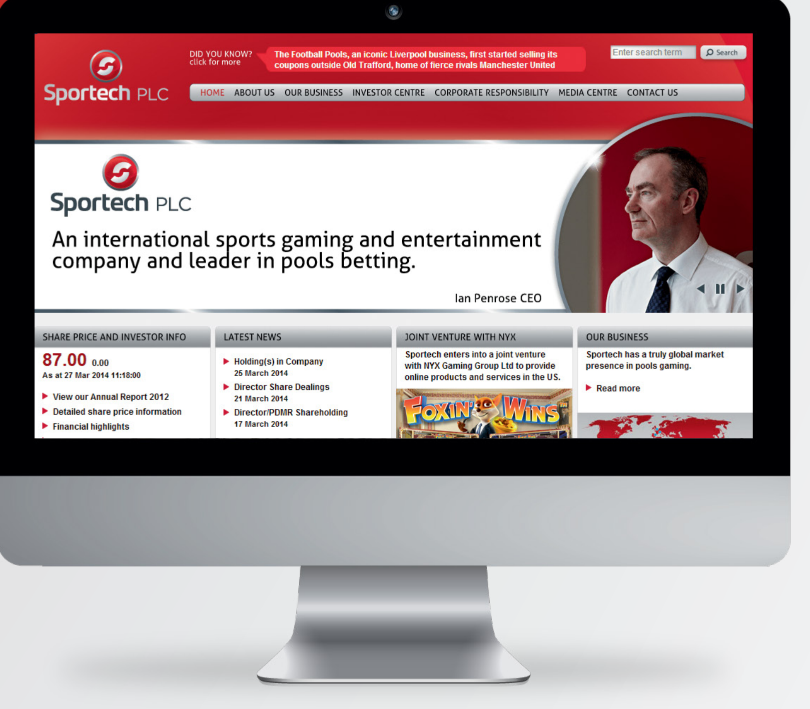
Sportech PLC


**Sportech PLC** Annual Report and Accounts 2013

# A leader in pools and tote betting

# Sportech PLC is a sports gaming and entertainment company and one of the world's leading pool betting organisations, focusing on highly regulated markets worldwide.

We have a presence in 25 countries and process over $13bn of bets annually. Our potent combination of heritage, responsibility, technology and geographical reach places Sportech in a unique position in the gaming sector.




**FIND OUT MORE**
www.sportechplc.com

# Highlights of the year

## Progress against strategic objectives with good US momentum

## Strategic and operational highlights

### Sportech Racing and Digital

- New contracts signed with major gaming businesses in the US, Denmark and UK
- Launched innovative mobile and online products
- Strengthened European operations through the acquisition of Data Tote
- Integration of eBet complete with synergies realised
- Formed joint ventures with NYX and Picklive to supply online gaming and fantasy sports games

### Sportech Venues

- Opened flagship sports bar, restaurant and betting venue in Bradley, Connecticut
- Launched exclusive online horserace betting platform for Connecticut customers
- Signed development agreement to roll-out an estate of branded sports bars and betting venues in California

### Football Pools

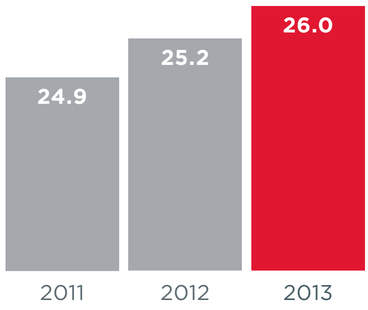
- Increase in spend per head has partially offset forecast player number decline
- Successful new player recruitment through direct marketing offset by overall player decline

### New divisional structure

- Disposal of the loss-making UK e-Gaming business
- Established three focused divisions

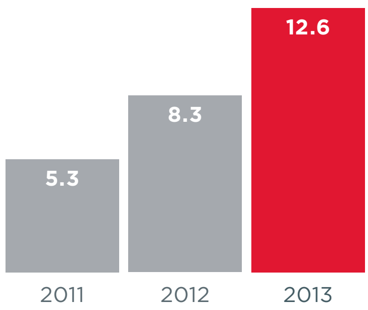
**EBITDA** (£m) from continuing operations

£26.0m




**CAPEX** (£m)

£12.6m




See also
→ **FINANCIAL REVIEW** p16–18

# What we do

# Focused on pools betting

Sportech PLC is one of the largest suppliers and operators of pari-mutuel (pools) betting in the world, with a strong network of systems, services and venues.

## Racing

We are the largest international provider of pari-mutuel systems and services, building on a rich history by investing in new technologies and wagering entertainment venues.

## Football

At the core of our business is the world's oldest football gaming business, embracing technological solutions to deliver a new customer experience.

Sportech racing//digital

WINNERS RACING ▸ BETTING ▸ SPORTS

Runnerz.nl just for winners

The Football Pools

See also
→ **OUR BUSINESS MODEL AND STRATEGY** p12–13

## Racing

Sportech Racing processes over $13bn of bets across 30 countries and is recognised within the industry as the global market leader.

We provide a wide range of wagering technology solutions to racetracks, off-track betting networks ("OTBs"), internet wagering operators and casinos. Our customers are some of the biggest racing organisations in North America, Europe, Latin America, the Caribbean and Asia. We have betting and entertainment venues in Connecticut, California and the Netherlands.

→ **OPERATIONAL REVIEW** p19 and p20

**$13bn**
WORTH OF BETS PROCESSED

**50%**
OF NORTH AMERICAN TOTE RACING BETS PROCESSED

## Football

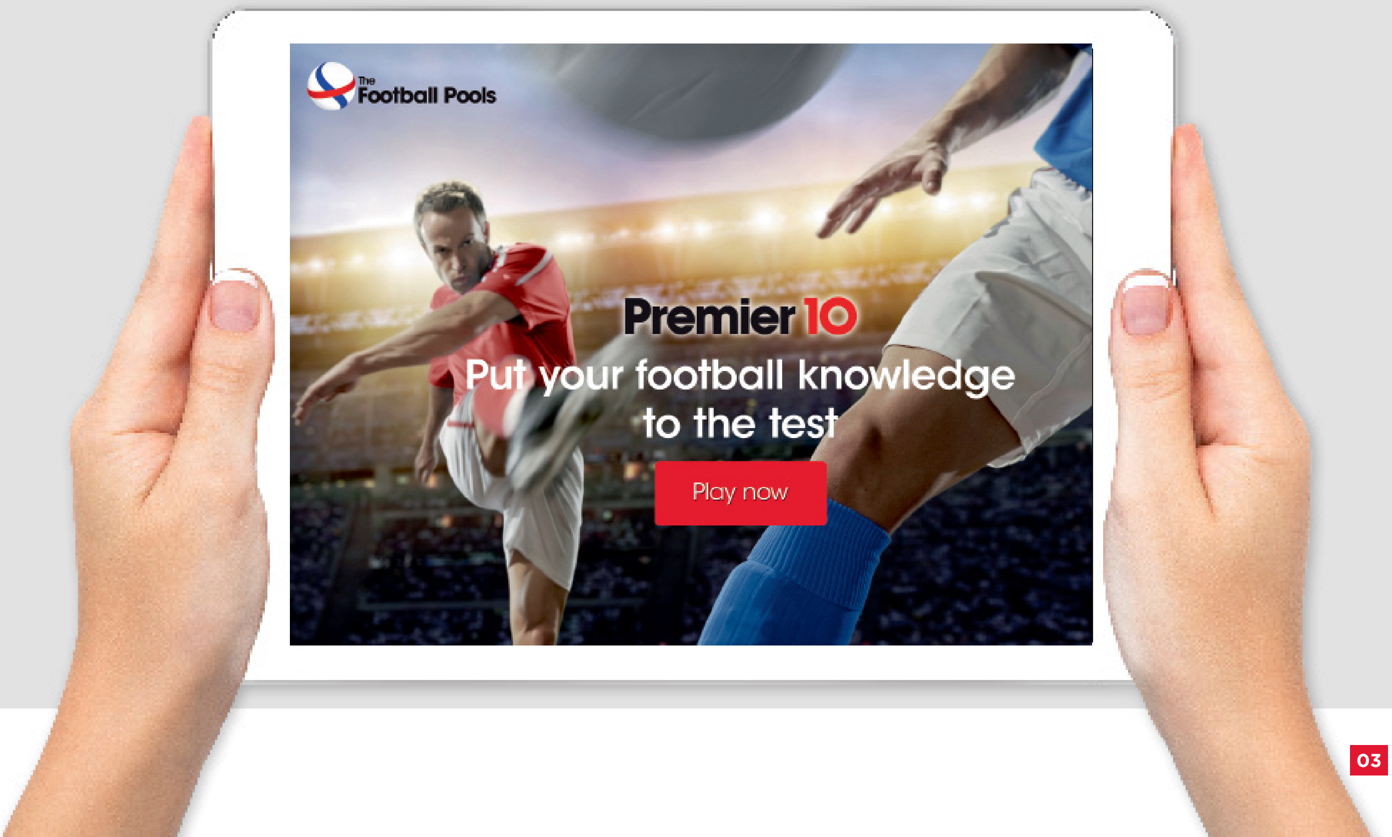
The Football Pools was founded in 1923 and we are very proud that our operational centre is still based in Liverpool, in the north-west of England.

Over the last 90 years The Football Pools has been famous for creating winners, having paid out over £3bn in prize money to its customers. The Football Pools has 360,000 players every week.

→ **OPERATIONAL REVIEW** p21

**1923**
THE FOOTBALL POOLS WAS FOUNDED

**£3bn**
PAID OUT TO CUSTOMERS OVER THE LAST 90 YEARS



# Why we are unique

# A unique

## combination of heritage, responsibility, geographical reach and technology

Sportech is uniquely positioned in the gaming sector, offering customers a broad range of products, some of the most trusted and established brands in gaming and a heritage that is second to none.

Pools gaming is the most prevalent form of sports betting in the world and is worth an estimated $80bn every year.

We are the operator of the world's oldest football gaming business.



## Heritage and responsibility

- The Football Pools celebrated its 90th year in 2013 and is the world's oldest gaming company with unrivalled integrity and heritage
- Pools gaming is the most prevalent form of sports betting in the world and is worth an estimated $80bn every year. In some markets it is also the only legal way to bet on sports
- Pools gaming also makes a positive impact on the UK economy, contributing millions of pounds every year through gaming duty, VAT and corporation tax as well as creating direct and indirect employment

90
YEARS OF THE FOOTBALL POOLS

£1.3bn
DONATED TO SPORTS, ARTS AND GOOD CAUSES

## Geographical reach

- Sportech has operational presence in 25 countries worldwide and customers in all the major tote betting markets globally
- Our Racing business is operational in 34 states in North America, placing the Group in a strategically important position to take advantage of regulatory change
- We have 15 betting venues in Connecticut, US, varying in size from sports bar concession models of 1,000 sq ft to stand alone venues of 4,000 sq ft, to owned flagship venues of 50,000 sq ft
- We also have satellite locations in California and we are building sports bar concept venues, the first to be opened in summer 2014

25
COUNTRIES IN WHICH SPORTECH HAS A PRESENCE

982
EMPLOYEES BASED IN NINE COUNTRIES

## Technology

- We continue to significantly modernise our technology and product offering to stay at the forefront of the dynamic gaming industry
- Technology is fundamental to our business and forms the core of our offering for all of our customers
- We continue to invest in and adopt new technology and improve our offering through product innovation, to ensure we have the best performing and most relevant solutions for our customers and business partners

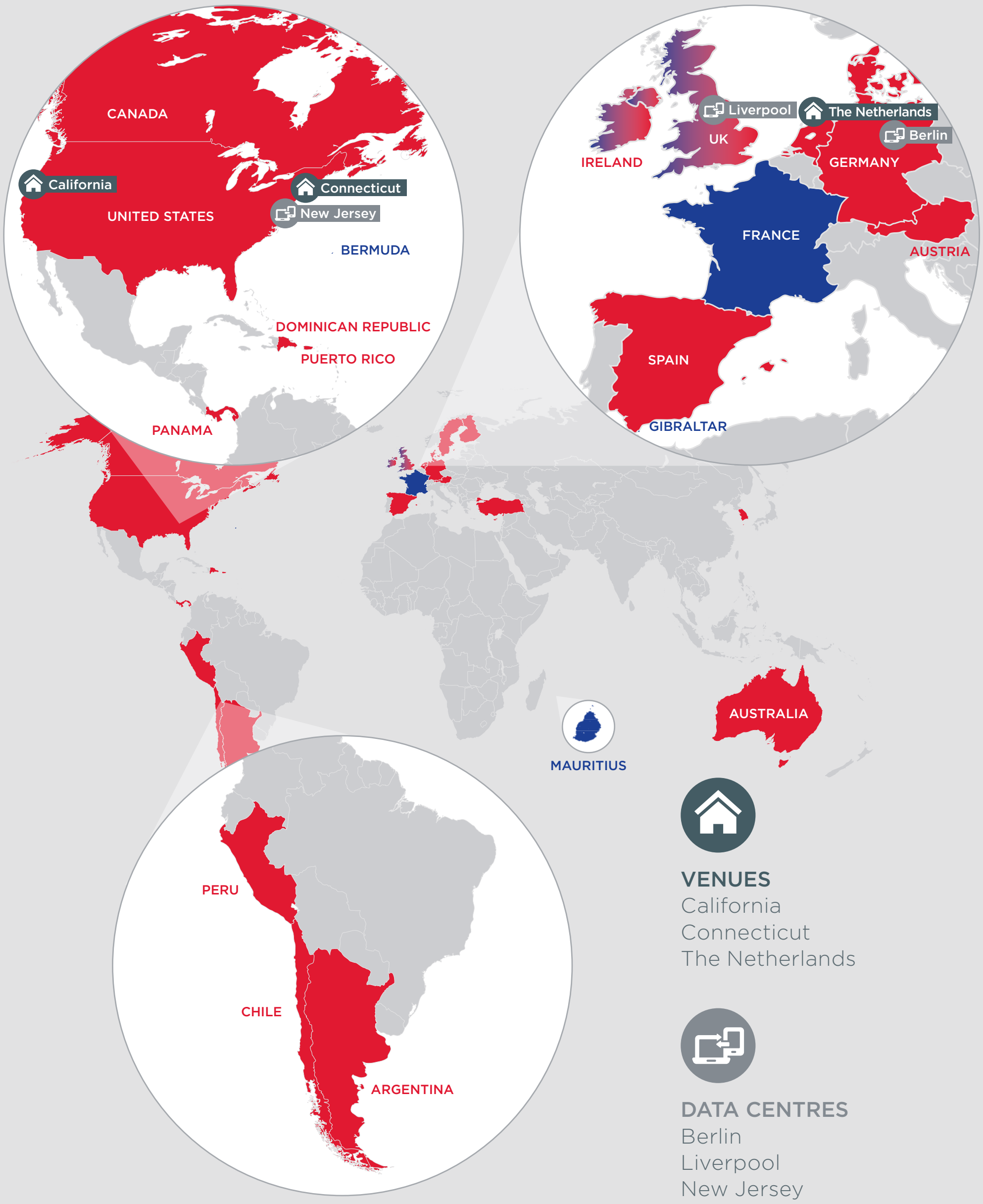
£3.8m
SPENT IN 2013 ON TECHNOLOGY ENHANCEMENTS

30
BETTING WEBSITES MAINTAINED AND OPERATED IN THE US

# Where we operate

# A presence

in 25 countries and 34 North American states and licensed by 36 agencies worldwide




**TOTE SERVICES AND EQUIPMENT SALES**

Argentina
Australia
Austria
Canada
Chile
Cyprus
Denmark
Dominican Republic
Finland
Germany
Ireland
Korea
Panama
Peru
Puerto Rico
Spain
Sweden
The Netherlands
Turkey
United Kingdom
USA

**FOOTBALL POOLS CUSTOMERS**

Bermuda
France
Gibraltar
Ireland
Mauritius
United Kingdom

**VENUES**

California
Connecticut
The Netherlands

**DATA CENTRES**

Berlin
Liverpool
New Jersey

# Racing

We provide a wide range of betting technology solutions to racetracks, off-track betting networks, internet wagering operators and casinos.

34 states

IN WHICH SPORTECH IS OPERATIONAL WITHIN NORTH AMERICA

71%

OF USA POPULATION AND GDP IN STATES WHICH SPORTECH IS LICENSED

### Sportech Racing and Digital

Our Tote Services division has over 300 customers across North America, South America, Canada, the Caribbean, Asia and Europe. We sell our systems and hardware to customers in Europe as well as South America, Asia and Australasia. Our Digital division offers services to customers located in North America and across the world as licences permit.

### Connecticut venues

We have the exclusive and in perpetuity licence to operate venues in the North American state of Connecticut where we currently have 15 venues open. Our licence allows us to have 18 venues and also gives us the right to exclusively offer betting on horseracing and greyhounds online to Connecticut residents.

### Our position in California

We currently have seven locations in California where we offer betting on horseracing and greyhounds. These are typically small areas within larger facilities such as bowling alleys and card rooms. The locations are across the state of California and we plan to open further venues of a similar size in the near future. In addition, our plan is to open sports bars with betting facilities across the state over time, the first of which is due to open in mid-2014. We have secured approval to open ten such facilities in total, subject to local town approvals being obtained.

# Football

The Football Pools is the world's oldest football gaming business, with unrivalled integrity and heritage.

180

EMPLOYEES LOCATED IN OUR LIVERPOOL HEADQUARTERS

360,000

CUSTOMERS PLAYING THE FOOTBALL POOLS EVERY WEEK

### Strong core business

The business continues to be proudly based out of Liverpool, UK, and has customers across the globe playing The Football Pools regularly.

### Technology investment

Our modernisation programme for The Football Pools, which began two years ago, will be completed in 2014 and will provide customers with single wallet functionality and the ability to play a range of games on mobile and tablet devices.

### Charitable donations

Since the mid-1970s The Football Pools has contributed £1.3bn at today's value to football and other sports, the arts and charitable causes. Today, £0.5m is generated annually for charitable causes through the management and operation of society lottery products.

# Chairman's statement

## SUMMARY

- A year of strategic progress for the Group
- Earnings per share from continuing operations amounted to 1.7p (2012: 0.3p)
- We have the right strategy in place to capitalise on unique opportunities

### Performance and dividend

It has been a year of strategic progress for the Group. Our highly regulated gaming businesses in the US, which now represent 60% of the Group's revenues, continue to grow and take advantage of our unique regulatory and licensing position. The Football Pools had a solid year, taking important steps to arrest the decline in customers and generating strong cash flows.

During the year, the Group acquired Data Tote in order to strengthen our European operations, established joint ventures with NYX Gaming and Picklive US to focus on the emerging iGaming and fantasy sports markets in the US, and disposed of our loss-making UK focused e-Gaming business. These strategic transactions leave the Group increasingly focused on our key growth markets and the opportunities they present.

Basic earnings per share from continuing operations amounted to 1.7p (2012: 0.3p). Adjusted profit before tax from continuing operations was £14.5m (2012: £14.9m), with adjusted basic earnings per share of 5.3p (2012: 5.4p), primarily as a result of an increased depreciation charge.

Your Board is focused on growing the business and using its cash flows to develop the opportunities presented primarily in the US. To facilitate this, and as in previous years, no dividend is proposed for the year ended 31 December 2013. The Board continues to assess the appropriate time to commence dividend payments.

"Your Board is focused on growing the business and using its cash flows to develop the opportunities presented primarily in the US."

To support delivery of these opportunities we have combined the Tote Services and Interactive Products divisions into one larger organisation, Sportech Racing and Digital. Together with Sportech Venues and The Football Pools, this focused divisional structure will drive the Group's future performance.

## Board effectiveness

As Chairman, I am responsible for ensuring your Board remains effective. I work closely with Ian Penrose, Sportech's Chief Executive, to ensure your Board provides the appropriate support and guidance to the Executive team. The Board carries out an annual performance review in December of each year, analysing the effectiveness and efficiency of the Board, the Board members and the individual Committees. As a by-product of this, the Board has decided to extend the duration of each Board meeting and hold three Board meetings a year at its US operating businesses. This will ensure that the quality and depth of discussion is increased and, as a consequence, we have reduced the number of scheduled Board meetings a year from nine to seven.

→ **CORPORATE GOVERNANCE** p28-35

Last year we endeavoured to implement changes to our Directors' Remuneration Report. This year we have implemented the Department of Business, Innovation and Skills requirements in full, and you can read the report on pages 37 to 53. Our objective is to ensure that remuneration arrangements clearly reflect our strategic objectives and that the interests of management and shareholders are properly aligned.

## Board and employees

There have been a number of changes to the Board during the financial year. Cliff Baty was appointed Chief Financial Officer on 14 May 2013. Cliff brings with him considerable industry experience, having previously worked in senior financial roles at Ladbrokes plc. Rich Roberts was appointed to the Board as a Non-executive Director on 3 December 2013. Rich lives in New Jersey, US, and has many years' experience developing businesses in the digital, mobile, social and iGaming markets in the US. I am pleased to welcome them both to the Sportech Board.

→ **BOARD OF DIRECTORS AND COMPANY SECRETARY** p24-25

John Barnes resigned from the Board on 3 December 2013 following seven years as a Non-executive Director, and Mor Weizer resigned from the Board on 20 June 2013. I would like to thank both John and Mor for their contributions, and in particular, John for his longstanding commitment to the Group.

Sportech's international reach and large customer base places large demands on our Executives and employees and the Board would like to thank them for their dedication and commitment to the Group.

## Outlook

Looking ahead, I believe we have the right strategy in place to capitalise on the significant opportunities that exist for Sportech across its divisions and I look forward to working with the Board and Executive team to build on the successes to date.

**Roger Withers**
**Chairman**
5 March 2014

# Chief Executive's review

## SUMMARY

- The Group has delivered a good set of results in a transformational year
- We have strengthened the management team and Board
- We remain well positioned for future growth in the US market and have entered 2014 with confidence

### Overview

Sportech is one of the world's leading operators and suppliers of pools betting services, occupying a unique position in the highly regulated and emerging gaming markets worldwide.

In 2010, Sportech established itself as one of the largest European based gaming businesses with significant operations in the United States. Since that time, the Group has continued to invest in its businesses, such that over 60% of Group revenues are now generated from our US-based operations, where we are licensed by gaming regulators in 24 states, employing 700 people across field operations and four corporate offices.

The Group's focus continues to be to build a multi-platform (retail, telephone and online) dynamic gaming business in the US. Initially focusing on the legal and highly regulated gaming operations of horseracing and greyhounds, we will seek to take advantage of organic business development opportunities. Subsequently we plan to use this strong and expanding platform to position the Group for broader-based gaming opportunities as regulation evolves over the coming years.

"The Group has continued to invest in its businesses, so that over 60% of the Group revenues are now generated from our US-based operations."

During 2013, the Group made good progress in line with its strategy. We continued to invest in our operations, to leverage our unique exclusive licensing position in Connecticut, US, and last month launched both the only legal website in Connecticut for betting on horseracing, and opened a flagship sports bar, restaurant and betting facility in Bradley. The investment is aimed at increasing the distribution of racing, and widening the exposure and thrill of betting on horseracing to a sport-based audience. In another major step forward, we were able to develop our extensive operations in California (where we process all betting on horseracing, around $1.8bn per annum) by obtaining a licence to develop a chain of branded betting venues, restaurants and sports bars. The first venue will open in Norco, near Los Angeles, in the summer of 2014. Furthermore, we have invested in our core tote betting technology, and in December launched a suite of market-leading online and mobile betting products for our customers.

Corporately, and in line with our strategy of enhancing our product range in the US, we established joint ventures with NYX Gaming and Picklive US to focus on the emerging iGaming and significant fantasy sports markets. Furthermore, we acquired Data Tote for an initial consideration of £3.1m in order to strengthen our European tote betting operations, whilst our loss-making UK-focused e-Gaming business was sold towards the end of the year for £3.0m. These strategic transactions leave the Group increasingly focused on the attractive opportunities in our key growth markets.

The Group has also made a number of organisational changes, establishing three key divisions. We have created Sportech Racing and Digital, which combined the former Sportech Racing, Sportech Interactive Products and Services and also eBet, in order to create one cohesive, larger division to provide all terrestrial, online and mobile betting technology products to our customers. This division is managed by Andrew Gaughan. Our Sportech Venues business, operating Connecticut's exclusive betting operations in retail venues, on the telephone and now online at MyWinners.com, is led by Ted Taylor, and our UK Football Pools business is led by Conleth Byrne. As a consequence of the increase in the Group's activities overseas and the reduction of activity in the UK following the sale of the loss-making e-Gaming activity, Ian Hogg has decided to leave the Group at, or before, the end of the year for personal reasons as he does not wish to increase his duties overseas.

The Group is pleased to have increased its EBITDA from continuing operations in 2013 by £0.8m to £26.0m with EBITDA from US-based activities increasing by over 20%. The Football Pools business delivered a strong performance with EBITDA of £17.4m, representing 58% of Group EBITDA before central costs. The Football Pools division is making good progress towards stabilisation of its direct revenues and generates strong cash flows.

