Nil

The maximum number of outstanding share options at 31 December 2021 was 166,518 (2020: 187,130). Of these share options 166,518 (2020: 187,130) will be settled from shares already held by the Team17 Employment Benefit Trust.

Share based payment charges are included within either cost of sales or administrative expenses (depending on which employees the shares were issued to) in the Statement of Comprehensive Income and included within retained earnings in the Statement of Financial Position. In addition, Employers National Insurance accrued at 13.8% (2020: 13.8%) on the balance sheet share price multiplied by the number of shares expected to vest is included within either cost of sales or administrative expenses and accruals in the Statement of Financial Position.

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21. Share based compensation (continued)

Included within the Statement of Comprehensive Income is the following:

	2021 £'000	2020 £'000
Share options charge	123	157
Employers national insurance	34	19
	<u>157</u>	<u>176</u>

Free Shares

During 2019 all staff employed by Team17 Digital Limited at 30 September 2018 were provided with share options. The only criteria for these share options to vest is for the employees to remain in employment over the vesting period.

The fair value of these share options is calculated as the fair value at the award date multiplied by the number of share options outstanding. The expense is apportioned over the vesting period. These share options will be settled from shares already held by the Team17 Employment Benefit Trust.

Senior Management Share Options

During the current and previous year there were awards provided to senior management. These were issued at different points during the years. As with the free shares, the only criteria for these share options to vest is for the employees to remain in employment over the vesting period.

The fair value of these share options is calculated as the fair value at the award date multiplied by the number of share options. The expense is apportioned over the vesting period. These share options will be settled from shares already held by the Team17 Employment Benefit Trust.

Share Incentive Plan ("SIP")

The Group operates a SIP for all employees. Under the SIP, the Group has made awards of matching shares which are conditional on remaining employed with the Group for three years from the award date.

The fair value of these matching shares is calculated as the fair value at the award date multiplied by the number of share options. The expense is apportioned over the vesting period. These share options will be settled from shares already held by the Team17 Employment Benefit Trust.

These schemes are equity settled and provide options over shares in the Company's ultimate parent company, Team17 Group Plc. The movement in the fair value of each share option is included within either cost of sales or administrative expenses (depending on which employees the shares were issued to) in the Statement of Comprehensive Income and included within retained earnings in the Statement of Financial Position. In addition, employers national insurance accrued at 13.8% on the share options value is included within either cost of sales or administrative expenses and accruals in the Statement of Financial Position.

22. Related party transactions

As permitted by FRS 101 related party transactions with wholly owned members of the Team17 Group Plc group have not been disclosed.

23. Controlling party

The intermediate parent undertaking is Team 17 Software Limited. The ultimate parent undertaking at 31 December 2021 was Team17 Group Plc by virtue of its holding of 100% of the share capital of the company.

At 31 December 2021 there was not considered to be a single ultimate controlling party of Team 17 Group Plc.

The largest and smallest group of companies for which consolidated financial statements, including the Company, have been prepared as at 31 December 2021 is the group headed by Team17 Group Plc. These financial statements are publicly available from 3 Red Hall Avenue, Paragon Business Park, Wakefield, WF1 2UL.

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24. Post Statement of Financial Position events

On 6 January 2022, Team 17 Digital Limited acquired the Hell Let Loose IP from Black Matter Pty Ltd, a company incorporated in Australia, for up to £46.0m. This is made up of an initial balance of £31.0m and a deferred payment of up to £15.0m due within 30 months of the acquisition. Initial outflow was satisfied through a combination of £19.8m in cash and the issue of 1,531,780 shares valued at £11.2m which are subject to a lock-in period of 12 months from the date of acquisition. Deferred payments of up to £15.0m will be satisfied in cash based on meeting revenue performance targets over the financial years ending 31 December 2022 and 2023.

Also on 6 January, Team17 (USA) Inc. (a wholly owned subsidiary incorporated on 15 December 2021 for the purposes of acquiring the Label Inc.) acquired 100% of the share capital of The Label Inc. for up to £29.6m (US\$40.0m). This consists of an initial balance of £17.8m (US\$24.0m) made up of £13.3m (US\$18.0m) in cash and the issue of 604,543 shares valued at £4.5m (US\$6.0m). Deferred balances of up to £11.8m (US\$16.0m) will be settled through cash and shares within 42 months based on meeting EBITDA performance targets over the financial years ending 31 December 2022, 2023 and 2024.

The acquisition underlines part of the Company's strategy to make value enhancing acquisitions that will support the growth ambitions alongside organic growth and the Board expects this to be an ongoing part of the growth strategy.

At the time when these financial statements are authorized for issue, the Company had not yet completed the accounting for these acquisitions and hence the fair values of assets acquired have not been disclosed.