## Outlook

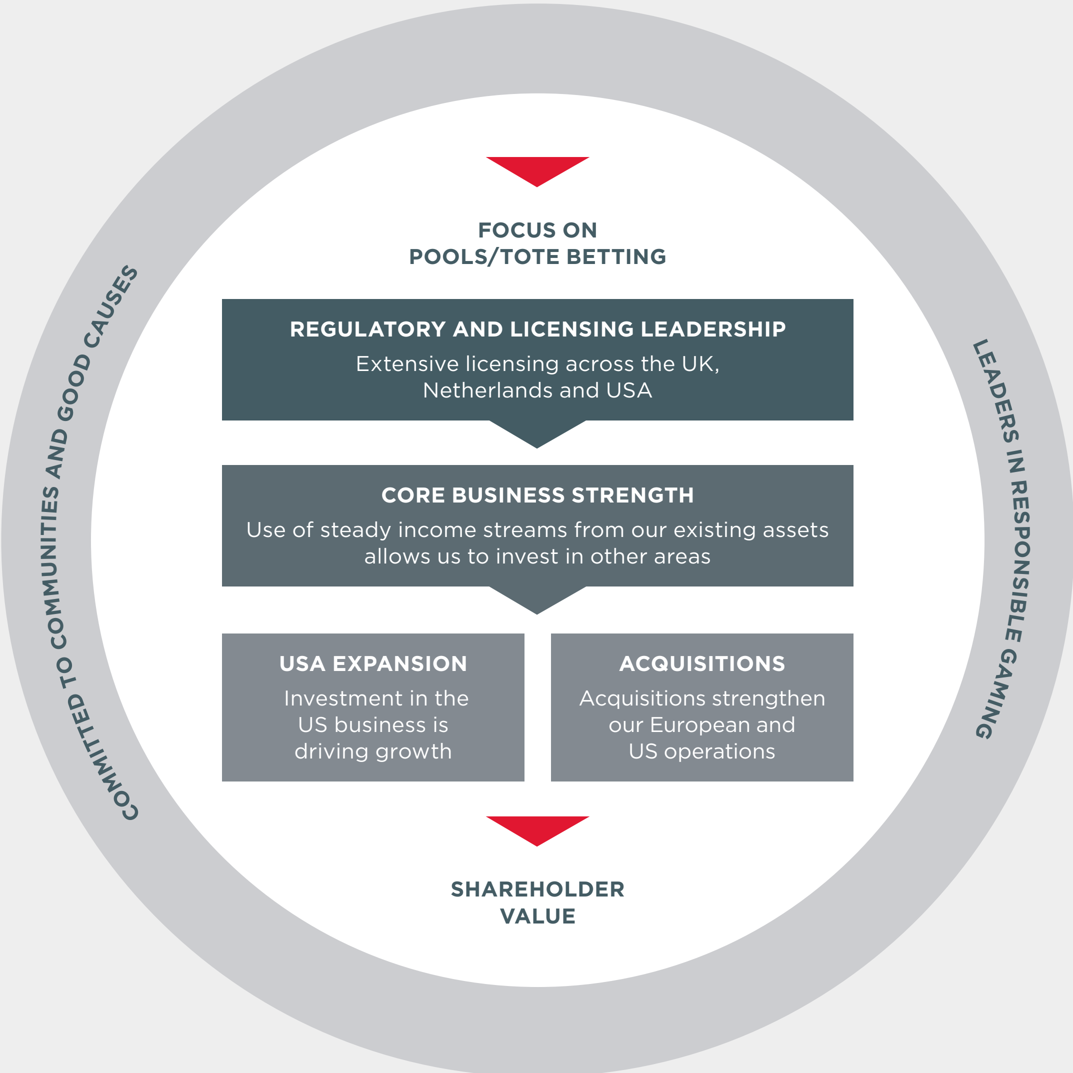
We have launched a number of growth initiatives in February this year, notably the exclusive online betting website and the innovative sports bar, restaurant and betting facility, both in Connecticut. We continue to make progress in California, and our new technology developments are being well received by customers. However, the severe snow storms and extreme cold weather across the east coast of the US have resulted in the closure of our retail venues on several days this year, and there have been 170 race cancellations to date in 2014 compared to 54 in 2013. Whilst this has impacted on the performance of our US operations, the Board remains confident in the Group's prospects for the full year ahead.

**Ian Penrose**
**Chief Executive**
5 March 2014

# Our business model and strategy

## Our business model

The Group is well positioned to capitalise on future growth opportunities across its key markets.




Your Board is committed to increasing shareholder value in a sustainable way in order to deliver long term returns to shareholders.

Supported by strategic positioning and capitalising on our heritage, geographical reach and infrastructure, we believe our business model will enhance shareholder value.

# Our strategy

The Group's strategy is to develop Sportech's position as one of the world's leading sports gaming companies.

| 1 Our core business | 2 Investment for growth | 3 Future plans |
|---|---|---|
| **Modernising core businesses to secure cash generation** | **Industry leaders in highly regulated markets** | **Capitalise on opportunities as markets regulate** |
| **Strategic priorities** | | |
| • Stabilise our Football Pools offline revenues from 2015<br>• Maintain our significant share of the USA racing pools market<br>• Increase our Group's digital earning capabilities | • Drive value from our exclusive and in perpetuity licence for betting on horseracing in Connecticut<br>• Evaluate opportunities arising in California<br>• Invest in innovation and new technologies to remain at the forefront of the industry | • Be first to market and capitalise on regulatory change<br>• Growth through strategic acquisition<br>• Continuous leadership in technology enhancement |
| **2013 achievements** | | |
| • Modernisation of the Football Pools has advanced at pace and will be complete in 2014<br>• New customer wins in 2013 include Penn National Gaming and our market share has been maintained<br>• eBet has been integrated, achieving the expected synergies and contribution to Group earnings | • Venue in Bradley, Connecticut, has undergone $4m investment to create high-end sports bar<br>• Licensing and location secured for first new sports bar in California<br>• New technologies launched to the market in Tucson in December 2013 with significant interest generated | • Significant lobbying programmes pursued<br>• Acquisition of Data Tote to strengthen offering in Europe<br>• Patents secured for various technological investments |
| **Focus for 2014** | | |
| • Complete detailed process of operational modernisation<br>• Focus on product enhancement and wider distribution<br>• Expand our suite of products online to complement developing our venues and telephone betting business | • Develop further venue opportunities in Connecticut to capitalise on our licence<br>• Open sports bar in California to launch new concept to the market<br>• Drive value from the Group's patented new technologies | • Lobbying in key US states to encourage regulatory change<br>• Use footprint in the US to develop NYX joint venture opportunities in iGaming markets<br>• Build a branded sports bar and restaurant business in California |

# Principal risks

Appropriate risk management aids effective decision making and helps to ensure the risks the business takes are adequately assessed and challenged.

## The importance of measuring risk

Our risk management approach is to look at risks arising from all areas of the business both through a top-down and bottom-up approach. The executive Boards of the three main business units assess on an ongoing basis and formally update their business-specific risk registers quarterly. The Board regularly reviews the risks associated with the Group's activities and strategy and formally reviews a Group risk register annually. In reviewing such risks, the Board ensures that appropriate systems and controls are in place to mitigate the occurrence and impact of such risks.

Risk registers identify the most significant risks to the business and rate each risk on an unmitigated basis first and then a mitigated basis following assessment of controls and processes in place to reduce the impact of the risk.

The table shows the most significant risks to Sportech PLC as a Group, the potential impact of such risks and the mitigating activities the Group carries out to reduce the likelihood and impact of such risks. The movement in the level of the risk in the Board's opinion is also indicated.

| Risk description | Mitigating activities | Change |
|---|---|---|
| **Regulatory – Licences** | | |
| The Group operates under a number of licences across worldwide jurisdictions, including the UK and US. The loss or inadvertent breach of any such licence could have a significant impact on the Group's ability to continue to trade within that and other jurisdictions and therefore on the Group's trading and results. In addition, such loss or inadvertent breach would potentially lead to the imposition of fines and penalties on the Group and could lead to substantial legal costs. In certain jurisdictions, personal liability rules could lead to imprisonment of Group personnel. There would also be the threat of reputation damage, hindering the expansion of the business into other jurisdictions. | The Group considers that its licences to operate around the world are a key asset to the business and as such looks to mitigate the inherent risk within this area as follows:<br>• the Group employs a Director of Corporate Affairs, one of whose primary roles is to ensure compliance with the requirements of our licences worldwide;<br>• a key aspect of this is monitoring the territories from which business is accepted, to ensure that the threat of legal action against the Group is minimised, and that territories presenting criminal/terrorist money laundering risk are avoided;<br>• the Group employs a Group General Counsel in the UK to aid compliance issues and also employs a General Counsel within its key US subsidiary, Sportech Inc.;<br>• the Group employs third-party specialist legal counsel as appropriate to ensure relationships with regulatory bodies are maintained at the highest level;<br>• regular updates and training are provided to those employees involved in areas of the business that have inherent regulatory risk. Policies and procedures are in place to which staff adhere; and<br>• where commercially realistic insurance policies are available, they are purchased. | **Level**<br>The Group continues to operate in the same jurisdictions and monitors the changing gaming environment. There have been no detrimental changes during the period of note. |
| **Operational – Economy** | | |
| A significant proportion of the Group's annual income is derived from consumer facing activities and is thus subject to the impact of economic downturns. Any significant downturn in the economy could lead to a negative impact on the results of the Group and its cash flows. | Management has taken and continues to take mitigating actions to protect the Group from current and potential operational and commercial risks in respect of economic and currency downturn:<br>• operating cost bases within the key operational divisions are structured to offset potential declines in revenue;<br>• revenue channels have been and continue to be expanded in terms of both product and territory by the acquisition of a broader base of revenue streams for the Group;<br>• where possible, fixed income contracts (in respect of Sportech Racing) have been entered into with our customers limiting downside risk; and<br>• management reviews performance against budget on a regular basis which would highlight the need to implement change. | **Reducing**<br>World economies in which the Group operates continue to steadily recover from the recent economic downturns. |

| Risk description | Mitigating activities | Change |
|---|---|---|
| **Operational – Technology** | | |
| A significant proportion of the Group's annual income is dependent on technology-led products. | Management ensures that the risk posed by technology is mitigated where possible as follows:<br>• the Group has two world-class data centres established in its key trading jurisdictions which host the Group's key technology solutions;<br>• the Group continues to invest heavily in upgrading its technology solutions to ensure compliance with best practice;<br>• Group systems, principally in the USA and in the Netherlands, are subject to annual third-party audit to provide assurances to our customers that our systems are robust and complete;<br>• where third-party software is utilised, leading technology providers are chosen as suppliers of choice; and<br>• comprehensive disaster recovery procedures and infrastructure are in place and are regularly reviewed and tested. Insurance cover is obtained to mitigate the cost of business interruption. | **Reducing**<br>The Group has invested significantly during the period in upgrading technology thus continuing to reduce this risk. |
| **Financial** | | |
| The Group has historically been relatively highly leveraged and dependent on the provision of debt financing to enable it to continue its operations. The change in the credit markets that occurred over the last few years increased the cost of bank debt and reduced the availability of alternate sources of finance. The Group refinanced its debt in July 2012, extending its term to August 2015.<br><br>Credit markets are tightening providing the opportunity for the Group to reduce its cost of debt going forward. | The Group:<br>• refinanced in the summer of 2012 and now has three principal lenders, Bank of Scotland Plc, Barclays Bank Plc and Royal Bank of Scotland Plc. We maintain very close relationships with each finance lender;<br>• continues to be focused on cash generation to improve its financial position;<br>• maintains relationships with potential future finance partners and keeps abreast of changing credit market conditions; and<br>• monitors its performance against covenants on a regular basis. | **Level**<br>The Group's facilities are in place for another 18 months with a one year extension option. |
| **Health and safety** | | |
| The Group runs a number of venues offering pari-mutuel wagering, principally in the state of Connecticut, USA, and the Netherlands. These operations involve the handling of significant sums of cash. In addition, the venues are used by a high number of customers on a daily basis. The Group therefore has a significant health and safety risk in respect of both its employees and its customers. | The Group takes the following actions to ensure the health and safety of its employees and customers:<br>• suitably qualified health and safety managers are employed by the Group to ensure compliance with Group policies;<br>• security processes and procedures are in place to ensure excess cash is stored in time-delay safes and then removed from venues as soon as possible;<br>• appropriate insurance cover is maintained; and<br>• there is a continual investment programme to refresh and update venues. Health and safety requirements are addressed accordingly. | **Level**<br>There has been no change in the Group's operations and thus no change in the level of the risk. |

# Financial review

## SUMMARY

- Revenue increased by 2% to £110.3m (2012: £107.7m)
- EBITDA* increased by 3% to £26.0m (2012: £25.2m)
- Adjusted** profit before tax decreased by £0.4m to £14.5m (2012: £14.9m)
- Statutory profit before tax increased to £5.2m (2012: £1.3m)
- Adjusted** earnings per share ("EPS") fell 2% to 5.3p (2012: 5.4p)
- Year end net debt of £63.4m (2012: £57.1m)

### Overview

Group revenue from continuing operations was slightly ahead of prior year at £110.3m (2012: £107.7m). EBITDA from continuing operations increased by 3% to £26.0m (2012: £25.2m) driven by growth in Sportech Racing and Digital which offset the decline in Football Pools. Adjusted profit before tax was £14.5m (2012: £14.9m) impacted by an increased depreciation charge following capital investment. Profit after tax was £3.4m (2012: £1.3m) with basic earnings per share from continuing operations of 1.7p (2012: 0.3p) and adjusted earnings per share of 5.3p (2012: 5.4p). Net debt at 31 December 2013 was £63.4m (2012: £57.1m).

An analysis of Group revenue, EBITDA and operating profit by division is shown on page 18.

### Corporate costs

Corporate costs of £3.9m (2012: £3.8m) have been managed carefully and remain in line with the prior year. In addition, we also have a non-cash share option expense under IFRS 2 of £1.5m (2012: £1.4m).

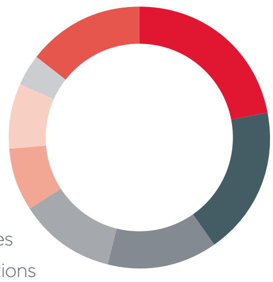
### Depreciation and amortisation

The Group's normal depreciation and amortisation charge increased in the period to £5.7m (2012: £4.8m), principally due to the ongoing capital expenditure in our businesses in North America. In addition, the Group incurred a non-cash

"The £95m VAT claim was determined in the Group's favour in March 2013, although an appeal will be held on 29 and 30 April 2014."

### CAPEX SPEND ANALYSIS CHART (£M)

- 2.8 Technology enhancement in Sportech Racing and Digital
- 2.3 Bradley Sports Bar
- 1.7 Tote services contract renewals
- 1.5 Football Pools modernisation programme
- 1.0 Existing venue investment
- 1.0 Data centre upgrades
- 0.5 Discontinued operations
- 1.8 Other

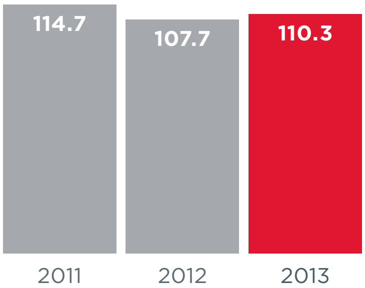


* EBITDA is from continuing operations and is stated before exceptional costs and share option expense.

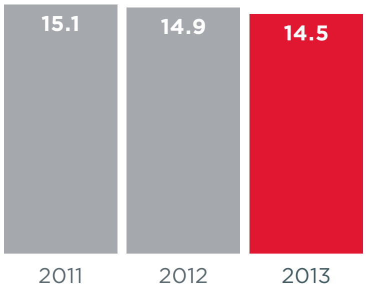
** Adjusted numbers are from continuing operations and are stated before amortisation of acquired intangibles, exceptional costs, share of loss after tax of joint ventures and other finance income/(charges).

## KEY PERFORMANCE INDICATORS

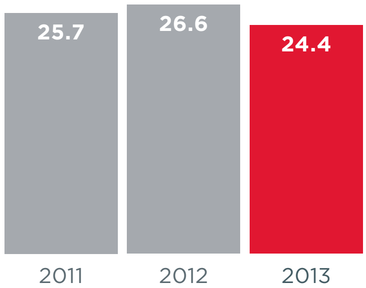
**REVENUE** (£m)
£110.3m




**ADJUSTED PROFIT BEFORE TAX** (£m)
£14.5m




**CASH GENERATED FROM OPERATIONS** (£m)
£24.4m




amortisation charge of £7.2m (2012: £5.9m) on the intangible assets acquired with Vernons in 2007, eBet in 2012 and Data Tote in 2013. The Vernons charge continues at an annualised £5.9m until June 2014.

### Exceptional costs

The Group has incurred exceptional costs of £2.7m (2012: £2.8m) in the twelve month period. These costs include restructuring and other costs of £1.3m (2012: £1.3m), compensation for loss of office of £0.3m (2012: £0.3m), costs in relation to the New Jersey licence of £0.3m (2012: £0.4m), transaction costs in relation to acquisitions of £0.3m (2012: £0.6m) and legal costs of £0.5m in connection with the "Spot the Ball" VAT claim (2012: £0.2m).

### Net finance costs

The Group has incurred net interest costs in the period of £4.3m (2012: £4.1m). In addition, other finance income amounted to £0.8m (2012: charges of £4.7m), primarily being the fair value movement on interest rate swaps.

### Net bank debt

The Group has a £75m revolving credit facility until August 2015, which is enabling the Board to invest in strategic opportunities, particularly in the USA. Net bank debt has increased by £6.3m in the twelve month period to £63.4m (31 December 2012: £57.1m), reflecting capital spend of £12.6m, as well as £9.4m investment in acquisitions. The Group's bank leverage ratio for covenant testing purposes (net bank debt/adjusted EBITDA) was 2.41x as at 31 December 2013 (31 December 2012: 2.12x). At 31 December 2013, this leverage covenant was 3.0x (net bank debt/adjusted EBITDA).

Total shareholders' equity and the Group's net assets have increased to £139.7m (31 December 2012: £135.4m).

### Acquisitions and disposals

During the year the Group acquired Data Tote for £3.1m in cash consideration with a potential further deferred consideration payment of £1.0m in the event that the business meets certain growth performance targets for the period to 30 June 2016. Of this deferred consideration, £0.1m was accrued at the acquisition date with £0.9m accrued over the performance period subject to ongoing assessment of expectations. Cash on balance sheet at the acquisition date was £0.7m.

Total fair value of assets recognised was £3.2m with resultant goodwill of £nil. Acquisition costs totalled £0.2m.

On 30 September 2013, £6.5m was paid to Scientific Games Corporation Inc., representing deferred consideration in relation to the 2010 acquisition of Sportech Racing. Performance targets for the contingent element of consideration were not met by 31 December 2013 and no further payments under the acquisition agreement are due.

In addition £0.3m was paid in December 2013 in deferred consideration for the 2012 acquisition of eBet Online Inc. A further £0.7m is due to be paid in December 2014 with additional maximum potential consideration due of £0.9m based on future performance.

The Group disposed of its e-Gaming business to NetPlay TV Group Limited on 31 October 2013 for total cash consideration of £3.0m. This generated a net profit after tax from discontinued operations of £0.1m including trading losses and costs of disposal. This disposal followed a strategic review that concluded the business was not of sufficient scale ahead of the implementation of UK point of consumption tax, which would impact the business significantly.

# Financial review continued

## Revenue

| Revenue | 2013 £m | 2012 £m | Change £m |
|---|---|---|---|
| Sportech Racing and Digital | **35.9** | 31.7 | 4.2 |
| Sportech Venues | **34.1** | 33.7 | 0.4 |
| Football Pools | **41.3** | 42.9 | (1.6) |
| Inter-segment elimination | **(1.0)** | (0.6) | (0.4) |
| **Total** | **110.3** | 107.7 | 2.6 |

## EBITDA

| EBITDA | 2013 £m | 2012 £m | Change £m |
|---|---|---|---|
| Sportech Racing and Digital | **7.7** | 5.5 | 2.2 |
| Sportech Venues | **4.8** | 4.7 | 0.1 |
| Football Pools | **17.4** | 18.8 | (1.4) |
| Corporate costs | **(3.8)** | (3.7) | (0.1) |
| Inter-segment elimination | **(0.1)** | (0.1) | — |
| **Total** | **26.0** | 25.2 | 0.8 |

## Operating profit *

| Operating profit * | 2013 £m | 2012 £m | Change £m |
|---|---|---|---|
| Sportech Racing and Digital | **4.8** | 3.3 | 1.5 |
| Sportech Venues | **3.4** | 3.3 | 0.1 |
| Football Pools | **16.0** | 17.5 | (1.5) |
| Corporate costs | **(5.3)** | (5.1) | (0.2) |
| Inter-segment elimination | **(0.1)** | — | (0.1) |
| **Total** | **18.8** | 19.0 | (0.2) |

* Operating profit before amortisation of acquired intangibles and exceptional costs.

## VAT claim

The VAT repayment claim, in respect of the "Spot the Ball" game, was successfully determined in the Group's favour by the First-tier Tax Tribunal ("FTT") in March 2013. HMRC has been given leave to appeal this decision to the Upper Tribunal and the appeal hearing will be held on 29 and 30 April 2014. The claim is for approximately £95m including simple interest.

We are pleased with our success to date and remain confident in our arguments and a successful outcome of the appeal.

The claim has not been recognised in the Group's financial statements.

## Dividend

No dividend is proposed. The Board will continue to assess when to commence the payment of a maiden dividend in consideration of the Group's financial position, business performance and future growth opportunities.

## Taxation

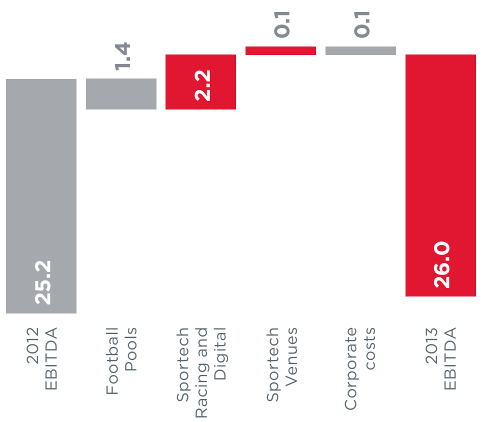
A tax charge for the period of £1.9m (2012: £0.8m) has been provided at the weighted average applicable tax rate for the Group of 26.8% (2012: 36.5%). The Group has a net deferred tax asset of £0.7m (31 December 2012: £1.3m), representing primarily foreign taxes withheld which can be utilised against future profits and deferred tax provided on unvested share options and on interest rate swap liabilities. Tax payments of £1.7m were made during the period (2012: £2.0m), principally representing final payments for prior year tax liabilities and overseas tax deducted at source.

## Share capital

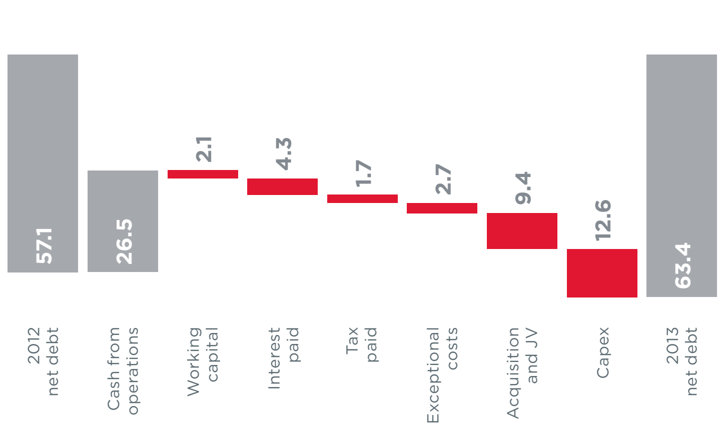
During the year 6.0m shares were issued to settle employee share options under the 2010 Performance Share Plan award, increasing issued share capital to 204,851,114.

**Cliff Baty**
**Chief Financial Officer**
5 March 2014

## EBITDA BRIDGE




## NET DEBT BRIDGE



# Operational review

## Sportech Racing and Digital

£35.9m

REVENUE

£7.7m

EBITDA

### Key financials

An analysis of revenue and EBITDA from our Sportech Racing and Digital business is set out as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Tote Services | 27.9 | 25.8 |
| Equipment sales | 4.1 | 4.3 |
| Digital | 3.9 | 1.6 |
| **Total revenue** | 35.9 | 31.7 |
| Payroll | (15.0) | (14.8) |
| Other costs | (13.2) | (11.4) |
| **EBITDA** | 7.7 | 5.5 |

### Overview

Sportech Racing and Digital has a leading position worldwide in the provision of Tote software both through land based terminals and online solutions including mobile and tablet devices. The business processes $13bn of bets annually and is licensed in 24 states in the US with offices and operational centres in Atlanta, New Jersey, Ireland, Germany and the UK.

The business has invested heavily in technology including its suite of mobile applications (known as Digital Link) which delivers an array of wagering and account management services through the racing consumer's own smart phone in conjunction with the on-track wagering devices. In addition, the division has developed a new online betting platform, G4, to improve consumers' online betting experience. These investments will support the business's future success, ensuring its competitiveness and generating opportunities for increased efficiency through technological developments.

During the year the business secured several major new contracts including a six year agreement with Penn National Gaming ("PNG"), a five year agreement with Danske Spil, the state-owned Danish gaming operator and terminal sales to the UK Tote.

In September, the business purchased Data Tote, a leading provider of on-track and online greyhound and horserace betting services in Europe. This acquisition further strengthens our European operations through an increased customer base and complementary product suite.

### Tote Services

Within Tote Services, we have seen continued strong operational performance from our customer within the Dominican Republic following the investment made in new terminals last year.

During H2 2013, we wound down our US west coast data centre and transferred our operations to a single site in New Jersey. This will deliver improved customer service and cost efficiencies in 2014 and beyond. Revenues of £32.0m (2012: £30.1m) included equipment sales of £4.1m (2012: £4.3m), and EBITDA of £7.0m (2012: £5.7m) was generated.

### Digital

Within Digital, the integration of the eBet business acquired in December 2012 has been successfully achieved and expected synergies of £0.2m were delivered in 2013 following call-centre rationalisation and transfer of bet processing to our own Tote system. Revenues for 2013 were £3.9m (2012: £1.6m) with EBITDA of £0.7m (2012: loss of £0.2m), in line with management expectations.

The Digital business has entered into a joint venture with NYX Gaming Group, an award-winning supplier of online gaming platforms and content, to provide online gaming products. In addition the business has entered into a separate joint venture with Picklive Limited to develop new fantasy sports games targeting the rapidly growing US market. Both these initiatives, together with the technological investments in the G4 online betting platform and Digital Link mobile applications, will help drive future performance.

# Operational review continued

## Sportech Venues

£34.1m

REVENUE

£4.8m

EBITDA

### Key financials

A detailed analysis of our Connecticut Venues financials is set out below:

| Connecticut Venues | 2013 £m | 2012 £m |
|---|---|---|
| Revenue | **28.2** | 27.7 |
| Tax | **(4.1)** | (4.2) |
| Track/tote/interface fees | **(7.9)** | (7.1) |
| Margin | **16.2** | 16.4 |
| Payroll | **(4.7)** | (4.4) |
| Facility costs | **(3.7)** | (4.0) |
| Other costs | **(3.4)** | (3.6) |
| Connecticut EBITDA | **4.4** | 4.4 |
| Other EBITDA | **0.4** | 0.3 |
| **Total Venues EBITDA** | **4.8** | 4.7 |

### Connecticut Venues

In the state of Connecticut, Sportech Venues operates all betting on horseracing under an exclusive and in perpetuity licence for retail, telephone and internet.

During the year we have invested in our venues and online opportunities to support future growth. February 2014 saw the official opening of the "Bobby V's" sports bar in Bradley, a partnership with baseball legend and experienced restaurateur Bobby Valentine. This new $4m facility allows customers to bet on horse and greyhound racing while enjoying the amenities of a high-end sports bar and restaurant. Also during the year we have upgraded the facilities at Sports Haven, our 50,000 sq ft venue, to create sports and games zones together with a redesigned bar area. We are also progressing the development of a potential new site in Stamford, a city close to the New York state border with a population of 125,000 which currently has no gambling venue.

February 2014 also saw the full launch of Connecticut's only legal online horserace betting platform, MyWinners.com. This launch will be supported by marketing campaigns and the issuance of formal cease and desist letters by the Connecticut authorities.

2013 operating performance saw overall revenues £0.5m ahead of prior year with EBITDA at £4.4m (2012: £4.4m), with increased content costs being offset by other overhead reductions.

### Other Venues

Revenue for Other Venues was £5.9m (2012: £6.0m) with EBITDA of £0.4m (2012: £0.3m).

During 2013, the Group provided betting technology and services to customers of five third-party venues in southern and central California. A further two outlets have opened in early 2014. These outlets are performing well with a strong return on invested capital; however, overall returns are restricted due to the limited number of potential venues and the relative Sportech share of the venues' profits.

In December we signed an agreement with Southern California Off Track Wagering, Inc. ("SCOTWinc") for a licence to allow Sportech to operate up to ten innovative retail venues offering customers the ability to bet on horseracing in a high-end sports bar and restaurant facility. The Group will open the first venue, a 10,000 sq ft purpose-built facility in the city of Norco, in the summer of 2014. This location is a joint venture between Sportech and the Silky Sullivan Group LLC, a food and beverage operator based in southern California. This agreement will allow the business to benefit from an enhanced share of horserace wagering margin together with the food and beverage profits from the restaurant facility.

In the Netherlands, we operate a number of OTBs, point of sale terminals and online betting on horseracing, all on an exclusive basis under a licence from the Ministry of Justice. This licence has been extended until December 2014 when the government's new laws regarding gambling are due to come into effect. We continue to communicate closely with the government regarding these plans.

# Football Pools

£41.3m

REVENUE

£17.4m

EBITDA

## Key financials

The key performance indicators of our Football Pools division are set out below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Revenue (£m) | **41.3** | 42.9 |
| EBITDA (£m) | **17.4** | 18.8 |
| Customer numbers ('000) | **360** | 397 |
| Weekly revenue per customer – Classic Pools (£) | **2.67** | 2.58 |

## Overview

The strategy of the Pools business is to stabilise then grow revenues through improved customer retention, increase spend per head from core customers and recruitment of new players to direct debit and online channels. Modernisation of the business continues with investment in technology driving efficiencies including consolidation of customers into a single database, enabling greater cross-sell opportunities and a lower and more agile operating cost base.

Revenues for the period were £41.3m (2012: £42.9m), the reduction driven primarily by a £1.6m decrease in the collector and overseas channels. EBITDA fell by £1.4m to £17.4m (2012: £18.8m) with cost efficiencies offset by increased marketing spend to drive recruitment that will add value into 2014 and beyond. Classic Pools average weekly customer spend has increased to £2.67 (2012: £2.58) driven by an increase in games to two games per week, every week. As at December 2013, total customer numbers were 360,000 compared to 397,000 in prior year. In the direct channel, customer numbers fell by 6% to 248,000. Importantly, we also recruited 15,000 new customers to this channel through our telemarketing investment and will increase this activity, together with online marketing, to drive new player acquisition throughout 2014.

We continue to broaden our product offering outside our core Classic Pools product and in November, our Jackpot 12 pool grew to greater than £600,000 with one customer winning £440,000.

To progress our digital offering, we have entered into an agreement with NYX to develop a new footballpools.com site with greater content, flexibility and functionality. The full site is planned to launch in mid 2014 with mobile and tablet applications of Classic Pools, Premier 10, Jackpot 12 and Lucky Clover being launched during the first half of 2014.

# Corporate social responsibility

### Responsibility to our
## Customers

Licences to permit the provision of business-to-business services for pari-mutuel betting on horse and greyhound racing are held by Group companies in over 30 jurisdictions in the Americas and Europe. Licences for business-to-consumer activity for the same products are held in Connecticut and Holland, and for a wider range of gambling products in the UK and Alderney. To ensure that the obligations placed on the Group under these licences are adhered to, the Group employs a Director of Corporate Affairs who is responsible for ensuring that the terms of all applicable regulations are met. He works closely with the Group General Counsel and local Legal counsel to ensure the Group meets its policy of maintaining the highest standards of compliance and integrity. The Group also employs security and compliance staff whose primary role is to ensure that our customers are treated fairly, that our advertising is compliant with advertising standards and codes, that the young and vulnerable are prevented from accessing our products and that abuse and illegal behaviour are identified and stopped. All gaming products are subject to age restrictions and age verification software is used by the Group where appropriate.

The Group actively promotes GamCare, the charity providing support to those suffering through a gambling problem, to its customers and nearly £0.5m has been contributed to the Responsible Gambling Trust, GamCare's major funder, and its predecessor bodies over recent years. The Venues business in Connecticut contributes over £0.1m annually to promote responsible gambling in the state.

**Below** Young people from all over the UK compete at the StreetGames Football Pools Fives Festival.

**Opposite** Carers Trust receiving a donation of £20,000 as part of an initiative with Preston North End F.C.

### Responsibility to
## Society

The Group's support for communities across the UK is virtually unparalleled; since the mid-1970s The Football Pools has contributed £1.3bn at today's value to football, sport, the arts and charitable causes. Today the Group helps to generate £0.5m annually for charitable use through its management and operation of society lotteries within its Football Pools business activities.

The Group was, for many years, the sole funder of the Foundation for Sport and the Arts (www.thefsa.net), which awarded grants amounting to several million pounds each year. Many communities, organisations and individuals have benefited from modest but critical training bursaries through to significant funding for major capital projects. The Foundation finally ceased its activities in 2013, after 22 years of supporting communities across the UK with donations worth £630m.

Further support in recent years has focused on football and included donations of over £6.0m to schemes developed with the English and Scottish Football Leagues. Notably, the SPL's Football Fans in Training programme, promoting fitness and weight loss, continues to attract international acclaim.

In 2013, to celebrate the 90th anniversary of The Football Pools, the Group has been eager to continue its support of grass roots football, where we believe the impact is the greatest. The Football Pools announced that it would partner with charity StreetGames in a two-year funding arrangement worth £1.7m, to create a new football programme, "StreetGames Football Pools Fives". As part of its commitment to leave a lasting legacy by donating to sport, the arts and other good causes, The Football Pools is working closely with StreetGames to enhance the lives of young people in disadvantaged areas and thereby promote change for good in their local communities across the UK. Former England player Gareth Southgate became an ambassador for the programme in 2013 and, together with his involvement, we are looking forward to supporting young people through this cause and continuing to raise awareness of the scheme in 2014.


### Responsibility towards the
## Environment

The Group recognises its responsibility to achieve good environmental practice and continues to strive for improvement in its environmental impact.

The nature of its business results in the principal impact arising from energy and paper consumption.

Wherever possible, waste consumable materials are recycled or disposed of in a manner most suitable to reduce any impact on the natural environment. The Group's business practices also encourage environmental good practice, and the increasing use of technology to facilitate information and data collection and dissemination has led to reduced demand for paper resources.

All employees are encouraged to participate in the implementation of this policy and suppliers of consumable products are encouraged to be environmentally friendly, wherever practical.

In compliance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 requirements, the Group is reporting on greenhouse gas emissions for the first time. The Group believes that the approach it has taken, incorporating the use of relevant audited costs and data sourced from highly regarded public bodies, is robust, but it will undoubtedly be refined in future years. It is currently using 2012 as its base year for emissions reporting. As well as providing a summary of the Scope 1 and Scope 2 $CO_2$ emissions produced, an intensity ratio using Group revenue is also included, showing a reduction in intensity of 4.4% in 2013 over the base year performance.

| | 2013 | 2012 |
|---|---|---|
| $CO_2$ (metric tonnes) | **6,521** | 6,655 |
| Group revenues (£m) | **110.3** | 107.7 |
| Intensity ratio | **59.1** | 61.8 |
| Reduction | **4.4%** | – |

### Responsibility towards
## Employees

The Board is acutely aware of the vital contribution of employees to the future success of the business. It recognises the importance of providing employees with information on matters of concern to them, enabling employees to improve their performance and make an active contribution to the achievement of the Group's business objectives. This is accomplished through formal and informal briefings, meetings and will shortly be extended to online communication via a Group intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The Group's Investor in People accreditation reflects the progressive training and development programmes that are in place within the business.

The Group is committed to equality of opportunity and dignity at work for all, irrespective of race, colour, creed, ethnic or national origins, gender, marital status, sexuality, disability, class or age. It ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job.

In the UK, it is the policy of the Group to comply with the requirements of the Disability and Equality Act 2010 in offering equality of opportunity to disabled persons applying for employment, selection being made on the basis of the most suitable person for the job in respect of experience and qualifications. Training, career development and promotion are offered to all employees on the basis of their merit and ability.

Every effort is made to continue to employ, in the same or alternative employment, and where necessary to retrain, employees who become disabled during their employment with the Group.

The Group proactively addresses health and safety management and we have a programme of risk identification, management and improvement in place. The Board receives a report in respect of health and safety across all of its businesses at each Board meeting.

# Board of Directors and Company Secretary

## INTRODUCTION

Your Board composition has changed in the year. Cliff Baty joined as Chief Financial Officer and Rich Roberts joined as Independent Non-executive Director. John Barnes and Mor Weizer stepped down during the year.

The Board has a balance of Executive Directors, Independent Non-executive Directors and Non-executive Directors with wide industry connections, knowledge and experience.

The Board met nine times in the year, seven times in the UK and twice in North America.

**Roger Withers** (71)
Non-executive Chairman

**Date of appointment** February 2011
**Board Committees** N

Roger was appointed Chairman in February 2011. Roger has over 40 years' experience in the leisure and gaming industries. Roger has held a number of Non-executive Directorships, including Chairman of Playtech Limited, Chairman of Arena Leisure PLC and Executive Chairman of Bass Leisure South Africa. Roger has also held senior management positions in market-leading companies including Ladbrokes, Bass, BLMS and Coral Racing, as well as Directorships with a number of substantial privately held companies in the property, technology, publishing and exhibitions sectors.

**Ian Penrose** (48)
Chief Executive

**Date of appointment** October 2005

Ian was appointed Chief Executive in October 2005 and has led the turnaround of Sportech from a declining and UK-centric business with very high levels of debt into one of the world's leading pools and tote gaming companies. He was previously Chief Executive of Arena Leisure PLC, which he joined in 1998, shortly after the formation of the company, and left in September 2005, having built the UK's largest horseracing and media group. Ian is also a Trustee of the National Football Museum.

(R) **Remuneration Committee**

(A) **Audit Committee**

(N) **Nomination Committee**

(ID) **Independent Directors Committee**

Note: red icon indicates Chairman of committee

**Cliff Baty** (43)
Chief Financial Officer

**Date of appointment** May 2013

Cliff was appointed to the Board in May 2013 joining from Ladbrokes plc, where he held a number of senior finance roles including Finance Director of its e-Gaming and International businesses. Cliff was also a Director of Ladbrokes' Spanish retail betting joint venture since its inception in 2007 as well as Ladbrokes' businesses in Italy, South Africa and Asia. Cliff worked for Ladbrokes for seven years and prior to that was Group Financial Controller of Hilton Group plc. He qualified as a Chartered Accountant with Ernst & Young, where he worked for ten years.

**Ian Hogg** (50)
Chief Operating Officer, Consumer Facing Business

**Date of appointment** October 2010

Ian was appointed to the Board in October 2010. From 2005 to 2009, Ian was a founding shareholder and Managing Director of Better, the UK betting shop business, which he built up to an estate of 44 shops and then merged with the Jennings betting shop chain. From 1998 to 2004, he was the Director of Online at Arena Leisure PLC and was seconded for 18 months as Managing Director of At The Races. Previously Ian has been a consultant to BSkyB and Tote Tasmania. Ian was also Chairman of Fox Poker Club until its sale to Genting Plc.

**Peter Williams** (60)
Senior Independent Non-executive Director

**Date of appointment** February 2011

**Board Committees** R A N ID

Peter was appointed Senior Independent Non-executive Director in February 2011. Peter is a Non-executive Director of Rightmove plc and Cineworld Group plc; Chairman of both OfficeTeam, an office supplies business, and Mister Spex, an online retailer based in Berlin; and a trustee of the Design Council. In the past he has also served on the boards of ASOS plc, the EMI group, Silverstone Holdings Limited, Blacks Leisure Group plc, JJB Sports plc, GCap Media plc and Capital Radio Group plc. In his executive career, he was Chief Executive at Alpha Group plc and prior to that Chief Executive of Selfridges plc where he also acted as Chief Financial Officer for over ten years.

**David McKeith** (62)
Independent Non-executive Director

**Date of appointment** August 2011

**Board Committees** R A N ID

David was appointed to the Board as an Independent Non-executive Director in August 2011 and chairs the Audit Committee. He has around 30 years' experience as a chartered accountant and tax adviser in large professional firms, latterly as office senior partner for PricewaterhouseCoopers LLP in Manchester. Since 2008 he has developed a portfolio of non-executive roles. He is chairman of the Halle Orchestra and of Greater Manchester Chamber of Commerce. In July 2013 he was appointed as a Non-executive Director of Norcros PLC, where he is Senior Independent Director and Audit Committee Chairman.

**Rich Roberts** (49)
Independent Non-executive Director

**Date of appointment** December 2013

**Board Committees** R A N

Rich was appointed Non-executive Director in December 2013. He has over 20 years of game and gaming experience across senior business development and C-level positions. As Chief Executive Officer ("CEO") of Slingo, Inc. from 2010 to 2013, Rich led the three-year turnaround of the company to profitability and acquisition by Real Networks. At Real Networks, he is currently responsible for the Slingo Studio and Global Storefront businesses. During his tenure as CEO, Rich built Slingo into a global game brand with the top played Facebook game and iOS casino game with over 100m total players on all game platforms. Prior to that, Rich was VP (Chief Revenue Officer) of Playfirst Inc. and previously led Hasbro Interactive/Atari into the digital game industry.

**Lorne Weil** (68)
Non-executive Director

**Date of appointment** October 2010

Lorne was appointed Non-executive Director in October 2010 and brings more than 20 years of wide-ranging gaming industry experience to the Board. Lorne was Chairman of the Board of Scientific Games Corporation Inc. from 1991 to 2013, and was Chief Executive Officer for all but 24 months of that time. During his tenure, Lorne built a global leader in providing customised, end-to-end gaming solutions to lottery and gaming organisations worldwide. He is also a member of the Board of Overseers of Columbia Business School, where he is also Chairman of the Advisory Board of the Entrepreneurship Center.

**Luisa Wright** (36)
Group General Counsel and Company Secretary

**Date of appointment** February 2011

Luisa was appointed Group General Counsel and Company Secretary in February 2011. She joined the Company from Olswang LLP, where she specialised for over ten years in advising clients in the gambling, sport and media sectors. As Group General Counsel of Sportech PLC, Luisa provides legal advice to the Board and senior management and coordinates legal and regulatory advice across the Group.

# Senior management

## SPORTECH PLC

### Mickey Kalifa
Corporate Development Director

### Richard Boardley
Director of Corporate Affairs

### Bob Mercer
Corporate Development Executive and Acting Finance Director – Sportech Racing and Digital

### Nicola McCabe
Group Financial Controller

## THE FOOTBALL POOLS

### Conleth Byrne
Managing Director

### Nick Mounteer
Director of Online

### Carl Lynn
Finance Director

### Kevan Woodcock
Director of Technology

## SPORTECH RACING AND DIGITAL

### Andrew Gaughan
President – Sportech Racing and Digital

### Mark Gregory
Managing Director – Sportech Digital

### Louis Skelton
Vice President of Technical Services

### Frank J Chesky III
Vice President and General Counsel

## SPORTECH VENUES

### Ted Taylor
Managing Director – Connecticut Venues and Online

### Phil Balderamos
Managing Director – California Venues

### James D Birney
Vice President of Finance

### Paul Klomp
Managing Director – Netherlands Venues and Online

# Shareholder and corporate information

## Head Office
**Sportech PLC**
101 Wigmore Street
London W1U 1QU

## Company registration number
SC69140

## Company Secretary
Luisa Wright
Bob Mercer (Alternate)

## UK Operational Centre
**Football Pools**
Walton House
Charnock Road
Liverpool L67 1AA

## USA Operational Centres
**Sportech Inc. and Sportech Venues**
555 Long Wharf Drive
New Haven, CT 06511

**Sportech Racing and Digital**
1095 Windward Ridge Parkway
Building 300 Suite 170
Alpharetta, GA 30005

## Registered office
**Sportech PLC**
Collins House
Rutland Square
Edinburgh
Midlothian
EH1 2AA

## Financial advisers and joint stockbroker
**Investec Bank (UK) Ltd**
2 Gresham Street
London EC2V 7QP

## Joint stockbroker
**Panmure Gordon & Co.**
One New Change
London EC4M 9AF

## Principal bankers
**Bank of Scotland plc**
10 Gresham Street
London EC2V 7AE

**Royal Bank of Scotland plc**
280 Bishopsgate
London EC4Y 1HS

**Barclays Bank PLC**
3 Hardman Street
Spinningfields
Manchester M3 3HF

## Solicitors
**Freshfields Bruckhaus Deringer LLP**
65 Fleet Street
London EC4Y 1HS

**Olswang LLP**
90 High Holborn
London WC1V 6XX

## Statutory auditors
**PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
8 Princes Parade
St Nicholas Place
Liverpool L3 1QJ

## Registrars
**Capita Asset Services**
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

## Internet
The Group's website, www.sportechplc.com, is regularly updated to provide information about the Group, including all of the Group's press releases and announcements.

## Registrar
Any enquiries concerning your shareholding should be addressed to the Company's Registrar. The Registrar should be notified promptly of any change in a shareholder's address or other details.

Tel: 0871 664 0300

E-mail: ssd@capitaregistrars.com

Shareholder portal: www.capitashareportal.com

## Investor relations
Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the Group at:

E-mail: ir@sportechplc.com

Tel: 0207 268 2400

# Corporate governance

## Chairman's overview

Dear shareholder

Sportech is committed to sound corporate governance and believes it to be essential for business integrity and for shareholders' trust in their Board. The responsibility for good governance lies with the Board, chaired by me, and I take a strong interest in ensuring the principles are disseminated throughout the organisation.

Our report to you on corporate governance explains how we approach and implement the principles of good governance across Sportech and the level of importance we give to each area.

The effectiveness of our Board is a key priority, as we believe this to be fundamental in order to deliver on business objectives and ultimately to deliver shareholder value, whilst operating in an ethical way. During the year, John Barnes has retired from the Board after contributing immensely to the Group over the seven years of his Non-executive Directorship. We were delighted to announce the appointment of Rich Roberts who, following an in-depth search process, has been selected for his experience in multi-platform entertainment industries and networks across the USA.

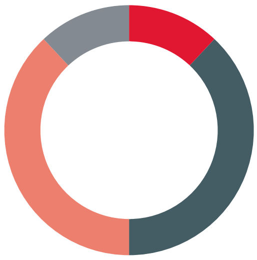
Our Committees are structured to ensure the responsibilities of the Board are carried out effectively and in line with best practice procedure. Detail on each Committee and its responsibilities and duties carried out during the year under review can be found within this report.

We will continue to strive for best practice governance and use our time together as a Board, and within communication between Directors outside of formal meetings, to address the core responsibilities of strategy, review of financial and operational performance, review of risk management and internal controls and ensuring the composition of the Board delivers an effective governing body for Sportech.

**Roger Withers**
**Chairman**
5 March 2014

## BOARD COMPOSITION

**12%** Chairman
**38%** Executive Directors
**38%** Independent Non-executive Directors
**12%** Non-executive Directors



## LENGTH OF SERVICE AT 31 DECEMBER 2013

**2** Up to two years
**3** Two to three years
**2** Three to six years
**1** More than six years

## Compliance with the UK Corporate Governance Code

Sportech is committed to a high standard of corporate governance. The Financial Reporting Council published in 2012 a revised version of the UK Corporate Governance Code (the "Code"), which took effect for financial years beginning on or after 1 October 2012. As such, Sportech has complied throughout the financial year ended 31 December 2013 with the provisions of the revised Code. A copy of the Code is publicly available from www.frc.org.

It is the policy of the Board to manage the affairs of the Company in accordance with the principles of the Code so far as the Board believes it is practical. This report, together with the Remuneration Report on pages 37 to 53, describes how the Company has applied the main principles of corporate governance as set out in the Code.

## Board of Directors

The Board currently comprises the Non-executive Chairman, three Executive Directors, three Independent Non-executive Directors and one Non-executive Director as follows:

| | |
|---|---|
| **Roger Withers** | Non-executive Chairman |
| **Ian Penrose** | Chief Executive |
| **Cliff Baty** | Chief Financial Officer |
| **Ian Hogg** | Chief Operating Officer, Consumer Facing Business |
| **Peter Williams** | Senior Independent Non-executive Director |
| **David McKeith** | Independent Non-executive Director |
| **Rich Roberts** | Independent Non-executive Director |
| **Lorne Weil** | Non-executive Director |

On 6 March 2013, 20 June 2013 and 3 December 2013, Steve Cunliffe, Mor Weizer and John Barnes respectively, resigned from the Board. Cliff Baty was appointed to the Board on 14 May 2013 as Chief Financial Officer.

Rich Roberts was appointed to the Board on 3 December 2013 as an Independent Non-executive Director.

Biographies of the Board members appear on pages 24 and 25. These illustrate the wide-ranging business experience of Board members, which is essential to manage effectively a business of the size and complexity of Sportech.

The Board considers Peter Williams, David McKeith and Rich Roberts to be Independent Directors. In light of his previous roles as Chairman of Playtech Limited, from which he resigned on 10 October 2013 (although he is retained as an industry adviser through to September 2014) and retained adviser to Scientific Games Corporation Inc. ("SGC"), a position that came to an end on 30 September 2013, which were held upon his appointment as Chairman of the Board, Roger Withers cannot be deemed to be independent. Similarly, whilst Lorne Weil sits on the Board in his own personal capacity and not as a representative of SGC, due to the fact that Lorne Weil was Chairman and Chief Executive of SGC until November 2013, coupled with SGC's 19.99% shareholding in Sportech PLC up to 7 January 2014, the Board deems Lorne Weil not to be independent.

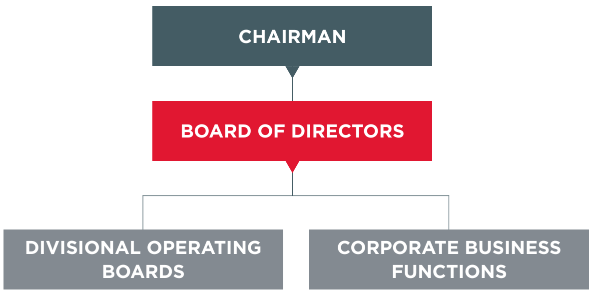
## Conflicts of interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest, as required by the Companies Act 2006. As part of this process, the members of the Board prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his/her connected persons. The Board considers each Director's situation and decides whether to approve any conflict situations, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations that will need to be authorised by the Board. Authorisations given by the Board are reviewed annually.

The Independent Directors Committee of the Board has powers to deal with matters concerning the Company and its major shareholders, including in relation to areas where conflicts of interest might otherwise arise.

# Corporate governance continued

### BOARD RESPONSIBILITY




## Board effectiveness

### Division of responsibilities, information and professional development

The Board of Directors is responsible for the management of the business of the Company and its long term success. It may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's Articles. The Articles, for instance, contain specific provisions and restrictions regarding the Company's power to borrow money. A copy of the Articles is available to view by request from the Company Secretary or from the Company's website, www.sportechplc.com/investor_centre/shareholder_information/memorandum_and_articles_of_association.

The Board is also responsible for setting the Company's strategic objectives and managing the Company's resources to enable those objectives to be met.

The division of responsibility between the Chairman and the Chief Executive is clearly defined and has been agreed by the Board. The Chairman is primarily responsible for the workings of the Board and ensuring its effectiveness. The Chief Executive is responsible for running the Group's business, for implementing Board strategy and policy and for shareholder communication. The Chairman also ensures that Directors maintain the appropriate skills and knowledge to fulfil their responsibilities and that the Company provides the necessary resources to Directors to enable this to be achieved, both by way of induction upon joining the Board and thereafter by way of updates.

Luisa Wright, the Company's Group General Counsel and Company Secretary, provides in-house legal advice to the Board and management. During Luisa's maternity leave period in 2013, the Board engaged and retained various advisers in order to continue to receive counsel where and when necessary. In addition, the Company takes external legal advice where appropriate to ensure compliance with best practice. As Company Secretary, Luisa Wright also advises the Chairman and the Board on all governance matters. Bob Mercer was appointed Company Secretary (Alternate) until Luisa returned from maternity leave.

The Board has in place a number of key processes designed to ensure that management responsibilities are clear. Executive Directors distribute relevant information and key financial reports to Board members in advance of each meeting, together with other materials required to facilitate proper consideration of business issues. A schedule of reserved matters for the Board has been established and communicated to the Senior Management teams.

An Executive Board, chaired by the Chief Executive, oversees the detailed operations of the business. The Executive Board meets formally on a regular basis to update the Group on ongoing corporate matters and to review the performance of each business segment and progress against key operational targets.

The Company maintains insurance cover in respect of legal action against its Directors and independent professional advice may be taken by the Directors as required, at the Company's cost.

### Board performance evaluation

The Board is satisfied that each Director continues to show the necessary commitment, allocates sufficient time to discharge their duties and continues to be an effective member of the Board due to their skills, expertise and business acumen.

In 2012 a full-scale Board and Committee review process was implemented, which is and will be performed annually towards the end of each financial year. All Board members are invited to complete an online self-assessment and evaluation of the effectiveness of the Board. Amongst other things, Directors are asked for their views on Company strategy; key challenges for the business; the mix of skills, experience, independence, knowledge and diversity on the Board (including gender); effectiveness of the Board's engagement with shareholders; and how well the Board operates. The output of the confidential questionnaires completed in December 2013 was discussed with the Board at the February 2014 Board meeting. The Board found the performance of each Director to be effective and concluded that the Board provides the effective leadership and control required for a listed company. The evaluation found the Board Committees were working well. The Board will continue to review its procedures, its effectiveness and development in the financial year ahead.

## Board meetings

The Board meets at least seven times a year. Certain matters are considered at all Board meetings including the Chief Executive's report; the latest available Group consolidated accounts and Chief Financial Officer's report; divisional reports and the strategic developments report. Directors unable to attend a Board meeting receive all materials to be presented and can discuss any issue which may arise with the Chairman or any Executive Director.

### Attendance at scheduled meetings of the Board and its Committees in 2013

| | Main Board | Audit Committee | Remuneration Committee | Nomination Committee | Independent Directors Committee |
|---|---|---|---|---|---|
| Number of meetings held in year | 9 | 4 | 6 | 2 | 2 |
| **Executive Directors** | | | | | |
| Ian Penrose | 9 | — | — | — | — |
| Cliff Baty (appointed 14 May 2013) | 6 (6) | | | | |
| Ian Hogg | 9 | — | — | — | — |
| Steve Cunliffe (resigned 6 March 2013) | — (2) | — | — | — | — |
| **Non-executive Directors** | | | | | |
| Roger Withers | 8 (9) | — | — | — | — |
| Peter Williams | 8 (9) | 4 | 6 | 2 | 2 |
| Rich Roberts (appointed 3 December 2013) | — (—) | — (—) | — (—) | — (—) | — (—) |
| John Barnes (resigned 3 December 2013) | 8 (9) | 3 (3) | 5 (5) | 2 | 2 |
| David McKeith | 8 (9) | 4 | 5 (6) | 2 | 2 |
| Lorne Weil | 1 (9) | — | — | — | — |
| Mor Weizer (resigned 20 June 2013) | 1 (4) | — | — | — | — |

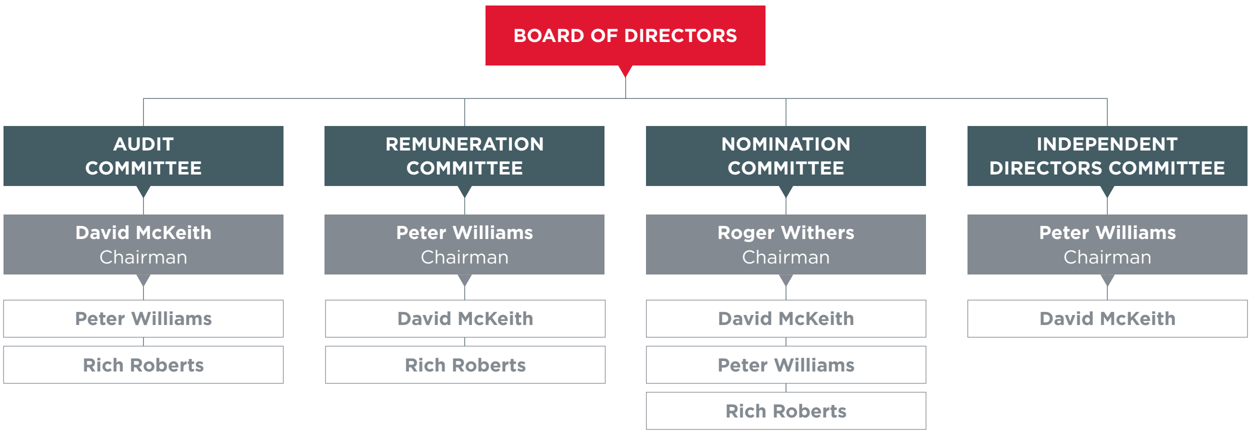
The figures in brackets indicate the number of meetings held in the period in which the individual was a Board member. There are seven scheduled Board meetings for 2014.

In relation to Lorne Weil, the Board considers that, notwithstanding the number of main Board meetings attended, Lorne Weil's vast experience and relationships within the gaming sector are valuable to the Group going forwards, particularly in the strategically important North American market. Furthermore, he receives all materials to be presented at such meetings and undertakes regular meetings with the Chairman and Chief Executive to ensure that he is able to contribute to the Group.

## Committees

The Committees of the Board are the Audit Committee, Remuneration Committee, the Nomination Committee and the Independent Directors Committee. The terms of reference of the Audit, Remuneration and Nomination Committees are available on request from the Company Secretary and are available on the corporate website, www.sportechplc.com/investor_centre/corporate_governance. Management ensures that the Committees are provided with all the necessary resources to enable them to undertake their duties in an effective and efficient manner. The Company Secretary or her delegate acts as secretary to the Committees.

### BOARD COMMITTEES



# Corporate governance continued

## Committees continued
## The Audit Committee

**Chairman and financial expert**
**David McKeith**

**Members**
**Peter Williams, John Barnes (until his resignation on 3 December 2013), Rich Roberts (from 27 January 2014).**

The Audit Committee of the Board comprises the Independent Non-executive Directors and is currently chaired by David McKeith, who is considered to have recent, relevant financial experience. Biographies of the members of the Audit Committee appear on page 25. The Committee is scheduled to meet at least three times a year. The Committee's main responsibilities include reviewing the Annual Report and Accounts and Interim Report, including considering significant financial reporting issues and judgements that they contain. The Committee reviews, and challenges where necessary, the consistency and changes to accounting policies, methods used to account for significant and unusual transactions, whether the Company has followed appropriate accounting standards and the clarity of disclosure in the Company's financial statements. Further to this, the Committee is delegated from the Board the responsibility for review of the effectiveness of internal controls, the Company's whistleblowing procedures and the need for an internal audit function as well as the scope, extent and effectiveness of such a function. The Chief Financial Officer and other Senior Management are invited to attend the Committee as appropriate.

### Financial reporting

The primary role of the Committee in relation to financial reporting is the review with both management and the external auditor of the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- consistency of the Annual Report as a whole and ensuring it presents a fair, balanced and understandable picture of the Company as well as providing shareholders with the information necessary to assess the Company's performance, business model and strategy;
- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditors; and
- any correspondence from regulators in relation to our financial reporting.

To aid its review, the Committee considered internal reports from the Chief Financial Officer, the Finance Director – The Football Pools, the Group Financial Controller and the external auditors on the outcomes of their half-year review and annual audit.

The primary areas of judgement considered by the Committee in relation to the 2013 financial statements were:

- the assumptions underlying impairment testing of the Group's goodwill and intangible assets, particularly in relation to the Football Pools;
- the assessment and disclosure of the going concern concept; and
- in relation to taxation, both the provisioning for potential current tax liabilities and the appropriateness of deferred tax asset recognition.

In order to be comfortable with the consistency, fairness and accuracy of these financial statements the following was undertaken in relation to these key areas of judgement:

- detailed review and discussion of models used for impairment testing and forecasts for going concern reviews;
- stressing of assumptions to understand impacts; and
- scenario analysis.

The judgements in relation to asset impairment largely relate to the assumptions (principally discount and growth rates) underlying the calculation of the value in use of the business being tested for impairment, primarily

## Committees continued
### The Audit Committee continued

the achievement of the long term business plan underlying the valuation process. The Committee addresses this matter through receiving regular updates on the business plans and measurement against targets. In addition the Committee considers findings of the work of the auditors in this area.

#### External audit

The Committee is responsible for the relationship with the external auditors. The Committee considers the nature and extent of non-audit services provided by the auditors in order to seek to balance the maintenance of objectivity, access to applicable technical expertise and value for money. To help avoid the objectivity and independence of the external auditors becoming compromised, the Committee has a formal policy governing the engagement of the external auditor to provide non-audit services. This policy precludes PricewaterhouseCoopers LLP from providing certain services such as internal audit work or accounting services. For all other services the Chief Financial Officer must approve spend on discrete projects in excess of £10,000 and secondary approval is required from the Chairman of the Audit Committee for spend on projects that are estimated will exceed £50,000 in fees. The Committee is regularly updated on the spend to date with the external auditors and also with other financial advisers.

The auditors are also subject to professional standards that safeguard the integrity of their auditing role. The Committee remains confident that the objectivity and independence of the external auditors are not in any way impaired by reason of the audit and non-audit services which they provide to the Group. Moreover, the Committee is satisfied that such work is best handled by them, either because of their knowledge of the Group or because they have been awarded it through a competitive tendering process. In addition, the independence of the auditors is safeguarded by the use of separate teams for individual assignments such as acquisition due diligence and the audit being subject to internal PricewaterhouseCoopers LLP quality control procedures. A breakdown of non-audit fees charged by the auditors is disclosed in note 5 in the notes to the financial statements. A significant proportion of the non-audit fees charged by the auditors in 2013 relates to work undertaken in respect of ongoing issues in relation to indirect taxes and in relation to advice on accounting and tax treatment of the Spot the Ball VAT claim. It was concluded by the Committee that it was in the interest of the Company to purchase these services on a single tender basis from PricewaterhouseCoopers LLP due to the cumulative historical knowledge already gained, the timing of the work, the tie-in to the financial statements and confidentiality.

#### Effectiveness

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle we receive from PricewaterhouseCoopers LLP a detailed audit plan (“Audit Strategy Memorandum”), identifying their assessment of these key risks. For 2013 the significant risks identified were in relation to asset impairment, management override of controls and revenue recognition due to the inherent management judgement required in these areas.

The Committee holds private meetings with the external auditors at each meeting to provide additional opportunity for open dialogue and feedback from the Committee and the auditors without management being present. Matters typically discussed include the auditors’ assessment of business risks and management activity thereon, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, independence of their audit and how they have exercised professional scepticism. The Chairman of the Audit Committee also has regular discussions with the external audit partner outside the formal committee process.

#### Appointment and re-appointment

The Committee considers the re-appointment of the external auditors, including the rotation of the audit partner each year, and also assesses their independence on an ongoing basis. The external auditors are required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner has been in place now for three financial year ends. PricewaterhouseCoopers LLP have been the Company’s external auditors since 2000, although a competitive tender process was conducted in 2006. As part of the Committee’s review of the objectivity and effectiveness of the audit process, an assessment was made not to put the audit engagement out to tender in 2013. The Committee will continue to assess the appropriate time at which an audit tender process should be conducted and continues to assess the effectiveness, independence and value for money of PricewaterhouseCoopers LLP. The Audit Committee provided the Board with its recommendation to the shareholders on the re-appointment of PricewaterhouseCoopers LLP as external auditors for the year ending 31 December 2014 and as a result, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the re-appointment of PricewaterhouseCoopers LLP as our auditors will be put to the shareholders at the 2014 AGM. There are no contractual obligations restricting the Committee’s choice of external auditors and we do not indemnify our external auditors. The Committee will keep the appointment of the external auditors under annual review.

# Corporate governance continued

## Committees continued
### The Audit Committee continued

#### Internal control and internal audit
The Board is responsible for the Group's system of internal control and for reviewing its effectiveness; this responsibility has been delegated to the Audit Committee. On this basis, there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review. Data consolidated into the Group's financial statements is reconciled to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the true position and results of the Group are reflected through compliance with approved accounting policies and the appropriate accounting for non-routine transactions.

The Group performs an annual strategy and budgeting process and the Board approves the annual Group budget as part of its normal responsibilities. The Group results are reported monthly to the Board. A quarterly forecasting regime is adhered to and revised forecasts are produced for the Board whenever significant financial trends are identified in the periods between the quarterly assessments.

The Audit Committee reviews the effectiveness of the internal control environment of the Group, excluding that of the Group's joint ventures. It receives reports from the external auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. Significant risk issues are referred to the Board for consideration. Risk registers are produced and maintained at a divisional level and the significant key risks relevant at a Group level selected from these registers are presented to the Board. The principal risks facing the Group and the mitigating actions taken by the Board and management are included on pages 14 and 15 of the Strategic Report. The Group separately employs an India-based accountant as a consultant who is responsible for ensuring the integrity of results and robustness of internal controls and procedures in the Group's joint venture. Similarly, as and when the operations of the Group's newly formed joint ventures become material, resources will be deployed to ensure integrity of results and that the Group's high standard of internal control is replicated.

To manage lower-level risks, a risk management programme is in place, supported by a business control and risk self-assessment process and a business continuity plan. The risk management programme places responsibility on managers to identify risks facing each business unit and for implementing procedures to mitigate these risks. The risk appraisal process has been reviewed by the Board and accords with the Turnbull Guidance. The Audit Committee and Board have reviewed the effectiveness of the internal controls of the Group for the year ended 31 December 2013 and up to the date of approval of the Annual Report and Accounts. This review covered financial, operational, risk management and compliance controls.

The Group does not have an internal audit function. The Audit Committee has considered the use of an internal audit function during the year but considers that due to the size and nature of the Group there is not a requirement for such an internal function. The central Group Finance function continues to undertake certain work of an internal audit nature and reports findings to the Audit Committee. During the year, the Audit Committee determined that external internal auditors should be engaged to perform a review over key business cycles and controls. The firm engaged was Deloitte LLP, who undertook the scope of work agreed and reported their findings to the Committee. The Committee will review the effectiveness and value of the work undertaken and agree an ongoing internal audit strategy during the coming months.

#### Whistleblowing policy
The Company is committed to providing a safe and confidential avenue for all employees within the Group to raise concerns about serious wrongdoings. The Company also acknowledges the requirements of the UK Corporate Governance Code in this regard, which states that the Audit Committee should review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Further to this, an appropriate policy so as to encourage and enable staff to raise any such concerns is in place and has been throughout the year.

**David McKeith**
**Chairman of the Audit Committee**
5 March 2014

## Committees continued

### The Remuneration Committee

The Remuneration Committee of the Board comprised the three Independent Non-executive Directors, until the resignation of John Barnes on 3 December 2013, and is chaired by Peter Williams. Rich Roberts joined the Committee from 27 January 2014. Biographies of the members of the Remuneration Committee appear on page 25. The purpose of the Committee is to ensure that the remuneration of Executive Directors and Senior Executives, together with their terms and conditions of employment, is sufficient to recruit and retain individuals of the calibre required to ensure profitable growth of the business. The Remuneration Report is set out on pages 37 to 53.

### The Nomination Committee

The Nomination Committee comprised the three Independent Non-executive Directors, until the resignation of John Barnes on 3 December 2013. It now comprises the three current Independent Non-executive Directors and the Chairman of the Board, who also now chairs this Committee. Biographies of the members of the Nomination Committee appear on pages 24 and 25.

The Committee's main objectives are to lead the process for any new appointments to the Board, whether Executive or Non-executive, and make recommendations to the Board in relation to the same, evaluate the balance of skills, knowledge and experience on the Board, consider any matters relating to the continuation in office of any Director at any time, review Committee memberships and formulate plans for succession. The Nomination Committee's activities are underpinned by the principle that all appointments should be made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. Accordingly, the Committee prepares a description of the role and capabilities required for a particular appointment.

The Committee, in its recommendations to the Board, acknowledges that diversity extends beyond the boardroom and supports management in their efforts to build a diverse organisation throughout the Group. Out of a workforce of approximately 1,000 employees, 41% are female and out of 15 members of Senior Management 14% are female. The Committee endorses the Company's policy to attract and develop a highly qualified and diverse workforce; to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. Although at present there are no female Board members, the Committee acknowledges the importance of diversity, including gender, to the effective functioning of the Board. Furthermore, the Board acknowledges the recommendations of the Davies Report, and supports the principle of improving, in particular, gender imbalance, both at a board level and throughout its businesses. Subject to securing suitable candidates, when recruiting additional Directors and/or filling vacancies that arise when Directors do not seek re-election, we will seek to appoint new Directors who fit the skills criteria and gender balance that is in line with the Company's policy. We continue to focus on encouraging diversity of business skills and experience, recognising that Directors with diverse skill sets, capabilities and experience gained from different geographic and cultural backgrounds enhance the Board.

On 14 May 2013, Cliff Baty was appointed as Chief Financial Officer and joined the Board. On 3 December 2013, Rich Roberts joined the Board as Independent Non-executive Director. During the recruitment process for both Cliff and Rich, the Board utilised an executive search consultancy (Odgers Berndtson) to ensure the Board appointed Directors that have the skills criteria and industry experience that the Board requires to meet the future growth of the Group. Odgers Berndtson is a UK executive search firm, helping private and public sector organisations find the highest calibre people for permanent and interim management appointments in the UK and internationally. Odgers Berndtson is considered independent of the Group.

### The Independent Directors Committee

The Independent Directors Committee comprised the three Independent Non-executive Directors until John Barnes' resignation and is chaired by Peter Williams. The Committee now comprises Peter Williams and David McKeith only and is responsible for dealing with matters where conflicts of interest might arise due to the Board's previous composition and shareholder representation. The Committee met on two occasions during the year.

## Investor relations

There is regular dialogue with shareholders through a planned programme of investor relations which includes formal presentations of the Group's results by the Chief Executive and Chief Financial Officer. Meetings also take place with institutional investors and analysts on a regular basis and there is regular communication with shareholders through the Annual and Interim Reports and Sportech's corporate website (www.sportechplc.com). They are also available at other times, outside close periods, to enter into dialogue with these shareholders. All shareholders have the opportunity to question the Board at the AGM both formally and informally. The Non-executive Directors have taken steps to develop an understanding of the views of the major shareholders about the Company through face-to-face contact and analyst and broker briefings.

All resolutions at the 2013 AGM were voted by way of a manual poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were indicated at the meeting and the final results were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

By order of the Board

LWright

**Luisa Wright**
**Company Secretary**
5 March 2014

# Report of the Remuneration Committee

## Letter from the Remuneration Committee Chairman

### Dear shareholder

I am pleased to present the Remuneration Report (the "Report") for the year ended 31 December 2013.

This Report sets out the remuneration paid to Directors over the year under review and details the remuneration policy for the forthcoming year. The Committee has now adopted the finalised reporting regulation guidance and has sought to achieve transparency and clarity for shareholders in this report.

The Directors on the Remuneration Committee (the "Committee") are mindful of balancing the increased focus and guidance from stakeholders on remuneration issues with the need of the Company to attract and retain the best available talent. The Committee is comfortable that in 2013 it achieved an appropriate balance in this regard. More generally, the Committee believes that the policy outlined in this Report achieves its overriding objectives of establishing a stable remuneration policy going forward, enabling the recruitment, retention and motivation of a talented Executive Management team that is fully incentivised to maximise shareholder value and capable of taking the business forward through its next phase of strategic development.

In addition, given that the package has a substantial weighting towards long term performance, the Committee is comfortable that the current arrangements do not inadvertently encourage undue risk taking and that its policy motivates behaviours that are in the long term interests of the Company and its shareholders.

In determining remuneration levels, the Committee has taken account of market conditions, the performance of the Company, responsibility to shareholders and good corporate governance. Accordingly, basic salaries of Executive Directors for 2014 have increased by 2%, with no increases taking place in the other elements of remuneration vis-à-vis 2013.

### Performance and reward in relation to 2013

The bonus payments for 2013, based on the Group and operating divisions achieving an EBITDA result in line with the target level of performance set (which took into account market forecasts as reported at the start of 2013) and individually tailored strategically important objectives, were 40% of the entitlement for the Chief Executive, 35% of the entitlement for the Chief Financial Officer and 21% of the entitlement for the Chief Operating Officer, Consumer Facing Business.

Two-thirds of the Performance Share Plan ("PSP") awards granted in 2010 vested in the year under review. The elements vesting were subject to absolute and relative TSR performance with the performance period ending in October 2013 with these elements vesting in full. This was the result of a three-year growth in TSR of 127% which exceeded the absolute growth targets and ranked the company above the upper quartile in relative terms. One-third of these awards vested based on EPS growth over the three-year period ending 31 December 2012 with this element of the awards vesting at 62.0% of the maximum based on EPS growth of 11.35% p.a. over three financial years.

One-third of the PSP awards granted in 2011 will vest subject to an earnings per share ("EPS") performance measure ending 31 December 2013. This part of the awards is expected to vest at 47.5%, subject to the Committee's approval, based on EPS growth of 9.45% p.a. over three financial years. The remaining two-thirds of the 2011 awards vests based on relative and absolute TSR performance which will be measured over a three-year period ending November 2014.

The Committee has reviewed the variable incentive payouts based on the financial period ended 31 December 2013 and is satisfied that the reward reflects the performance delivered.

### Policy for 2014

The Committee has reviewed the remuneration policy in line with the current business strategy and considers it to remain fit for purpose. As such, no material changes have been proposed for 2014 and beyond, save that the fees for the Chairman and Non-executive Directors have been increased.

### Shareholder feedback

The Committee has not proposed any significant changes to the remuneration policy for 2013 or 2014 that necessitated any direct consultations with shareholders during the year. However, the Committee welcomes any feedback on this Report and the remuneration policy in general and hopes for your continued support at the AGM.

**Peter Williams**
**Senior Independent Non-executive Director and Chairman of the Remuneration Committee**
5 March 2014

# Remuneration report

for the year ended 31 December 2013

This Report has been prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations").

The Directors' Remuneration Policy Report will be subject to a binding shareholder vote at the AGM with an effective date of 13 May 2014 and will apply for the three-year period thereafter. In practice the policy detailed in the report will operate for the entire current financial year. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM. This Report is intended to be in full compliance with the requirements of the Regulations and the UK Corporate Governance Code 2012 issued by the Financial Reporting Council (the "Code"). PricewaterhouseCoopers LLP has audited the contents of the Report to the extent required by the Regulations.

## Directors' Remuneration Policy

The Committee's key objectives are to: (i) establish a competitive remuneration policy for the Executive Directors; and (ii) align Senior Executives' remuneration with the interests of shareholders and other stakeholders, including customers and employees.

In connection with this, the Committee aims to ensure that the remuneration packages offered to Executive Directors and Senior Executives:

- are competitive and attract, retain and motivate Executives of the right calibre;
- reflect their responsibility and experience within the business;
- incorporate a significant element of performance related pay linked to the achievement of challenging performance criteria that are aligned with the Group's strategy and increased shareholder value but remain appropriate given the Group's risk profile;
- provide a total remuneration offering at 'target' levels of performance that is competitive in the relevant market;
- incentivise performance beyond 'target' levels, to be achieved by offering a significant proportion of remuneration to be delivered through incentive related pay;
- create a strong alignment between the interests of Senior Management and the sustained delivery of shareholder value;
- take due account/full consideration of the principles set out in the Code;
- take due account of pay and employment conditions elsewhere in the Group;
- provide the foundation for overall reward and remuneration structures at Senior Management levels; and
- provide an appropriate balance between non-performance related and performance related pay.

The Committee reviews the remuneration policy and in particular performance related pay scheme structures on an annual basis to ensure that they continue to operate within the agreed risk framework of the Group. The Committee also ensures that an effective system of control and risk management is in place with regards to remuneration, which includes access to the Audit Committee to discuss matters of operational and financial risk. The Committee is satisfied that the current policy does not encourage or reward for undue risk taking.

The Committee ensures that performance related pay structures will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters.

The policy, in relation to subsequent years, will be kept under review to ensure that it reflects any changing circumstances.

### Remuneration for Executive Directors

The main component parts of the remuneration packages for Executive Directors are detailed in the table on pages 38 to 41, which should be read in conjunction with the recruitment/promotion policy on page 44, and the 'Detailed remuneration policy for 2014' section of the Annual Report on Remuneration, which starts on page 45.

# Remuneration report continued

for the year ended 31 December 2013

## Directors' Remuneration Policy continued
### Remuneration for Executive Directors continued
Poilcy table

| Remuneration element and purpose | Operation |
|---|---|
| **Base salary**<br>To attract and retain key individuals.<br>Reflects the relevant skills and experience in role. | ▪ Salaries are set on 1 January each year and reviewed annually against performance, experience, responsibilities, relevant market information and the level of workforce pay increases. |
| **Pension**<br>To provide cost-effective, yet market competitive, retirement benefits. | ▪ Contribution to a personal pension arrangement or cash in lieu of pension by way of a salary supplement. |
| **Benefits**<br>To provide cost-effective, yet market competitive, benefits. | ▪ A car allowance for certain Executive Directors, private health insurance and life insurance cover.<br>▪ The Committee may offer Executive Directors other employee benefits on broadly similar terms to those of the wider workforce. |
| **Annual bonus plan**<br>To motivate Executive Directors and incentivise the achievement of key financial and strategic goals and targets over the financial year. | ▪ Bonus is paid wholly in cash.<br>▪ Based on the achievement of performance metrics with a sliding scale from a threshold to maximum level of performance.<br>▪ Clawback may be applied in the event of material misconduct and/or an error in the calculation of the bonus payable. |

| Opportunity | Performance metrics |
|---|---|
| The salaries set for 1 January 2014 are:<br>▪ CEO – £385,000<br>▪ COO, Consumer Facing Business – £256,000<br>▪ CFO – £245,000<br>Annual increases will usually be commensurate with those of the wider workforce.<br>If there are significant changes in responsibility or a change in scope, increases may exceed this level.<br>New joiners, where pay is initially set below market levels, may experience larger increases as their salary is progressed towards the market rate, based on their development in the role. | A broad-based assessment of individual and Company performance is considered as part of any salary review. |
| ▪ 8% of salary for Executive Directors. Only basic annual salary is pensionable. | Not applicable. |
| ▪ Car allowance of £16,000 for the Chief Executive and £12,300 for the Chief Operating Officer, Consumer Facing Business.<br>▪ Family cover private health insurance.<br>▪ Life insurance cover of four times salary.<br>▪ The value of insured benefits may vary from year to year based on the third-party costs of supplying the benefits.<br>▪ Where Executive Directors are recruited from overseas, benefits more tailored to their geographical location may be provided. | Not applicable. |
| ▪ Maximum bonus potential is 100% of salary for the Chief Executive and 75% of salary for other Directors.<br>▪ The Committee, in its discretion, acting fairly and reasonably, may alter the bonus outcome (upwards or downwards) if it feels that the payout is inconsistent with the Company's overall performance and events taking place during the year along with any other factors it considers relevant. The Committee will consult with the Company's major shareholders before any exercise of its discretion to increase the bonus outcome and will explain the use of any such discretion in the relevant Annual Report on Remuneration. | The majority of the bonus will be based on financial measures such as EBITDA targeted performance of the Group (and operating divisions as appropriate), which takes into account market forecasts, and a minority of the bonus will be based on Group strategic objectives and/or personal objectives tailored to the achievement of the Group strategic goals.<br>The proportion of the maximum bonus that may become payable at the threshold performance level where financial targets are set will be 0% of that part of the bonus. Bonuses above this level are earned on a graduated basis to the maximum performance level. Where strategic targets are set, it is not always practicable to operate targets that can be assessed using a graduated scale.<br>The performance measures used for the 2013 annual bonus and those proposed for 2014 are described in the Annual Report on Remuneration starting on page 45. |

# Remuneration report continued

for the year ended 31 December 2013

## Directors' Remuneration Policy continued
## Remuneration for Executive Directors continued
### Poilcy table continued

| Remuneration element and purpose | Operation |
| --- | --- |
| **Long term incentive plan**<br>To motivate Executive Directors and incentivise delivery of performance over the long term.<br>To encourage greater shareholder alignment by rewarding TSR outperformance.<br>To facilitate share ownership. | ▪ Annual awards of performance share awards which vest subject to performance after three years.<br>▪ Directors may be entitled to dividends which accrue on vested awards. |
| **All Employee Share Plans**<br>To promote wider employee share ownership. | ▪ All employees (including Executive Directors) may be invited periodically to participate in a Company Sharesave plan.<br>▪ Participants would have the right to commit to a savings contract whereby the proceeds can be used towards the exercise of an option granted at the time they participate. The exercise price can be discounted by up to 20% of the share price on grant. |
| **Executive share ownership**<br>To align Executive Directors' and shareholders' interests. | ▪ All Executive Directors are expected to hold an investment of at least 100% of base salary in the Company, using 50% of net awards under the Company's LTIPs to achieve the shareholdings, if required. |
| **Non-executive fees**<br>To attract and retain high-calibre Non-executive Directors.<br>To set remuneration by reference to the responsibilities and time commitment undertaken by each Non-executive Director. | ▪ Fee levels are reviewed on a regular basis and are set based on expected time commitments, responsibilities and in context of the fee levels in companies of a comparable size and complexity, and reflecting the onerous obligations of international racing regimes. |

| Opportunity | Performance metrics |
|---|---|
| ▪ Performance share awards of up to 100% of salary can be granted for a normal annual grant, with up to 200% of salary used in exceptional circumstances.<br>▪ The policy is to grant awards of up to 100% of salary for Directors. | Awards will be granted subject to a combination of relative TSR and financial measures (such as EPS) over a three-year period.<br>The Committee will review the appropriateness of the performance conditions on an annual basis and may make changes to the weightings or introduce new measures which are aligned to the Company strategy at that time.<br>A minority (25%) of the award will vest for threshold levels of performance, rising on a straight-line basis to full vesting for outperformance.<br>The performance measures used for the 2013 PSP award and those proposed for the 2014 PSP award are described in the Annual Report on Remuneration. |
| ▪ Monthly savings limits are based on HMRC rules which currently limit monthly savings towards share purchases under three-year savings contracts to £250 per calendar month, increasing to £500 from tax year 2014/2015. | Not applicable. |
| ▪ 100% of salary for all Executive Directors. | Not applicable. |
| ▪ The Non-executive Chairman's fee is £120,000 per annum.<br>▪ UK-based Non-executive fees are set at £47,500 with an additional £5,000 for each committee sat on (maximum of two). A set fee of $100,000 per annum is paid as a US-based Non-executive fee.<br>▪ Any increase in fees may be above those of the wider workforce (in percentage terms) in any particular year, reflecting the periodic nature of any review and changes to time commitments and/or responsibilities. | Not applicable. |

# Remuneration report continued

for the year ended 31 December 2013

## Directors' Remuneration Policy continued

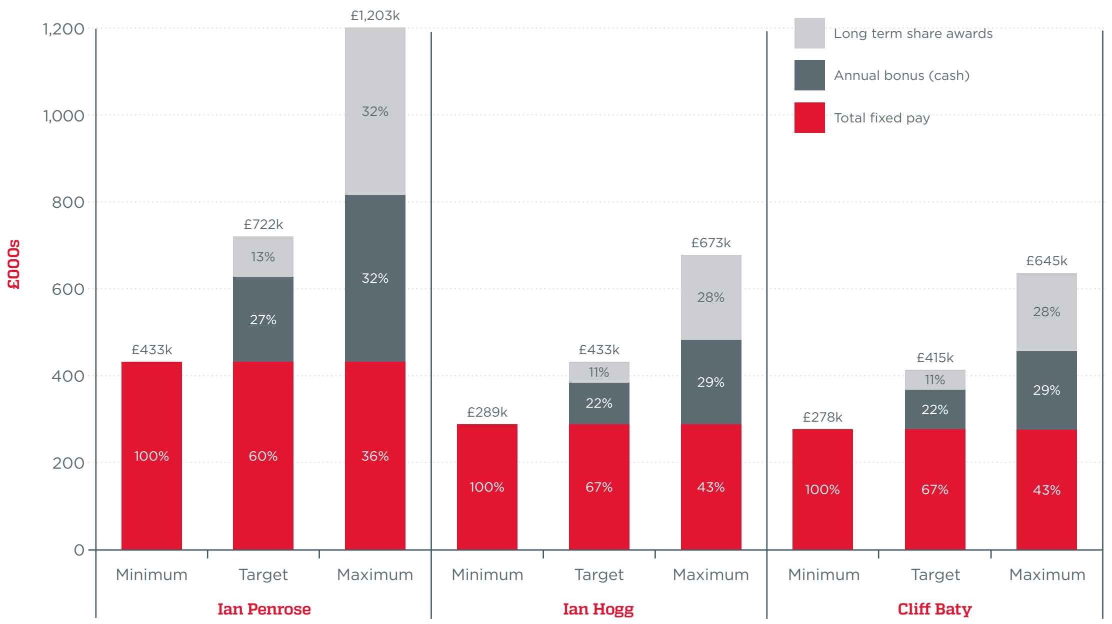
### Remuneration for Executive Directors continued

The Committee operates the annual bonus plan and long term incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include:

- timing of awards and payments;
- the size of an award (within the limits noted in the table above), and when and how much should vest;
- who receives an award or payment;
- dealing with a change of control or restructuring of the Group;
- determining whether a participant is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest;
- any adjustments required to awards in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- the weightings, measures and targets for the annual bonus plan and LTIP from year to year.

The Committee retains the discretion to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (e.g. a major acquisition or disposal) which cause it to determine that the conditions are unable to fulfil their original intended purpose and the change would not be materially less difficult to satisfy.

### Illustration of policy application




The relative proportions of fixed and performance related remuneration for the Executive Directors, based on the remuneration policy, is shown below based on three performance scenarios: minimum, target and maximum.

1. **Minimum** = fixed pay only (base salary, benefits and pension);
2. **Target** = 50% of annual bonus and 25% vesting of the PSP awards; and
3. **Maximum** = 100% of annual bonus payable and 100% vesting of the PSP awards.

Salary levels are based on those applying on 1 January 2014.

The value of taxable benefits is the estimated cost of supplying those benefits (using the cost for the year ended 31 December 2013 as a proxy).

The pension value is based on an 8% of salary contribution/supplement.

Amounts have been rounded to the nearest £1,000. Share price growth has been ignored.

## Directors' Remuneration Policy continued

### Existing awards

The Committee intends to honour any commitments, including outstanding PSP awards, on the terms applicable at the time each such commitment was made. The relevant outstanding awards are described in more detail on page 49.

### Policy on contracts of service

All Directors have rolling contracts with notice periods of no more than twelve months.

| | Date of appointment | Notice period |
|---|---|---|
| Roger Withers | 07.02.11 | 3 months |
| Ian Penrose | 01.10.05 | 12 months |
| Cliff Baty | 14.05.13 | 12 months |
| Ian Hogg | 05.10.10 | 12 months |
| Peter Williams | 07.02.11 | 3 months |
| John Barnes * | 11.11.05 | 3 months |
| David McKeith | 25.08.11 | 3 months |
| Rich Roberts | 03.12.13 | 3 months |
| Lorne Weil | 05.10.10 | 3 months |
| Mor Weizer ** | 23.03.11 | 3 months |

* John Barnes resigned on 3 December 2013.

** Mor Weizer resigned on 20 June 2013.

Copies are available for inspection on request to the Company Secretary.

It is the Committee's policy for the notice periods of Executive Directors to be twelve months or less.

In the event of termination, the Committee's policy is that payments on termination should reflect the specific circumstances prevailing. In general it would be the Committee's policy to make a payment in lieu of notice where necessary, limited to base salary and benefits. To the extent that an individual might otherwise seek to bring a claim against the Company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the Committee retains the right to make an appropriate payment in settlement of such potential or actual claims. Payments in connection with any statutory entitlements (e.g. in relation to redundancy) may be made as required. In connection with the foregoing, the Committee reserves the right to award to an Executive Director a bonus in respect of the period of the year in which notice of termination had not been served (and, in certain exceptional circumstances, in respect of any period following receipt of notice of resignation) that the individual remained in employment, subject to the appropriate performance measures being achieved. The determination of any share incentive vesting would be subject to the rules of the relevant plan, but in general where an individual is a good leaver (death, injury or disability, retirement, redundancy transfer of business outside of the Group and any other reason the Committee decides) their awards would vest on the cessation date, unless the Committee decides the award should continue to the original vesting date and remain subject to the appropriate performance measures being achieved and time pro rating (unless the Committee decides it is inappropriate to apply time pro rating).

The Committee would intend to apply the above policy for any new appointment, which may include the ability to make phased payments with mitigation.

The Non-executive Directors have letters of appointment which provide for notice by either party giving to the other not less than three months' notice in writing. The Company may also terminate by making a payment in lieu of notice.

None of the employment contracts of the Directors contain special contractual termination provisions.

### Policy on external appointments

Sportech PLC recognises that its Directors are likely to be invited to become Non-executive Directors of other companies and that such exposure can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept Non-executive appointments and retain any fees earned, with the Board's prior permission, as long as these are not likely to lead to conflicts of interest. In this regard, Ian Penrose is a Trustee of the National Football Museum, a registered charity, and he receives no remuneration in respect of this appointment.

### Other employees' pay

The Committee did not consult with employees directly on matters of Executive remuneration. However, the Committee is aware of the disconnect which can be created if Executive Director remuneration is set in isolation and therefore is updated during the year with details of the pay and employment conditions in the wider workforce. In particular the Committee is made aware of general salary increases, general benefit provision and the proposed level of annual bonuses. The Committee is also responsible for reviewing the participants of the LTIPs and participation levels in the all-employee plans.

Base salary increases across the Group were in the range of 0% to 2.0% for 2014, reflecting the RPI prevailing in the country in which the individual is employed. The Executive Directors are employed in the UK and therefore their increase of 2.0% is consistent with the general pay award for UK-based employees.

### Remuneration policy across the Group

The remuneration policy described in this Report is broadly consistent with the policy used for other Senior Executives of the Company. A significant proportion of remuneration remains performance related, although lower quantums will operate.

The majority of employees will participate in annual bonus schemes, although the limits and performance metrics will vary according to the seniority and location of the role.

Participation in the LTIPs is targeted at Senior Management and key staff, to align employees' interests with those of shareholders.

The majority of new employees are eligible to join a defined contribution pension plan.

# Remuneration report continued

for the year ended 31 December 2013

## Directors' Remuneration Policy continued

### Policy on Executive Director recruitments/promotions

In relation to an external executive recruitment or an internal promotion the Committee will follow the principles outlined in the table below:

| Element of remuneration | Policy |
|---|---|
| Base salary | Salary levels will be set based on:<br>▪ the particular experience, knowledge and skill of the individual;<br>▪ market rates for comparable positions in companies of a similar size and complexity; and<br>▪ internal Company relativities.<br>Where considered appropriate the Committee may wish to set the initial salary below the perceived market rate (e.g. to reflect an individual's limited experience at a PLC board level) but with the view to make phased increases, potentially above those of the wider workforce as a percentage of salary, to achieve the desired market positioning over time. Any increases would be subject to the individual's continued development and performance in the role. |
| Benefits | A new appointment would be offered the same benefits package (or equivalent in line with local market practice) as that provided to current Executive Directors.<br>Where considered necessary, the Committee may be required to pay certain relocation expenses, legal fees and other costs incurred by the individual in relation to their appointment. |
| Pension | A defined contribution or cash supplement (or equivalent in line with local market practice) at the level provided to current Executive Directors may be provided. |
| Annual bonus | The Committee would envisage the annual bonus for any new appointment operating as set out in the Policy Table for current Executive Directors. The annual bonus maximum would be limited to that of the current Chief Executive.<br>However, the Committee may consider it necessary (depending on timing and the nature of the appointment) to set different tailored performance measures for the initial bonus year. |
| Long term incentives | Ongoing LTIP awards will be made on the same terms as current Executives, albeit possibly with different performance periods depending on the timing of the appointment. The maximum ongoing award will be no higher than that of the current Chief Executive. An award may be made shortly after an appointment.<br>For internal promotions, existing awards will continue over their original vesting period and remain subject to their terms as at the date of grant.<br>A new appointment would be eligible to participate in the Sharesave Plan under the same terms as all other employees. |
| Buy-out awards | To facilitate an external recruitment, it may be necessary to buy out remuneration which would be forfeited on the appointee leaving their previous employer. When determining the quantum and structure of any buy-out awards the Committee will, where possible, use a consistent basis, taking into account the form of remuneration (cash or shares), timing horizons and the application of any performance criteria.<br>Buy-out awards, if used, will be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules. |

## Directors' Remuneration Policy continued

### Shareholder engagement

The Committee considers an open and constructive dialogue with investors to be vitally important to establishing a successful remuneration policy which is considered fair by both Executives and shareholders. Therefore, the Committee will consult with major investors whenever material changes to the policy are proposed. The Committee also welcomes investor feedback and will consider views raised at the AGM and regular meetings throughout the year when establishing the overall policy.

## Annual Report on Remuneration

The Committee's Terms of Reference are available from the Company Secretary and can be found on the Company's website at www.sportechplc.com/investor_centre/corporate_governance/remuneration_committee_terms_of_reference.

The Committee met six times during the year and the following key activities have been undertaken:

- review of best practice;
- approval and grant of annual awards under the PSP in the year under review;
- review of the PSP performance conditions and approval to retain both challenging financial growth conditions and Total Shareholder Return ("TSR") conditions. For 2013, the weighting on each performance metric was changed so that vesting will take place based on relative TSR performance and EPS growth (i.e. absolute TSR performance is no longer to be retained as a long term performance metric), as described on pages 50 and 51. This basis is to be kept for the 2014 issue;
- in February 2014, approval of bonus awards, paid out in line with the 2013 bonus policy and approval of bonus policy for 2014;
- review of the Chairman's remuneration;
- review of base salaries for the Executive team; and
- review and approval of terms of employment for Cliff Baty.

The Committee's recommendations in 2013 and early 2014 were all accepted and implemented by the Board.

### Compliance with best practice

During 2013, the Committee has, with the assistance of its independent remuneration consultants, New Bridge Street ("NBS") (a trading name of Aon Plc), reviewed its practices and policies to ensure they are in line with what it perceives to be best practice and the Company's strategic objectives. The Committee continues to be committed to the principles of good governance as set out in the Code.

### Composition of the Remuneration Committee

The Committee currently consists of Peter Williams (Chairman), David McKeith and Rich Roberts, who are all Independent Non-executive Directors. John Barnes was a member of the Committee until his resignation on 3 December 2013. Rich Roberts was appointed as a member of the Committee on 27 January 2014. None of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest from cross-Directorships or day-to-day involvement in the running of the business.

Peter Williams became Chairman of the Committee in April 2011, taking over from John Barnes. The Chief Executive and Chairman are invited to attend meetings although neither is present when matters affecting his own remuneration are discussed. The Company Secretary acts as secretary to the Committee.

The Committee retains independent remuneration consultants, NBS, to advise on all aspects of Executive remuneration. NBS is a member of the Remuneration Consultants Group and has signed up to its Code of Conduct. NBS has no connection with Sportech other than in the provision of advice on Executive remuneration. The terms of engagement with NBS are available from the Company Secretary on request. The fees of the independent remuneration consultants in relation to the services provided by them to the Company during the financial year were £64,415, of which £33,000 related to advice to the Company on the implementation and administration of share incentive schemes.

The Committee reviews its relationships with external advisers on a regular basis and believes that no conflicts of interest exist.

### Detailed remuneration policy for 2014

#### Basic annual salary

Each Executive Director's basic salary is reviewed and determined by the Committee annually, taking into account the individual's performance and experience. The Committee also makes use of independent benchmark data provided by external remuneration consultants, takes due account of market median data in separate comparator groups based on sector, size and complexity, and is aware of the level of salary increases awarded to other employees within the Group.

- Ian Penrose, Chief Executive, was awarded a salary increase of 2%, which is consistent with the general pay award for all UK-based employees. He is paid a salary of £385,000 per annum with effect from 1 January 2014.
- Cliff Baty, Chief Financial Officer, is paid a salary of £245,000 per annum with effect from 1 January 2014, an increase of 2%, which is consistent with the general pay award for all UK-based employees.
- Ian Hogg, Chief Operating Officer, Consumer Facing Business, is paid a salary of £256,000 per annum with effect from 1 January 2014, an increase of 2%, which is consistent with the general pay award for all UK-based employees.

#### Performance related bonus

The maximum bonus potential for the Chief Executive for 2014 is 100% of basic salary and for the Chief Operating Officer, Consumer Facing Business and Chief Financial Officer is 75% of basic salary.

For each Executive Director, their performance related bonus is based on the EBITDA performance of the Group (and operating divisions as appropriate), delivering on

# Remuneration report continued

for the year ended 31 December 2013

## Annual Report on Remuneration continued

### Detailed remuneration policy for 2014 continued

#### Performance related bonus continued

Group strategic objectives and meeting personal targets. The EBITDA-based proportion of the bonus, which represents 70% of each Director's bonus entitlement, is operated with a range set around a budgeted EBITDA figure (taking into account City forecasts). Strategic and personal objectives include continuing to develop our multiple business interests in Connecticut and California, rolling out our racing and digital footprint and developing the Sportech team to take advantage of these new and innovative business opportunities. Further detail about such strategic and personal objectives is considered commercially sensitive and will therefore not be disclosed prospectively. The Committee will consider whether retrospective disclosure is appropriate. This bonus is wholly payable in cash.

#### Pension arrangements

The Company will contribute into a defined contribution scheme for the Executive Directors at a rate of 8%. Only basic annual salary is pensionable.

#### Other benefits

Executive Directors are entitled to the following other main benefits:

- Chief Executive – 29 working days' holiday per annum in addition to normal bank and public holidays. Other Executive Directors – 25 working days' holiday per annum in addition to normal bank and public holidays;
- a car allowance of £16,000 for the Chief Executive and £12,300 for the COO, Consumer Facing Business;
- private health insurance for themselves, their spouse and children; and
- life insurance of four times salary.

#### Long Term Incentive Plan ("LTIP")

The Committee believes that share ownership and the granting of share-based incentives strengthens the link between Executives' personal interests and those of the shareholders. The Company has two long term share plans in place, being a share option scheme and a performance share plan ("PSP"). The Company's policy has been to only grant awards under the PSP since its adoption in 2007.

It is the Committee's intention to grant awards in 2014 at 100% of salary to the Chief Executive and 75% of salary to the other Directors. The targets to apply to the 2014 awards will be the same as those applied to the 2013 awards being, 50% based on the Company's relative TSR performance (Part A) and 50% based on performance against a challenging range of EPS growth targets (Part B).

The vesting of Part A of each such award will be dependent on Sportech's TSR over a fixed three-year period relative to the TSR of the constituents of the FTSE Small Cap Index (excluding investment trusts) over the same period (the comparator group set as at the date of grant).

No portion of Part A will vest unless Sportech's TSR performance at least matches the median of the TSR performance within the comparator group; thereafter the following vesting schedule will apply:

| The Company's TSR rank against the TSR of the comparator companies | Extent of vesting of Part A |
|---|---|
| Median | 25% |
| Between median and upper quartile | Pro rata between 25% and 100% |
| Upper quartile (or better) | 100% |

The vesting of Part B of each such award will be dependent on Sportech's EPS performance over a fixed three-year period. No portion of Part B will vest unless Sportech's EPS growth is at least equal to the Retail Prices Index ("RPI") plus 4% per annum; thereafter the following vesting schedule will apply:

| The Company's EPS growth | Extent of vesting of Part B |
|---|---|
| At least RPI + 4% p.a. | 25% |
| Between a minimum of RPI + 4% p.a. and 10% p.a. | Pro rata between 25% and 100% |
| At least RPI + 10% p.a. | 100% |

EPS performance will be tested from a base year ended 31 December 2013 with EPS being calculated on such adjusted basis as the Remuneration Committee determines appropriate. Adjusted EPS for such purposes will be disclosed in due course at the time of vesting in the Remuneration Report.

### Policy on Executive share ownership

The Board has adopted a formal policy in respect of Executive share ownership, pursuant to which all Executives are expected to invest in the Company to a level of at least 100% of annual salary over time, save that under such policy Executives may build to this level using 50% of net awards under the Company's long term incentive plans. Current share ownerships are set out on page 52.

### Non-executive Directors' fees and incentives

The fees of the Non-executive Directors are set by the Board following a review against fee levels operated in companies of a comparable size and after taking into account the anticipated time commitment of each role. The Non-executive Directors do not participate in any incentive, pension or benefit schemes of the Company, other than in the case of Lorne Weil who was issued an incentive award in October 2010 (see page 51).

The fees set for 1 January 2014 are £120,000 for the Chairman and a set fee of £47,500 (with a further £5,000 for each Committee they sit on) for UK-based Non-executives and a set fee of $100,000 for US-based Non-executives. The fees set for Non-executives are at the top end of the upper quartile for comparable companies, reflecting the onerous international regulatory environment for Sportech and the fact that Board meetings will be held in both the US and the UK, necessitating additional travel and time commitments.

Details of each Director's remuneration for the year ended 31 December 2013 are given in the table opposite.

## **Annual Report on Remuneration** continued
## Directors' remuneration for the year ended 31 December 2013

### Basic annual salary

- Ian Penrose, Chief Executive, £377,000 per annum, with effect from 1 January 2013.
- Cliff Baty, Chief Financial Officer, £240,000 per annum with effect from 14 May 2013.
- Ian Hogg, Chief Operating Officer, Consumer Facing Business, £251,000 per annum with effect from 1 January 2013.
- Steve Cunliffe, Finance Director, £205,000 per annum, with effect from 1 January 2013 and until date of termination, being 6 March 2013.

### Directors' remuneration for 2013 (audited)

| | Year of appointment | Fees/ salary £000 | Taxable benefits[2] £000 | Pension £000 | Bonuses £000 | Long term incentives £000 | Compensation for loss of office £000 | 2013 Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Ian Penrose | 2005 | 377 | 17 | 30 | 151 | 816 | – | 1,391 |
| Cliff Baty (appointed 14 May 2013) | 2013 | 154 | – | 10 | 63 | – | – | 227 |
| Ian Hogg | 2010 | 251 | 14 | 20 | 40 | 482 | – | 807 |
| Steve Cunliffe (resigned 6 March 2013) | 2006 | 38 | – | – | – | 527 | 141 | 706 |
| **Non-executive Directors** | | | | | | | | |
| Roger Withers | 2011 | 65 | – | – | – | – | – | 65 |
| Peter Williams | 2011 | 45 | – | – | – | – | – | 45 |
| John Barnes (resigned 3 December 2013) | 2005 | 45 | – | – | – | – | – | 45 |
| David McKeith | 2011 | 45 | – | – | – | – | – | 45 |
| Lorne Weil | 2010 | 35 | – | – | – | 627 | – | 662 |
| Rich Roberts (appointed 3 December 2013) | 2013 | 5 | – | – | – | – | – | 5 |
| Mor Weizer [1] (resigned 20 June 2013) | 2011 | – | – | – | – | – | – | – |
| **Aggregate emoluments** | | 1,060 | 31 | 60 | 254 | 2,452 | 141 | 3,998 |

1 Mor Weizer did not receive any remuneration in his role as Non-executive Director as he sat on the Board as a representative of Playtech Limited.
2 Taxable benefits comprise various medical insurance policies and car allowances.

### Directors' remuneration for 2012 (audited)

| | Year of appointment | Fees/ salary £000 | Taxable benefits[2] £000 | Pension £000 | Bonuses £000 | Long term incentives £000 | Compensation for loss of office £000 | 2012 Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Ian Penrose | 2005 | 370 | 49 | 30 | 93 | 233 | – | 775 |
| Ian Hogg | 2010 | 246 | 13 | 20 | 92 | 140 | – | 511 |
| Steve Cunliffe (resigned 6 March 2013) | 2006 | 205 | 13 | 16 | 33 | 156 | – | 423 |
| Brooks Pierce (resigned 10 May 2012) | 2010 | 92 | 3 | 2 | 17 | 69 | 254 | 437 |
| **Non-executive Directors** | | | | | | | | |
| Roger Withers | 2011 | 65 | – | – | – | – | – | 65 |
| Peter Williams | 2011 | 45 | – | – | – | – | – | 45 |
| John Barnes (resigned 4 December 2013) | 2005 | 45 | – | – | – | – | – | 45 |
| David McKeith | 2011 | 45 | – | – | – | – | – | 45 |
| Lorne Weil | 2010 | 35 | – | – | – | 195 | – | 230 |
| Mor Weizer [1] (resigned 20 June 2013) | 2011 | – | – | – | – | – | – | – |
| Aggregate emoluments | | 1,148 | 78 | 68 | 235 | 793 | 254 | 2,576 |

1 Mor Weizer did not receive any remuneration in his role as Non-executive Director as he sat on the Board as a representative of Playtech Limited.
2 Taxable benefits comprise various medical insurance policies and car allowances.

# Remuneration report continued

for the year ended 31 December 2013

## Annual Report on Remuneration continued

## Directors' remuneration for the year ended 31 December 2013 continued

### Performance related bonus

The maximum bonus potential for the Chief Executive in the year under review was 100% of basic salary, and for each of the Chief Financial Officer and the Chief Operating Officer, Consumer Facing Business was 75% of basic salary.

For each Executive Director their performance related bonus was based on (i) the EBITDA performance of the Group (with EBITDA of individual operating divisions included within the targets set for the Chief Operating Officer, Consumer Facing Business) and (ii) strategic objectives aligned with Group strategic goals.

#### *EBITDA performance*

The Committee considered the Group's EBITDA performance for these purposes excluding the e-Gaming business and exercised its discretion to scale back the bonuses based on this performance test to take account of the losses made during the year in the e-Gaming business prior to achieving what was considered a successful sale out of the Group. With this in mind, in respect of both the Chief Executive and the Chief Financial Officer, achievement was determined to be 10% out of a maximum target of 70% of potential bonus, and for the Chief Operating Officer, Consumer Facing Business achievement was deemed to be 6% out of a maximum target of 85% of potential bonus (it being noted that his target had a split of Group and operating divisional EBITDA (being up to 30% and 55% respectively of this part of his bonus), and no bonus was payable with regards to the EBITDA performance of the relevant individual operating division).

The actual targets set (e.g. the numbers included in the Group's financial plans) are considered to remain commercially sensitive and consideration will be given to disclosing these in future years.

#### *Strategic objectives*

With regards to the Chief Executive, his strategic targets related to delivering against a number of growth focused initiatives primarily in relation to the Group's activities in the USA. These included the development of the Bradley sports bar, restaurant and betting venue, achieving a successful outcome in relation to exclusive online opportunities in Connecticut, establishing business opportunities in California and developing the Group's operational team and structure. These were assessed to have been achieved in full, resulting in an award of 30% out of a maximum target of 30% of potential bonus. The strategic targets relating to the Chief Financial Officer included improving the operational capability and reporting of the finance function within the Group and undertaking a detailed evaluation and assessment of opportunities in the e-Gaming market. These targets were considered to have been largely met, resulting in an award of 25% out of a maximum target of 30% of potential bonus. The strategic targets for the Chief Operating Officer, Consumer Facing Business related to the ongoing development of the UK Football Pools business and its move to stabilising profitability and cash flows, and the targets relating to this objective were met in full, resulting in an award of 15% out of a maximum target of 15% of potential bonus.

The bonus payable to the Chief Financial Officer was in respect of the full year under review (i.e. based on his full year salary) notwithstanding that he joined the Company in May 2013. This was agreed as part of the terms of his recruitment to offset the forfeiture of the bonus he would have earned but forfeited when he agreed to join Sportech and resigned from his then employment. The Remuneration Committee was comfortable taking this approach (i.e. offering performance related compensation based on performance at Sportech) as opposed to estimating the cash value of a bonus forfeited on leaving his former employer.

The table below summarises the overall bonus result.

| Individual | Total bonus: % Maximum (% salary payable) |
|---|---|
| Chief Executive | 40% of maximum (40% of salary payable) |
| Chief Financial Officer | 35% of maximum (26.25% of salary payable) |
| Chief Operating Officer, Consumer Facing Business | 21% of maximum (15.75% of salary payable) |

## **Annual Report on Remuneration** continued
### **Directors' remuneration for the year ended 31 December 2013** continued
### Performance related bonus continued
*Strategic objectives* continued

The Committee is comfortable that the level of bonuses paid to Executive Directors reflects both the Company and individual performance during the year.

### Pension arrangements
The Company contributed into a defined contribution scheme for the Executive Directors at a rate of 8%. Only basic annual salary was pensionable. Four Directors (2012: three Directors) were members of defined contribution schemes during the year. Contributions paid by the Company in respect of these Directors are as shown in the table on page 47.

### Long Term Incentive Plans ("LTIPs")
*Awards vested in relation to performance ending 2013*

Part of the awards granted in 2010 and 2011 reached the end of their performance periods in the year under review. This includes the two-thirds of the 2010 award subject to relative TSR and absolute TSR (performance period ended 5 October 2013) and one-third of the 2011 award subject to EPS (performance period ended 31 December 2013). Summary details of the full conditions applying to the 2010 and 2011 awards are included as a footnote to the PSP table on page 51.

In terms of the 2010 award, the assessment of the TSR measures was made independently by NBS who advised that Sportech's TSR achieved a three-year TSR which ranked above the upper quartile and greater than the 15% p.a. maximum absolute target, thereby triggering full vesting for each element of this award.

In terms of the 2011 award, the EPS growth over the three-year period to 31 December 2013 was 9.45% p.a. thereby triggering 47.5% vesting of this element of the award, subject to Committee approval.

In summary the total number of awards for each Executive is shown in the table below.

### Performance Share Plan – 2013 vesting

| Measure | Condition | Threshold | Maximum | Actual | Vesting |
|---|---|---|---|---|---|
| Relative TSR (2010) | TSR measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over the three years from date of grant | Median rank (163) | Upper quartile rank (41.25) | TSR 118.1% rank (38) | 100% |
| Absolute TSR (2010) | Average annual growth in TSR | 6% p.a. | 15% p.a. | 52.2% p.a. | 100% |
| EPS (2011) | Annualised adjusted EPS growth measured against RPI over three financial years | RPI + 4% p.a. | RPI + 10% p.a. | 9.45% | 47.5% |

| Executive | Award | Number of awards granted | Vesting | Number of shares vesting | Value of awards * |
|---|---|---|---|---|---|
| Ian Penrose | 2010 (Part A and B) | 941,177 | 100% | 941,177 | £752,941 |
| | 2011 (Part C) | 155,136 | 47.5% | 73,690 | £62,873 |
| Ian Hogg | 2010 (Part A and B) | 564,706 | 100% | 564,706 | £451,764 |
| | 2011 (Part C) | 75,472 | 47.5% | 35,849 | £30,587 |

* For 2010 awards this is based on the share price on the date of vesting of 80.00p. For 2011 awards which have yet to vest, the value is based on a three-month average share price to December 2013 of 85.32p.

### Performance Share Plan – 2013 Award

| Executive | Type of award | Number of awards granted | Basis of award | Share price on grant Pence | Face value * | Percentage which vests at threshold |
|---|---|---|---|---|---|---|
| Ian Penrose | Performance share | 377,400 | 100% of salary | 100 | £377,400 | 25% |
| Cliff Baty | Performance share | 276,000 | 115% of salary | 90 | £248,400 | 25% |
| Ian Hogg | Performance share | 188,190 | 75% of salary | 100 | £188,190 | 25% |

* This is based on the closing share price on the day before the date of grant. In respect of Ian Penrose and Ian Hogg, the date of grant was 21 March 2013 and, in respect of Cliff Baty, the date of grant was 24 May 2013.

# Remuneration report continued

for the year ended 31 December 2013

## Annual Report on Remuneration continued

### LTIP awards granted during 2013

#### Share option scheme

A share option scheme is in place, the details of which are described in note 26. The last award under such a scheme was made in 2005.

#### Performance Share Plan ("PSP")

The PSP was introduced in 2007. Under the rules of the PSP, awards may normally be granted up to 100% of salary, other than in exceptional circumstances, when they may be granted up to 200% of salary.

The Committee had previously approved the introduction of an annual award policy from 2012 at up to 100% of salary to Executive Directors. An award was made to Cliff Baty shortly after appointment at 115% of salary, as an exceptional award, to reflect remuneration forfeited on leaving his previous employment.

The award was set after the Committee had considered the awards that lapsed on leaving his former employer and the Company's normal LTIP policy. It was not considered appropriate to provide any non-performance related compensation for potential value lost on leaving his former employer.

#### 2013 awards – targets

In connection with the awards to the Executive Directors, two distinct performance conditions apply, each in relation to one-half of each award.

For ease of reference such halves are referred to below as Part A and Part B respectively.

The vesting of Part A of each such award will be dependent on Sportech's TSR over a fixed three-year period relative to the TSR of the constituents of the FTSE Small Cap Index (excluding investment trusts) over the same period (the comparator group set as at the date of grant).

No portion of Part A will vest unless Sportech's TSR performance at least matches the median of the TSR performance within the comparator group; thereafter the following vesting schedule will apply:

| The Company's TSR rank against the TSR of the comparator companies | Extent of vesting of Part A |
|---|---|
| Median | 25% |
| Between median and upper quartile | Pro rata between 25% and 100% |
| Upper quartile (or better) | 100% |

The vesting of Part B of each such award will be dependent on Sportech's EPS performance over a fixed three-year period. No portion of Part B will vest unless Sportech's EPS growth is at least equal to the Retail Prices Index ("RPI") plus 4% per annum; thereafter the following vesting schedule will apply:

| The Company's EPS growth | Extent of vesting of Part B |
|---|---|
| At least RPI + 4% p.a. | 25% |
| Between a minimum of RPI + 4% p.a. and 10% p.a. | Pro rata between 25% and 100% |
| At least RPI + 10% p.a. | 100% |

EPS performance will be tested from a base year ended 31 December 2012 with EPS being calculated on such adjusted basis as the Remuneration Committee determines appropriate. Adjusted EPS for such purposes will be disclosed in due course at the time of vesting in the Remuneration Report.

#### Directors' share-based incentives

Aggregate emoluments disclosed on page 47 do not include any amounts for the value of share-based incentives to acquire ordinary shares in the Company granted to or held by the Directors. The share-based incentives held by the Directors are as follows:

*Sportech Share Option Scheme*

| | As at 1 January and 31 December 2013 Number |
|---|---|
| Ian Penrose | 505,050 |

Details of the option are as follows:

| Ian Penrose | Exercise price | Date from which exercisable | Expiry date | Granted on |
|---|---|---|---|---|
| 505,050 | £0.817 | 27.09.08 | 26.09.15 | 27.09.05 |

Exercise of the option is subject to the share price reaching the following closing prices:

| Shares | Closing price |
|---|---|
| 151,515 | £1.237 |
| 151,515 | £1.732 |
| 101,010 | £2.227 |
| 101,010 | £2.722 |
| 505,050 | |

The market price of the ordinary shares at 31 December 2013 was £0.815 and the range during the year was £1.080 to £0.710.

The options were granted at no cost to the Director. Once awarded, the exercise of the share options is unconditional.

## **Annual Report on Remuneration** continued
### **LTIP awards granted during 2013** continued
### Directors' share-based incentives continued
*PSP*

The following table shows awards outstanding at the start of the year, awarded, vested and lapsed during the year and remaining outstanding at the end of the year.

| | Date of grant | As at 1 January 2013 Number | Awarded during the year Number | Vested during the year Number | Lapsed during the year Number | **As at 31 December 2013 Number** | Vested but not exercised Number | Market price on date of grant Pence | Date from which exercisable | Award expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| Ian Penrose | 06.10.10 [1] | 1,411,765 | — | (1,232,941) | (178,824) | **—** | 1,232,941 | 42.50 | 06.10.13 | 06.10.14 |
| | 02.12.11 [1] | 465,408 | — | — | — | **465,408** | — | 39.75 | 02.12.14 | 02.12.15 |
| | 08.03.12 [1] | 751,269 | — | — | — | **751,269** | — | 51.52 | 08.03.15 | 08.03.16 |
| | 21.03.13 [2] | — | 377,400 | — | — | **377,400** | — | 100.00 | 21.03.16 | 21.03.17 |
| Total | | 2,628,442 | 377,400 | (1,232,941) | (178,824) | **1,594,077** | 1,232,941 | | | |
| Cliff Baty | 21.03.13 [2] | — | 276,000 | — | — | **276,000** | — | 90.00 | 21.03.16 | 21.03.17 |
| Ian Hogg | 06.10.10 [1] | 847,059 | — | (739,765) | (107,294) | **—** | 739,765 | 42.50 | 06.10.13 | 06.10.14 |
| | 02.12.11 [1] | 226,415 | — | — | — | **226,415** | — | 39.75 | 02.12.14 | 02.12.15 |
| | 08.03.12 [1] | 374,619 | — | — | — | **374,619** | — | 51.52 | 08.03.15 | 08.03.16 |
| | 21.03.13 [2] | — | 188,190 | — | — | **188,190** | — | 100.00 | 21.03.16 | 21.03.17 |
| Total | | 1,448,093 | 188,190 | (739,765) | (107,294) | **789,224** | 739,765 | | | |
| Steve Cunliffe [3] | 06.10.10 [1] | 941,176 | — | (821,960) | (119,216) | **—** | — | 42.50 | 06.10.13 | 06.10.14 |
| | 02.12.11 [1] | 62,893 | — | — | — | **62,893** | — | 39.75 | 02.12.14 | 02.12.15 |
| | 08.03.12 [1] | 104,061 | — | — | — | **104,061** | — | 51.52 | 08.03.15 | 08.03.16 |
| Total | | 1,108,130 | — | (821,960) | (119,216) | **166,954** | — | | | |
| Lorne Weil [4] | 06.10.10 [1] | 1,176,470 | — | — | (149,020) | **1,027,450** | — | 42.50 | 06.10.13 | N/A |
| Total PSP awards | | 6,361,135 | 841,590 | (2,794,666) | (554,354) | **3,853,705** | 1,972,706 | | | |

1 2010, 2011 and 2012 awards were subject to relative TSR, absolute TSR and EPS growth performance targets each applying to one-third of the awards. The performance targets for the 2010, 2011 and 2012 awards operated under the same structure with the specific details outlined on pages 34 and 35 of the 2012 Annual Report.

2 2013 awards were subject to relative TSR and EPS growth performance targets each applying to one-half of the awards the structure for which is outlined on page 50 of this report.

3 Steve Cunliffe's PSP awards will vest on their original vesting date subject to satisfaction of applicable performance criteria, with the full amount of his 2010 award under the PSP, one-third of his 2011 award under the PSP and one-third of his 2012 award under the PSP being transferred.

4 Lorne Weil's award was a one-off shareholder approved award made subject to the same performance conditions as set out in note 1, but also conditional on Lorne Weil investing in and retaining 2,000,000 ordinary shares in the Company. Summary details were included in the Directors' Remuneration Report for the year ended 31 December 2010.

The number of ordinary shares that may be issued under the PSP and any other share plan may not exceed 10% in any ten-year period. As at 31 December 2013 the Company's potential dilution was 6.7%.

Details of the performance conditions for the PSP awards are on pages 49 and 50 of this Report.

# Remuneration report continued

for the year ended 31 December 2013

## Annual Report on Remuneration continued

### Payment for loss of office

As explained in last year's report, pursuant to an agreement in relation to his departure from the Board, Steve Cunliffe, whose employment with the Company terminated on 6 March 2013, received: (i) payment of eight months' salary and benefits in lieu of notice; and (ii) subject to satisfaction of the relevant performance criteria, a bonus in respect of the year under review, pro rated to 14 November 2012 (the date notice was served). Steve Cunliffe was treated as a good leaver under the rules of the PSP following a restructuring of the Board, which resulted in his individual role effectively being made redundant (i.e. different skill sets were required for the future of the Group). As such, he retained the full amount of his 2010 award under the PSP, one-third of his 2011 award under the PSP and one-third of his 2012 award under the PSP, subject to satisfaction of applicable performance criteria. Payment of salary and benefits in lieu of notice was made on a monthly basis. The bonus was paid in March 2013. The PSP awards will vest on their normal vesting date subject to the relevant performance conditions being achieved.

### Payments to former Directors

Details of payments received by Steve Cunliffe in 2013 are as set out above, such payments being included in the single total figure.

Brooks Pierce was treated as a good leaver under the rules of the PSP following a restructuring of the Board, which resulted in his individual role effectively being made redundant. As such, subject to satisfaction of applicable performance criteria, he retained each of his 2010, 2011 and 2012 awards under the PSP pro rated according to his termination date of 10 May 2012. Further to this, in 2013, he received a total payment under the 2010 award of £333,000 plus the amount set out in the single total figure for 2012 (on page 47 of this Report) which was also received in 2013. In addition, in March 2013 he received his bonus in relation to the year ended 31 December 2012, as set out in the previous financial year's Remuneration Report.

### Director interests and shareholding guidelines

The following table shows Director interests in the Company:

| Director | Total shareholding at 31 December 2012 | **Total shareholding at 31 December 2013** | Share option scheme vested | Share option scheme unvested | PSP award held unvested | PSP award vested but not exercised | Share ownership guideline expected to be achieved by third anniversary of employment | % of guideline met by 31 December 2013 |
|---|---|---|---|---|---|---|---|---|
| Ian Penrose | 500,000 | **500,000** | 151,515 | 353,535 | 1,594,077 | 1,232,941 | 100% | 100% |
| Cliff Baty | — | **—** | — | — | 276,000 | — | 100% | 0% |
| Ian Hogg | 197,140 | **197,140** | — | — | 789,224 | 739,765 | 100% | 64.03% |
| Roger Withers | 112,079 | **112,079** | — | — | — | — | N/A | N/A |
| Peter Williams | 100,000 | **100,000** | — | — | — | — | N/A | N/A |
| John Barnes | 110,000 | **110,000** | — | — | — | — | N/A | N/A |
| David McKeith | — | **30,000** | — | — | — | — | N/A | N/A |
| Lorne Weil | 2,000,000 | **2,000,000** | — | — | 1,027,450 | — | N/A | N/A |

All Executive Directors are expected to hold an investment of at least 100% of base salary in Company shares. This requirement can be achieved over a period of time using 50% of net awards which vest under the Company's LTIPs. The table above shows shareholdings as at 31 December 2013 and the percentage of the guideline currently met.

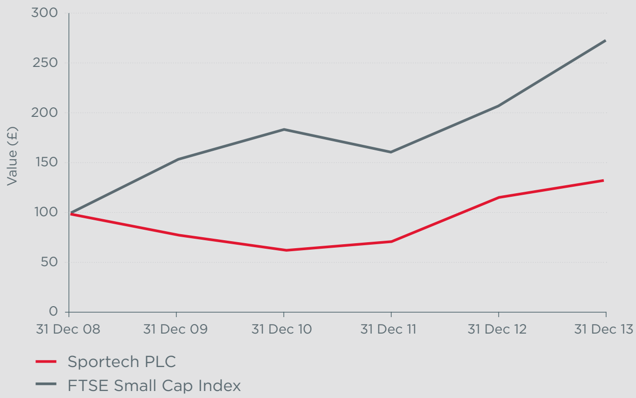
Total shareholding which counts towards the measurement of the guideline is calculated on the basis of legally owned shares plus vested PSP awards.

The percentage of guideline met is based on the annual base salary and the higher of the acquisition cost of the total shareholding or the current market value of the total shareholding. Once an Executive Director meets the required holding, the Executive Director is only required to purchase additional shares equivalent to the value of any increase in base salary.

## Annual Report on Remuneration continued

### Performance graph and Chief Executive five-year pay chart

The following graph demonstrates the value of £100 invested in Sportech PLC as at 31 December 2008 compared with the same investment in a fund mirroring the make-up of the FTSE Small Cap Index:




This graph shows the value, by 31 December 2013, of £100 invested in Sportech plc on 31 December 2008 compared with the value of £100 invested in the FTSE Small Cap Index. The other points plotted are the values at intervening financial year ends.

The FTSE Small Cap Index has been chosen as it is the index most closely aligned to Sportech PLC.

The following table sets out the Chief Executive's total remuneration for the current financial year and the preceding four years:

| | 2009 | 2010 | 2011 | 2012 | **2013** |
|---|---|---|---|---|---|
| Remuneration before LTIPs (£000) | 416 | 542 | 502 | 542 | **575** |
| LTIPs (£000) | — | — | — | 233 | **816** |
| Total remuneration (£000) | 416 | 542 | 502 | 775 | **1,391** |
| Annual bonus (%) | 33% | 74% | 50% | 25% | **40%** |
| LTIP vesting (%) | — | — | — | 62.0% | **82.7%** |

### Percentage increase in the remuneration of the Chief Executive (unaudited)

| | **2013** | 2012 | % change |
|---|---|---|---|
| **Chief Executive (£000)** | | | |
| – Salary | **377** | 370 | 2.0 |
| – Bonus and benefits | **198** | 172 | 15.1 |
| **Average of Group full-time employee (£000)** | | | |
| – Salary | **63** | 61 | 3.3 |
| – Bonus and benefits | **8** | 7 | 14.3 |

The table above shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average full-time salaried employee.

### Relative importance of spend on pay (unaudited)

| | **2013** | 2012 | % change |
|---|---|---|---|
| Staff costs (£m) | **33.0** | 32.4 | 1.9 |
| Distributions to shareholders | **Nil** | Nil | — |

### Approval

This report was approved by the Remuneration Committee and signed on its behalf by:

**Peter Williams**
**Senior Independent Non-executive Director and Chairman of the Remuneration Committee**
5 March 2014

# Directors' report

for the year ended 31 December 2013

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2013. General information of the Company can be found in the Accounting Policies on page 66.

The Strategic Report and Corporate Governance Report are set out on pages 10 to 53. This Directors' Report does not include information on trading in the year or principal risks as this information is included in the Strategic Report instead under Section 414C(11) of the Companies Act 2003, on pages 14 and 15.

## Directors and their interests in the shares of the Company

The Directors who held office during the year, and up to the date of signing these financial statements (unless otherwise stated), had beneficial interests in the share capital of the Company as shown below.

Details of share options and performance share plan ("PSP") awards granted during the year ended 31 December 2013 are set out in the Remuneration Report on pages 49 to 51.

| | At 5 March 2014 and 31 December 2013 Number | 31 December 2012 Number |
|---|---|---|
| Roger Withers | **112,079** | 112,079 |
| Ian Penrose | **500,000** | 500,000 |
| Ian Hogg | **197,140** | 197,140 |
| Cliff Baty (appointed 14 May 2013) | **—** | — |
| Steve Cunliffe (resigned 6 March 2013) | **n/a** | 85,000 |
| Peter Williams | **100,000** | 100,000 |
| John Barnes (resigned 3 December 2013) | **n/a** | 110,000 |
| David McKeith | **30,000** | — |
| Richard Roberts (appointed 3 December 2013) | **—** | — |
| Lorne Weil | **2,000,000** | 2,000,000 |
| Mor Weizer (resigned 20 June 2013) | **n/a** | — |

## Directors' third-party indemnity provisions

During the year, qualifying indemnity insurance was provided to the Directors. Such insurance remained in force throughout the year up to the date of signing the financial statements. No claim was made under these provisions.

## Employees

Details of the Company's policy on equal opportunities for disabled employees and on employee involvement are set out in the 'Responsibilities towards employees' section of the Corporate Social Responsibility Report on page 23.

## Substantial shareholdings

| | 5 March 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| Holder | Ordinary shares of 50p | % of issued share capital | Ordinary shares of 50p | % of issued share capital |
| Henderson Global Investments Limited | **43,921,290** | **21.44** | <5% | n/a |
| Scientific Games Corporation Inc. | **—** | **—** | 39,742,179 | 19.40 |
| Newby Manor Limited | **35,593,010** | **17.38** | 35,593,010 | 17.38 |
| AXA S.A. | **11,150,306** | **5.44** | 11,150,306 | 5.44 |
| Aberforth Partners LLP | **11,100,885** | **5.42** | 9,998,085 | 4.88 |
| Schroder Investment Management Limited | **11,095,332** | **5.42** | <5% | n/a |
| Black Rock Investment Management (UK) Limited | **10,363,537** | **5.06** | 10,046,295 | 4.90 |
| Aviva PLC | **6,864,718** | **3.35** | 6,864,718 | 3.35 |
| **Total of substantial shareholdings** | **130,089,078** | **63.51** | 113,394,593 | 55.35 |

## Substantial shareholdings continued

On 5 March 2014, interests representing 3% or more of the issued share capital of the Company had been notified to the Company as shown on page 54.

The Company and Scientific Games Corporation Inc. ("SGC") had entered into a Lock-Up Agreement pursuant to which SGC agreed not to dispose of any of the shares it acquired as part of the Sportech Racing acquisition ("Consideration Shares") for a period commencing on completion of the acquisition of Sportech Racing (5 October 2010) up to and including the third anniversary of completion, which has now passed. The Lock-Up Agreement did not prohibit SGC from transferring the Consideration Shares, inter alia, to its connected persons or from accepting a takeover offer in respect of the Consideration Shares made under the City Code. The Lock-Up Agreement could have been terminated if, inter alia, the Company or its connected persons enters into certain types of lottery business, the Company or certain of its affiliated persons are in violation of the law or the Company breaches certain obligations to provide information pursuant to the Purchase Agreement.

As at 31 December 2013 there are no restrictions on the transfer of securities in the Company or on voting rights.

## Dividend

No dividend is proposed (2012: £nil) and no dividend has been paid during the year (2012: £nil).

## Environmental matters

The Corporate Social Responsibility Report provides information with respect to the Group's impact on the environment and can be found on page 23.

## Corporate governance

The Group's statement on corporate governance is set out on pages 28 to 35 and forms part of this Directors' Report.

## Significant agreements

There are a number of agreements that take effect, alter or potentially terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and employees' share plans. None of these are deemed to be individually significant in terms of their potential impact on the day-to-day running of the business of the Group as a whole, other than as noted below:

- the main banking facilities with the three principal lenders, Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc, have mandatory pre-payment provisions in respect of a change of control or trade sale, with the facilities cancelled and all outstanding debt becoming immediately due and payable if a lender so requires; and
- the Group operates under a number of licences in various territories awarded to it by regulatory bodies. In the event of a change of control, certain regulatory bodies retain the right to pre-approve the acquirer in order for a change of control to be permitted.

There are no clauses in any of the Directors' contracts that are triggered by a change of control of the Company.

## Takeover Directive

The Company has only one class of ordinary shares and these shares have equal voting rights. The nature of individual Director's holdings and individually significant shareholders are disclosed on page 52. There are no restrictions on the transfer of shares following the end of the Lock-Up Agreement with Scientific Games Corporation Inc. on 5 October 2010 as described earlier.

As part of the resolutions approved at the 2013 AGM, shareholders' authority was given to the Company's Directors for the allotment of up to 66,270,100 ordinary shares of 50p each if the authority is not utilised in connection with a rights issue, representing 33.3% of the issued share capital of the Company as at the date of the 2013 AGM. During the year, the Directors did not exercise the authorities given to them (to allot shares). As at 31 December 2013, the Directors have the power to allot up to 132,540,201 ordinary shares of 50p each, representing 66.7% of the issued share capital as at the date of the 2013 AGM in connection with a rights issue, subject to a reduction of any amount of shares issued in accordance with the preceding reference.

Certain of the Company's share incentive schemes contain provisions that permit awards or options to vest or become exercisable on a change of control in accordance with the rules of the schemes.

## Going concern

The Group has committed revolving credit banking facilities totalling £75m in place with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc until August 2015. The Group meets its day-to-day working capital requirements through working capital facilities. At 31 December 2013, a £2.5m overdraft facility was carved out of the overall £75m revolving credit facility in the UK with Bank of Scotland plc. This facility is due for renewal in July 2014. The Group's forecasts and projections, which have been prepared for the period to 30 June 2015 and take into account reasonably possible changes in performance, show that the Group will be able to operate within the level of its current facilities and comply with its banking covenants.

After making reasonable enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

# Directors' report continued

for the year ended 31 December 2013

## Disclosure of information to auditors

So far as each Director is aware, at the date of the approval of the financial statements there is no relevant audit information of which the Company's auditors are unaware. Each Director has 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.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

## Statement of Directors' responsibilities

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 Group and Parent Company (the "Company") 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 of the Group and the Company and of the profit or loss of the 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 Group and 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 the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors whose names and functions are listed in the Board of Directors section on pages 24 and 25 confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and other reports contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

## Annual General Meeting ("AGM")

The Notice convening the AGM of the Company on 13 May 2014 is being sent to shareholders with this report.

In accordance with the Articles of Association of the Company, Roger Withers and Peter Williams retire by rotation and offer themselves for re-appointment at the AGM. Cliff Baty and Rich Roberts will retire and offer themselves for re-appointment as they were appointed to the Board since the last AGM. Profiles of these Directors appear on pages 24 and 25.

Resolutions will also be proposed at the AGM to receive the Accounts and the Directors' and Independent Auditors' Reports, to approve the Remuneration Report set out on pages 37 to 53, to re-appoint the auditors and to authorise the Directors to fix their remuneration.

By order of the Board

**Luisa Wright**
**Company Secretary**
5 March 2014

# Independent auditors' report

to the members of Sportech PLC

## Report on the financial statements

### Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2013 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited

The Group financial statements and Parent Company financial statements (the 'financial statements'), which are prepared by Sportech Plc (the 'Parent Company'), comprise:

- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Group and Parent Company balance sheets as at 31 December 2013;
- the Group and Parent Company statements of changes in equity and statements of cash flows for the year then ended; and
- the Accounting Policies and the notes to the financial statements which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts ( the 'Annual Report') to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Overview of our audit approach

#### Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £650,000. This approximates to 2.5% of adjusted EBITDA, which we consider to be the most appropriate benchmark because it is reflective of the underlying profitability of the business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £30,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

#### Overview of the scope of our audit

The Group is structured along two principal geographical business lines, being the UK and US. The UK operations and the UK and group accounting functions are based in Liverpool with the US operations being based in Connecticut and Atlanta. The Group financial statements are a consolidation of their reporting units, comprising the group's operating businesses and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the group engagement team, at the reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

# Independent auditors' report continued

to the members of Sportech PLC

## Report on the financial statements continued

### Overview of our audit approach continued

### Overview of the scope of our audit continued

Accordingly, of the group's 27 reporting units, we identified 14 which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

### Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 32 to 34.

| Area of focus | How the scope of our audit addressed the area of focus |
|---|---|
| **Goodwill Impairment assessment**<br>We focused on this area because the directors' assessment of the carrying value of goodwill and intangible assets, and the annual impairment review the directors are required to perform, involves complex and subjective judgments about the future results of the business.<br><br>(Refer to note 12 to the financial statements.) | We evaluated the directors' future cash flow forecasts, including comparing them to the latest Board approved budgets and challenged the assumptions therein. We challenged the directors' key assumptions for discount and long term growth rates. We also performed sensitivity analysis around the key drivers (being forecast growth rates and cost savings) of the cash flow forecasts. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the asset to be impaired, we considered the likelihood of such movement in those key assumptions arising. |
| **Taxation**<br>The tax affairs of the Group are complicated by the diversity of its geography and type of operations.<br><br>(Refer to note 8 to the financial statements.) | We assessed the directors' current and deferred tax calculations and the assumptions on which they are based, utilising our knowledge and experience of tax matters in both the UK and US.<br><br>We also assessed the level of provisioning in respect of potential current tax liabilities, as well as considering the recoverability of recognised deferred tax assets. |
| **Fraud in revenue recognition**<br>ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.<br><br>We focused on the timing of revenue recognition and its presentation in the income statement because of the inherent complexities. | As the foundation of the evidence we obtained regarding the revenue recognised during the year, we evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements. We also tested journal entries posted to revenue accounts to identify unusual or irregular items.<br><br>We tested the timing of revenue recognition, taking into account contractual obligations, and in particular considered whether the Group appropriately recorded revenue. We also tested the reconciliations between the revenue systems used by the Group and its financial ledgers. |
| **Risk of management override of internal controls**<br>ISAs (UK & Ireland) require that we consider this. | We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also tested journal entries and transactions which we identified as being unusual. |

The Audit Committee's consideration of the judgments referred to above is set out on pages 32 to 34.

## Report on the financial statements continued

### Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on page 55, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

## Opinions on matters prescribed by the Companies Act 2006

In our opinion:

- 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 part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

### Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have no exceptions to report arising from our review.

On page 56 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 32, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

# Independent auditors' report continued

to the members of Sportech PLC

## Other matters on which we are required to report by exception continued

### Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 56, the directors are responsible for the preparation of the Group and Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

M A Heath

**Martin Heath (Senior Statutory Auditor)**
**For and on behalf of PricewaterhouseCoopers LLP**
**Chartered Accountants and Statutory Auditors**
Liverpool
5 March 2014

**Notes:**

a) The maintenance and integrity of the Sportech plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated income statement

for the year ended 31 December 2013

| | Note | Group 2013 £m | Group Restated 2012 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | | **110.3** | 107.7 |
| Cost of sales | | **(61.2)** | (60.0) |
| **Gross profit** | | **49.1** | 47.7 |
| Distribution costs | | **(1.1)** | (1.1) |
| Administrative expenses | | **(39.1)** | (36.3) |
| EBITDA before exceptional costs and share option expense | | **26.0** | 25.2 |
| Share option expense | | **(1.5)** | (1.4) |
| Depreciation and amortisation (excluding amortisation of acquired intangibles) | | **(5.7)** | (4.8) |
| Amortisation of acquired intangibles | | **(7.2)** | (5.9) |
| Exceptional costs | 2 | **(2.7)** | (2.8) |
| **Operating profit** | | **8.9** | 10.3 |
| Finance costs | 4 | **(4.3)** | (4.1) |
| Other finance income/(charges) | 4 | **0.8** | (4.7) |
| Net finance costs | 4 | **(3.5)** | (8.8) |
| Share of loss after tax of joint ventures | 17 | **(0.2)** | (0.2) |
| **Profit before taxation** | 5 | **5.2** | 1.3 |
| Adjusted profit before taxation * | | **14.5** | 14.9 |
| Taxation | 8 | **(1.9)** | (0.8) |
| **Profit for the year from continuing operations** | | **3.3** | 0.5 |
| Profit for the year from discontinued operations | 15 | **0.1** | 0.8 |
| **Profit for the year** | | **3.4** | 1.3 |
| **Earnings per share attributable to owners of the Parent during the year** | | | |
| Basic earnings per share: | | | |
| From continuing operations | 10 | **1.7p** | 0.3p |
| From discontinued operations | 10 | **—** | 0.4p |
| **From profit for the year** | 10 | **1.7p** | 0.7p |
| Diluted earnings per share: | | | |
| From continuing operations | 10 | **1.6p** | 0.2p |
| From discontinued operations | 10 | **—** | 0.4p |
| **From profit for the year** | 10 | **1.6p** | 0.6p |
| **Adjusted earnings from continuing operations per share attributable to owners of the Parent during the year** | | | |
| Basic | 10 | **5.3p** | 5.4p |
| Diluted | 10 | **4.9p** | 5.0p |

* Adjusted profit before taxation is profit from continuing operations before taxation, amortisation of acquired intangibles, exceptional costs, share of loss after tax of joint ventures and other finance income/(charges).

Comparatives have been restated to exclude the results of discontinued operations.

# Consolidated statement of comprehensive income

for the year ended 31 December 2013

| | Note | Group 2013 £m | Group 2012 £m |
|---|---|---|---|
| Profit for the year | | **3.4** | 1.3 |
| Other comprehensive income: | | | |
| *Items that will not be reclassified to profit and loss* | | | |
| Actuarial gain/(loss) on retirement benefit obligations | 32 | **0.3** | (0.3) |
| Deferred tax on movement on retirement benefit obligations | 20 | **(0.1)** | 0.1 |
| Movement on derivative financial instruments | | **–** | 0.4 |
| Deferred tax on movement on derivative financial instruments | 20 | **–** | (0.1) |
| Cumulative movement on derivative financial instruments – reclassification adjustment to the income statement | | **–** | 3.3 |
| Deferred tax on cumulative movement on derivative financial instruments – reclassification adjustment to the income statement | 20 | **–** | (0.8) |
| | | **0.2** | 2.6 |
| *Items that may be subsequently reclassified to profit and loss* | | | |
| Currency translation differences | | **(0.7)** | (1.1) |
| Other comprehensive (expense)/income for the year, net of tax | | **(0.5)** | 1.5 |
| Total comprehensive income for the year | | **2.9** | 2.8 |
| Attributable to the owners of the parent arises from: | | | |
| – Continuing operations | | **2.8** | 2.0 |
| – Discontinued operations | | **0.1** | 0.8 |
| | | **2.9** | 2.8 |

# Statements of changes in equity

for the year ended 31 December 2013

| Group | Ordinary shares £m | Other reserves: Share option reserve £m | Other reserves: Pension reserve £m | Other reserves: Currency translation reserve £m | Financial instrument reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 99.4 | 2.4 | (0.3) | 0.3 | (2.8) | 32.2 | 131.2 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | — | — | — | — | — | 1.3 | 1.3 |
| **Other comprehensive income** | | | | | | | |
| Financial instrument reserve movement * (note 25) | — | — | — | — | 2.8 | — | 2.8 |
| Actuarial loss on retirement benefit obligations * (note 32) | — | — | (0.2) | — | — | — | (0.2) |
| Currency translation differences | — | — | — | (1.1) | — | — | (1.1) |
| Total other comprehensive (expense)/income | — | — | (0.2) | (1.1) | 2.8 | — | 1.5 |
| **Total comprehensive (expense)/income** | — | — | (0.2) | (1.1) | 2.8 | 1.3 | 2.8 |
| **Transactions with owners** | | | | | | | |
| Share option credit (note 26) | — | 1.4 | — | — | — | — | 1.4 |
| At 31 December 2012 | 99.4 | 3.8 | (0.5) | (0.8) | — | 33.5 | 135.4 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | — | — | — | — | — | 3.4 | 3.4 |
| **Other comprehensive income** | | | | | | | |
| Actuarial gain on retirement benefit obligations * (note 32) | — | — | 0.2 | — | — | — | 0.2 |
| Currency translation differences | — | — | — | (0.7) | — | — | (0.7) |
| Total other comprehensive income/(expense) | — | — | 0.2 | (0.7) | — | — | (0.5) |
| **Total comprehensive income/(expense)** | — | — | 0.2 | (0.7) | — | 3.4 | 2.9 |
| **Transactions with owners** | | | | | | | |
| Share option credit (note 26) | — | 1.5 | — | — | — | — | 1.5 |
| Employment taxes paid on vestings in the year | — | (0.1) | — | — | — | — | (0.1) |
| Shares issued in relation to PSP | 3.0 | (3.0) | — | — | — | — | — |
| **At 31 December 2013** | **102.4** | **2.2** | **(0.3)** | **(1.5)** | **—** | **36.9** | **139.7** |

* Net of deferred tax.

| Company | Ordinary shares £m | Other reserve – share option reserve £m | Financial instrument reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2012 | 99.4 | 2.4 | (2.8) | 31.2 | 130.2 |
| **Comprehensive income** | | | | | |
| Loss for the year | — | — | — | (3.9) | (3.9) |
| **Other comprehensive income** | | | | | |
| Financial instrument reserve movement * (note 25) | — | — | 2.8 | — | 2.8 |
| Total other comprehensive income | — | — | 2.8 | — | 2.8 |
| **Total comprehensive income/(expense)** | — | — | 2.8 | (3.9) | (1.1) |
| **Transactions with owners** | | | | | |
| Share option credit (note 26) | — | 1.4 | — | — | 1.4 |
| At 31 December 2012 | 99.4 | 3.8 | — | 27.3 | 130.5 |
| **Comprehensive expense** | | | | | |
| Loss for the year | — | — | — | (10.9) | (10.9) |
| **Total comprehensive expense** | — | — | — | (10.9) | (10.9) |
| **Transactions with owners** | | | | | |
| Share option credit (note 26) | — | 1.5 | — | — | 1.5 |
| Employment taxes paid on vestings in the year | — | (0.1) | — | — | (0.1) |
| Shares issued in relation to PSP and reserve transfer | 3.0 | (3.0) | — | 3.0 | 3.0 |
| **At 31 December 2013** | **102.4** | **2.2** | **—** | **19.4** | **124.0** |

* Net of deferred tax.

# Balance sheets

at 31 December 2013

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2013 £m | Restated 2012 £m | 2013 £m | 2012 £m |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 11 | **153.1** | 153.1 | **—** | — |
| Intangible fixed assets | 12 | **42.7** | 47.4 | **13.1** | 13.9 |
| Property, plant and equipment | 13 | **21.6** | 16.1 | **0.1** | 0.1 |
| Investments in subsidiaries | 14 | **—** | — | **203.7** | 201.2 |
| Net investment in joint ventures | 17 | **0.5** | 0.5 | **—** | — |
| Trade and other receivables | 18 | **0.3** | — | **—** | — |
| Deferred tax assets | 20 | **1.8** | 1.3 | **1.0** | 1.3 |
| | | **220.0** | 218.4 | **217.9** | 216.5 |
| **Current assets** | | | | | |
| Trade and other receivables | 18 | **9.0** | 8.0 | **15.3** | 9.6 |
| Inventories | 19 | **1.5** | 1.6 | **—** | — |
| Cash and cash equivalents | 21 | **2.6** | 2.9 | **0.2** | — |
| | | **13.1** | 12.5 | **15.5** | 9.6 |
| **TOTAL ASSETS** | | **233.1** | 230.9 | **233.4** | 226.1 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Overdraft | 21 | **—** | — | **—** | (5.2) |
| Derivative financial instruments | 25 | **(1.3)** | (2.7) | **(1.3)** | (2.7) |
| Financial liabilities | 24 | **(0.7)** | (6.3) | **—** | (6.1) |
| Trade and other payables | 22 | **(21.1)** | (22.3) | **(42.1)** | (21.6) |
| Provisions | 23 | **(0.2)** | (0.3) | **—** | — |
| Current tax liabilities | | **(0.7)** | (0.6) | **—** | — |
| | | **(24.0)** | (32.2) | **(43.4)** | (35.6) |
| **Net current liabilities** | | **(10.9)** | (19.7) | **(27.9)** | (26.0) |
| **Non-current liabilities** | | | | | |
| Financial liabilities | 24 | **(66.6)** | (61.2) | **(66.0)** | (60.0) |
| Retirement benefit liability | 32 | **(1.3)** | (1.6) | **—** | — |
| Provisions | 23 | **(0.4)** | (0.5) | **—** | — |
| Deferred tax liabilities | 20 | **(1.1)** | — | **—** | — |
| | | **(69.4)** | (63.3) | **(66.0)** | (60.0) |
| **TOTAL LIABILITIES** | | **(93.4)** | (95.5) | **(109.4)** | (95.6) |
| **NET ASSETS** | | **139.7** | 135.4 | **124.0** | 130.5 |
| **EQUITY** | | | | | |
| Ordinary shares | 26 | **102.4** | 99.4 | **102.4** | 99.4 |
| Other reserves | | **0.4** | 2.5 | **2.2** | 3.8 |
| Retained earnings | | **36.9** | 33.5 | **19.4** | 27.3 |
| **TOTAL EQUITY** | | **139.7** | 135.4 | **124.0** | 130.5 |

Comparatives have been restated for the revision of the estimated contingent consideration payable for eBet Online Inc.

The financial statements on pages 61 to 108 were approved and authorised for issue by the Board of Directors on 5 March 2014 and were signed on its behalf by:

**Ian Penrose**
**Chief Executive**

**Cliff Baty**
**Chief Financial Officer**

Company Registration Number: SC69140

# Statements of cash flows

for the year ended 31 December 2013

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 27 | **24.4** | 26.6 | **14.5** | 9.5 |
| Interest paid | | **(4.3)** | (4.1) | **(4.3)** | (4.1) |
| Tax paid | | **(1.7)** | (2.0) | **(0.2)** | — |
| Net cash generated from operating activities before cash exceptional costs | | **18.4** | 20.5 | **10.0** | 5.4 |
| Cash exceptional costs | | **(2.7)** | (2.0) | **(1.4)** | (0.5) |
| Net cash generated from operating activities | | **15.7** | 18.5 | **8.6** | 4.9 |
| **Cash flows from investing activities** | | | | | |
| Investment in joint venture | 17 | **(0.2)** | (0.3) | **—** | — |
| Capital contribution | 14 | **—** | — | **(2.5)** | (5.7) |
| Acquisition of eBet Online Inc. net of cash acquired | 16 | **—** | (5.7) | **—** | — |
| Acquisition of Datatote (England) Limited net of cash acquired | 16 | **(2.4)** | — | **—** | — |
| Payment of deferred consideration for Sportech Racing | | **(6.5)** | — | **(6.5)** | — |
| Payment of deferred consideration for eBet Online Inc. | | **(0.3)** | — | **—** | — |
| Purchase of intangible fixed assets | 12 | **(3.8)** | (3.2) | **(0.2)** | (0.1) |
| Purchase of property, plant and equipment | 13 | **(8.8)** | (5.1) | **—** | — |
| Net cash used in investing activities | | **(22.0)** | (14.3) | **(9.2)** | (5.8) |
| **Cash flows from financing activities** | | | | | |
| Refinancing fee paid – exceptional cost | 4 | **—** | (2.1) | **—** | (2.1) |
| Net cash inflow/(outflow) from drawdown/(repayment) of borrowings | 24 | **6.0** | (2.5) | **6.0** | (2.5) |
| Net cash from/(used in) financing activities | | **6.0** | (4.6) | **6.0** | (4.6) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(0.3)** | (0.4) | **5.4** | (5.5) |
| Cash and cash equivalents at the beginning of the year | | **2.9** | 3.3 | **(5.2)** | 0.3 |
| **Cash and cash equivalents at the end of the year** | 21 | **2.6** | 2.9 | **0.2** | (5.2) |
| **Reconciliation of net bank debt** | | | | | |
| Decrease in cash in the year | | **(0.3)** | (0.4) | | |
| Net cash (inflow)/outflow from (drawdown)/ repayment of borrowings | | **(6.0)** | 2.5 | | |
| Movement in net bank debt for the year | | **(6.3)** | 2.1 | | |
| At 1 January | | **(57.1)** | (59.2) | | |
| **At 31 December** | | **(63.4)** | (57.1) | | |
| Net bank debt comprises: | | | | | |
| Cash and cash equivalents | 21 | **2.6** | 2.9 | | |
| Loans repayable after one year | 24 | **(66.0)** | (60.0) | | |
| **At 31 December** | | **(63.4)** | (57.1) | | |

# Accounting policies

for the year ended 31 December 2013

## General information

Sportech PLC (the "Company") is a company domiciled and incorporated in the UK and listed on the London Stock Exchange. The Company's registered office is Collins House, Rutland Square, Edinburgh, Midlothian, Scotland EH1 2AA. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company, its subsidiaries and joint ventures (together referred to as the "Group"). The principal activities of the Group are sports betting entertainment and provision of wagering technology solutions.

## Going concern

The Group has committed revolving credit banking facilities totalling £75m in place with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc until August 2015. The Group's forecasts and projections, which have been prepared for the period to 30 June 2015 and taking into account reasonably possible changes in performance, show that the Group will be able to operate within the level of its current facilities and comply with its banking covenants.

After making reasonable enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

## Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations as adopted by the European Union ("IFRSs as adopted by the European Union") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Comparatives have been restated to exclude the results of discontinued operations and also for the revision of the estimated contingent consideration payable for eBet Online Inc. and the resultant decrease in goodwill recognised.

The Group's accounting policies have been set by management, approved by the Audit Committee and consistently applied. The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

### (a) Critical judgements

Critical judgements have been made in the following areas:

#### Carrying value of goodwill and acquired intangible fixed assets

For the purposes of determining whether an impairment of goodwill and intangibles from the Littlewoods, Vernons and eBet Online Inc. acquisitions has occurred, and the extent of any impairment or its reversal, the key assumptions the Group uses in estimating future cash flows for value-in-use measures are spend per player, impact of the introduction of new distribution routes and extra pool games, revenue from customer contracts, and cost reductions from ongoing cost reviews. These assumptions and the judgements of management that are based on them are subject to change as new information becomes available. Changes in economic conditions and government policy can also affect the rate used to discount future cash flow estimates. The discount rate applied is reviewed annually. Changes in assumptions could affect the carrying amounts of assets and impairment charges and reversals will affect income. Further details are disclosed within notes 11 and 12.

#### Value of other intangible fixed assets

Intangible assets recognised on the Group's balance sheet include software assets and licences. Management is required to assess the carrying value of assets with an indefinite life at least annually and other assets when an indication of impairment arises. The key assumptions used in estimating the future cash flows for value-in-use measures include estimating capital expenditure and projected revenue levels. For fair value measures, external market information of resale valuations is used to estimate recoverable amount. Management uses its judgement and industry knowledge as well as external indicators in the assessments of carrying value of intangible fixed assets. Changes in assumptions could affect the carrying amounts of assets. Further details are disclosed within note 12.

#### Fair value of assets acquired and liabilities assumed on acquisition of subsidiaries

The Group is required to recognise assets acquired and liabilities assumed at fair value at the date of acquisition under IFRS 3 'Business Combinations' (revised). Management takes into account where required independent valuation of assets or where market valuations are not available, the future discounted cash flows expected to be generated by the assets acquired. Where further information arises in the twelve months post acquisition, relevant to the fair value of assets acquired and liabilities assumed, those valuations are revised and restated in the prior year comparative amounts.

During the year, the Group acquired Datatote (England) Limited ("Data Tote"); further details of the fair value of assets acquired and liabilities assumed, together with the judgements made, are disclosed within note 16.

## Basis of accounting continued
### (a) Critical judgements continued
#### Share options
The fair value of employee options awarded under the Sportech Share Option Scheme is calculated using the Black-Scholes model. The fair value of employee PSP awards is valued using a stochastic (Monte Carlo) valuation model. In accordance with IFRS 2, the resulting cost is charged to the income statement over the vesting period of the options/awards. At each balance sheet date, management uses its judgement to revise its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates in the income statement, with a corresponding adjustment to equity.

#### Taxation
Tax provisions are recognised when it is considered probable (more likely than not) that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in income in the period in which the change occurs. Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as the amounts recognised in income in the period in which the change occurs. Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognised in income both in the period of change, which would include any impact on cumulative provisions, and in future periods. Note 20 contains information on tax charges, on the deferred tax assets that are recognised, including periodic movements, and on the losses on which deferred tax is not currently recognised.

A summary of the more important Group accounting policies is set out on pages 66 to 74. These policies have been applied consistently to all the years presented.

### (b) Basis of consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries, together with a share of the results, assets and liabilities of its joint ventures using the equity method of accounting, all of which have consistent reporting dates with the Company. The Company's accounting reference date is 31 December. Consistent with the normal monthly reporting process, the actual date to which the balance sheet has been drawn up is to 5 January 2014 (2012: 30 December 2012). For ease of reference in these financial statements, all references to the results for the year are for the year ended 31 December 2013 (2012: 31 December 2012) and the financial position at 31 December 2013 (2012: 31 December 2012).

### (c) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Contingent consideration is recognised at fair value at the acquisition date and re-measured at each balance sheet date until settlement. The revaluation amount is debited/credited to the income statement in the period in which the estimated fair value is increased/decreased. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Accounting policies continued

for the year ended 31 December 2013

## Basis of accounting continued

### (d) Joint ventures

A joint venture is an entity in which the Group holds an interest on a long term basis and which is jointly controlled by the Group and one or more venturers under a contractual agreement. The Group's share of its joint ventures' post acquisition profits and losses is recognised in the income statement and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (e) Revenue

Revenue from external customers, net of VAT, excise duties, returns, rebates and discounts and after eliminating sales within the Group, represents:

- the value of entry fees, net of winnings paid, receivable in respect of Football Pools recognised on the date of the event;
- e-Gaming revenues, being the net amount receivable from various contracted third parties after certain deductions for outsourced e-Gaming activities and gains and losses from wagering activity in the period where the Group is the 'bet taker' and gaming licence holder. As well as gains and losses from positions that have closed, revenue from online poker reflects the net income ("rake") earned from poker games and various poker tournament fees completed by the period end;
- the value of bets, net of winnings paid, received in relation to fixed-odds betting activities recognised on the date of the event;
- the value of goods and services sold to external customers, including management fees to registered charities for the management of charity lotteries, is recognised when the goods and services are consumed;
- sale of terminals and systems, recognised when significant risks and rewards of ownership have been transferred, which is when title passes to the customer, generally being at the point of customer acceptance; and
- the value of services delivered under service contracts generally based on either a percentage of amounts wagered or on a predetermined fixed amount depending on contract terms.

Although the value of entry fees net of winnings paid and the value of bets net of winnings paid is reported as revenue, both meet the definition of a gain under IAS 39 'Financial Instruments: Recognition and Measurement'. Under multiple element arrangements, revenue is allocated to the various elements based on fair value determined by the price charged when the same element is sold separately.

### (f) Accruals and deferred income

Accruals and deferred income includes the value of stakes placed prior to the end of the financial period in respect of competitions and sporting events held subsequent to the end of the financial period and income received in advance of a service or product being delivered.

### (g) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee, which makes strategic and operational decisions.

The Group has identified its business segments as outlined below:

- Football Pools – Football Pools and associated games through traditional channels such as mail, telephone, agent-based collection, retail outlets, third-party licensed betting offices, and through online and digital channels;
- Sportech Racing and Digital – provision of pari-mutuel wagering services and systems worldwide principally to the horseracing industry;
- Sportech Venues – off-track betting venue management; and
- corporate costs – central costs relating to the Company in its capacity as the PLC holding company of the Group.

## Basis of accounting continued

### (h) Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority, on either the same or different taxable entities, where there is an intention to settle the balances on a net basis.

### (i) Foreign currencies

#### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Sterling (£), which is the Company's functional currency and the Group's presentation currency.

#### Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except where deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or costs. All other foreign exchange gains and losses are presented in the income statement within operating profit.

#### Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# Accounting policies continued

for the year ended 31 December 2013

## Basis of accounting continued

### (j) Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any impairment. Cost includes the original purchase price of the asset and the costs attributable in bringing the asset to its working condition for its intended use and any associated borrowing costs. Assets in the course of construction are not depreciated until the asset is completed. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the income statement.

Assets in the course of construction are capitalised when first brought into use and depreciated from this date.

### (k) Depreciation

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment down to residual value over their anticipated useful lives at the following annual rates:

| | |
|---|---|
| Long leasehold and owned land | Not depreciated |
| Long leasehold and owned buildings | 4.0%–5.0% |
| Short leasehold land and buildings | Over the period of the lease |
| Plant, equipment and other fixtures and fittings | 10.0%–33.3% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### (l) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration given over the fair value of the separately identifiable net assets acquired. Goodwill arising on acquisitions before the date of transition to IFRSs (4 January 2005) has been frozen at the previous UK GAAP net book value at the date of transition, subject to being tested for impairment annually at the year end date.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to the CGU that is expected to benefit from the business combination in which the goodwill arose.

Goodwill is carried at cost less accumulated impairment losses.

### (m) Intangible fixed assets

Intangible fixed assets are held at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life of the intangible fixed asset.

#### Customer contracts and relationships

Intangible customer contracts and relationship assets relate to the acquisition of Vernons, eBet Online Inc. and Datatote (England) Limited. Customer contracts and relationships are capitalised in accordance with IFRS 3 'Business Combinations' (revised) and on the basis of a value-in-use calculation using an income-based approach. Amortisation is calculated using the straight-line method over their estimated useful lives as follows:

- Vernons — five years from 1 July 2009
- eBet Online Inc. — four years from 19 December 2012
- Datatote (England) Limited — four years from 27 September 2013

## Basis of accounting continued

### (m) Intangible fixed assets continued

#### Software

Externally acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives or contractual period if shorter (six to ten years).

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate proportion of relevant overhead. Other development expenditure that does not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Software development costs are amortised over their estimated useful lives, which do not exceed 15 years.

#### Other intangibles

Other intangible assets include intangible assets acquired as part of the Vernons acquisition which include distribution agreement assets. These assets are amortised over their contractual period (five years). Also included within other intangibles are separately acquired licences recognised at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences that have a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate cost of licences over their estimated useful lives of 15 to 20 years. Licences with an infinite life (licences granted in perpetuity) are held at cost or fair value at acquisition date and tested annually for impairment.

During 2012, the Group acquired eBet Online Inc., giving rise to the recognition of licences, trade names and a non-compete agreement. The trade name fair value has been determined through a relief from royalty method and is amortised over two years from 19 December 2012. The non-compete agreement fair value was derived from a comparative income differential method and is amortised over the life of the agreement being three years.

### (n) Investments in subsidiaries

Investments in subsidiaries are carried at historic cost less any impairment. Annual impairment reviews are performed.

### (o) Impairment reviews

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets with indefinite lives are subject to an annual review for impairment in accordance with IAS 36 'Impairment of Assets'. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairments, assets are grouped at the lowest levels at which there are separately identifiable cash flows. Any impairment losses are recognised in the income statement in the year in which they occur. Any impairment loss recognised on goodwill is not reversed.

All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist at each reporting date.

### (p) Pension obligation

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or Trustee administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

# Accounting policies continued

for the year ended 31 December 2013

## Basis of accounting continued

### (p) Pension obligation continued

The asset or liability recognised in the balance sheet in respect of the defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### (q) Financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate and exchange rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. Financial assets and liabilities are recognised on the Group's balance sheet initially at fair value when the Group becomes party to the contractual provisions of the instrument. Subsequent measurement depends on the designation of the instrument in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

#### Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the variability of cash flows (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

#### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### (r) Share-based payments

The fair value of employee options awarded under the Sportech Share Option Scheme is calculated using the Black-Scholes model. The fair value of employee PSP awards is valued using a stochastic (Monte Carlo) valuation model. In accordance with IFRS 2, the resulting cost is charged to the income statement over the vesting period of the options/awards. The total amount to be expensed is determined by reference to the fair value of the options/awards granted including any market performance conditions, which are those that are based on Sportech PLC's share price, and excluding the impact of any service and non-market performance vesting conditions, being profitability and remaining an employee over a specified time period. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The charge in relation to employees who provide services to subsidiary companies is recharged to those subsidiaries. Where the charge is not required to be settled in cash, the Company's investment in that subsidiary is increased by the value of the charge and a corresponding increase in equity is recognised in the subsidiary.

## Basis of accounting continued

### (s) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents represent cash in hand, operational cash held at trading venues and cash held in current accounts with banks, including overdrafts. Cash and cash equivalents shown on the balance sheet represent cash in hand, cash in vaults and cash held in current accounts; bank overdrafts are shown within current liabilities.

### (t) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### (u) Exceptional items
The Group defines exceptional items as those items which, by their nature or size, would distort the comparability of the Group's results from year to year.

### (v) Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment being the difference between the assets' carrying amounts and the present value of the estimated future cash flows, discounted at the original effective interest rate. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific customer will default or delinquency in payment will arise. Any subsequent recovery of amounts written off is credited to the income statement.

### (w) Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (x) Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out method. Net realisable value is the estimated selling price in the ordinary course of business.

### (y) Provisions
Provisions for onerous contracts, onerous leases, restructuring costs, legal claims and dilapidations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses where the Group has no contractual obligation to deliver the service or product.

### (z) Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (aa) Share capital
Ordinary shares are classed as equity. Incremental costs directly attributable to the value of new shares or options are shown in equity as a deduction from the proceeds in the share premium account where the shares were issued at a premium or, where issued at par or where the issue costs exceed the premium on the issue, to retained earnings.

### (ab) Discontinued operations
Cash flows and operations that relate to a major component of the business that has been sold or is classified as held for sale are shown separately from continuing operations. Finance income or costs are included in discontinued operations only in respect of financial assets or liabilities classified as held for sale or derecognised on sale.

# Accounting policies continued

for the year ended 31 December 2013

## Basis of accounting continued

### (ac) New standards, amendments and interpretations adopted by the Group

The following new standards and amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2013 and have been adopted by the Group.

| Standard or interpretation | Content | Applicable for financial years beginning on or after |
|---|---|---|
| IAS 19R (revised 2011) | Employee Benefits | 1 January 2013 |
| Amendments to IFRS 1 | First-time Adoption, on government loans, fixed dates and hyperinflation | 1 January 2013 |
| Amendment to IFRS 7 | Financial Instruments Assets and Liabilities Offsetting | 1 January 2013 |
| IFRS 10, 11 and 12 | Consolidation for Investment Entities | 1 January 2013 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| Amendment to IAS 1 | Financial Statement Presentation | 1 July 2012 |
| Amendment to IAS 12 | Income Taxes | 1 January 2013 |
| Annual improvements to IFRSs 2011 | Various | 1 January 2013 |

Under IAS 19R the interest cost on the defined benefit obligation, and the expected rate of return on plan assets, has been replaced with a net interest charge that is calculated by applying the discount rate to the net defined benefit liability. In addition, administration expenses must be charged to the income statement.

The prior period income statement and statement of comprehensive income for the year ended 31 December 2012 have not been restated, as the impacts to profit and other comprehensive income are not material to the Group.

The Group has adopted IFRS 13 'Fair Value Measurement'. It establishes a single source of guidance for fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. The adoption of this standard did not have a significant impact on the results or financial position of the Group; however, additional disclosures to reflect the requirements of the standard have been included in these financial statements for the year ended 31 December 2013.

### (ad) New standards, amendments and interpretations not yet effective and not adopted by the Group

The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group.

| Standard or interpretation | Content | Applicable for financial years beginning on or after |
|---|---|---|
| Amendments to IFRS 9 | Financial Instruments | 1 January 2015 |
| Amendments to IAS 27 | Separate Financial Statements | 1 January 2014 |
| Amendments to IFRS 10 | Consolidated Financial Statements | 1 January 2014 |
| Amendments to IAS 32 | Financial Instruments – Presentation | 1 January 2014 |
| Amendments to IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2014 |
| Amendments to IAS 36 | Impairment of Assets | 1 January 2014 |
| IAS 27R (revised 2011) | Separate Financial Statements | 1 January 2014 |
| IAS 28R (revised 2011) | Associates and Joint Ventures | 1 January 2014 |
| Amendments to IAS 39 | Financial Instruments: Recognition and Measurement | 1 January 2014 |
| IFRIC 21 | Levies | 1 January 2014 |
| Annual improvements 2012 and 2013 | Various | 1 January 2014 |

None of the above are expected to have a material impact on the financial statements of the Group or Parent Company.

# Notes to the financial statements

for the year ended 31 December 2013

## 1. Segmental reporting

The Executive Committee assesses the performance of the operating segments based on a measure of adjusted EBITDA which excludes the effects of non-recurring expenditure such as restructuring costs and impairments of assets. The share option expense is also excluded. Interest is not allocated to segments as the Group's cash position is controlled by the central finance team. Sales between segments are at arm's length.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Football Pools £m | Sportech Racing and Digital £m | Sportech Venues £m | Corporate costs £m | Inter-segment elimination £m | Group £m |
| Revenue from sale of goods | 41.3 | 4.1 | — | — | (0.1) | 45.3 |
| Revenue from rendering of services | — | 31.8 | 34.1 | — | (0.9) | 65.0 |
| Total revenue | 41.3 | 35.9 | 34.1 | — | (1.0) | 110.3 |
| EBITDA before exceptional costs and share option expense | 17.4 | 7.7 | 4.8 | (3.8) | (0.1) | 26.0 |
| Share option expense | — | — | — | (1.5) | — | (1.5) |
| Depreciation and amortisation (excluding amortisation of acquired intangibles) | (1.4) | (2.9) | (1.4) | — | — | (5.7) |
| Segment result before amortisation of acquired intangibles and exceptional costs | 16.0 | 4.8 | 3.4 | (5.3) | (0.1) | 18.8 |
| Amortisation of acquired intangibles | (5.9) | (1.3) | — | — | — | (7.2) |
| Exceptional costs | (0.4) | (0.6) | (0.3) | (1.4) | — | (2.7) |
| Operating profit/(loss) | 9.7 | 2.9 | 3.1 | (6.7) | (0.1) | 8.9 |
| Net finance costs | | | | | | (3.5) |
| Share of loss after tax of joint ventures | | | | | | (0.2) |
| Profit before taxation | | | | | | 5.2 |
| Taxation | | | | | | (1.9) |
| Profit for the year from continuing operations | | | | | | 3.3 |
| Profit for the year from discontinued operations | | | | | | 0.1 |
| Profit for the year | | | | | | 3.4 |
| Segment assets | 193.4 | 39.0 | 29.2 | 22.9 | (51.4) | 233.1 |
| Segment liabilities | (13.4) | (9.7) | (19.0) | (102.4) | 51.1 | (93.4) |
| **Other segment items** | | | | | | |
| Capital expenditure (intangible fixed assets and property, plant and equipment) | 2.4 | 6.4 | 3.6 | 0.2 | — | 12.6 |
| Depreciation | 0.3 | 1.7 | 1.2 | — | — | 3.2 |
| Amortisation of intangible assets (including acquired intangibles) | 7.0 | 2.5 | 0.2 | — | — | 9.7 |
| *Discontinued activities:* | | | | | | |
| Loss on disposal of tangible and intangible assets | 0.4 | — | — | — | — | 0.4 |

# Notes to the financial statements continued

for the year ended 31 December 2013

## 1. Segmental reporting continued

| | 2012 (Restated) | | | | | |
|---|---|---|---|---|---|---|
| | Football Pools £m | Sportech Racing and Digital £m | Sportech Venues £m | Corporate costs £m | Inter-segment elimination £m | Group £m |
| Revenue from sale of goods | 42.9 | 4.3 | — | — | (0.2) | 47.0 |
| Revenue from rendering of services | — | 27.4 | 33.7 | — | (0.4) | 60.7 |
| Total revenue | 42.9 | 31.7 | 33.7 | — | (0.6) | 107.7 |
| EBITDA before exceptional costs and share option expense | 18.8 | 5.5 | 4.7 | (3.7) | (0.1) | 25.2 |
| Share option expense | — | — | — | (1.4) | — | (1.4) |
| Depreciation and amortisation (excluding amortisation of acquired intangibles) | (1.3) | (2.2) | (1.4) | — | 0.1 | (4.8) |
| Segment result before amortisation of acquired intangibles and exceptional costs | 17.5 | 3.3 | 3.3 | (5.1) | — | 19.0 |
| Amortisation of acquired intangibles | (5.9) | — | — | — | — | (5.9) |
| Exceptional costs | (0.7) | (1.3) | (0.1) | (0.7) | — | (2.8) |
| Operating profit/(loss) | 10.9 | 2.0 | 3.2 | (5.8) | — | 10.3 |
| Net finance costs | | | | | | (8.8) |
| Share of loss after tax of joint venture | | | | | | (0.2) |
| Profit before taxation | | | | | | 1.3 |
| Taxation | | | | | | (0.8) |
| Profit for the year from continuing operations | | | | | | 0.5 |
| Profit for the year from discontinued operations | | | | | | 0.8 |
| Profit for the year | | | | | | 1.3 |
| Segment assets | 186.4 | 29.0 | 28.9 | 14.6 | (28.0) | 230.9 |
| Segment liabilities | (9.5) | (14.4) | (9.4) | (90.0) | 27.8 | (95.5) |
| **Other segment items** | | | | | | |
| Capital expenditure (intangible fixed assets and property, plant and equipment) | 2.7 | 4.4 | 1.1 | 0.1 | — | 8.3 |
| Depreciation | 0.4 | 0.9 | 1.4 | — | (0.1) | 2.6 |
| Amortisation of intangible assets (including acquired intangibles) | 6.8 | 1.3 | — | — | — | 8.1 |
| *Discontinued activities:* | | | | | | |
| Amortisation of intangible assets | 0.4 | — | — | — | — | 0.4 |

**Information by geographical area**

| | Revenues from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2013 £m** | Restated 2012 £m | **2013 £m** | 2012 £m |
| United Kingdom | **43.6** | 43.0 | **173.7** | 178.9 |
| North America | **54.0** | 50.9 | **43.6** | 37.8 |
| Europe | **11.8** | 11.1 | **2.7** | 1.7 |
| Other | **0.9** | 2.7 | **—** | — |
| Total | **110.3** | 107.7 | **220.0** | 218.4 |

Revenue is allocated to the country in which the customer is located and the service is performed or product is delivered.

Comparatives have been restated to exclude the results of discontinued operations and also for the revision of the estimated contingent consideration payable for eBet Online Inc. and the resultant decrease in goodwill recognised. See note 16b.

## 2. Exceptional costs

Exceptional charges of £2.7m (2012: £2.8m) are included within administrative expenses and exceptional income of £1.4m (2012: charge of £4.9m) is included within net finance costs in the income statement. Exceptional costs by type are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Included in administrative expenses: | | |
| Redundancy and restructuring costs in respect of the rationalisation and modernisation of the business | **1.0** | 0.9 |
| Compensation for loss of office | **0.3** | 0.3 |
| Costs and fees in relation to Spot the Ball VAT claim | **0.5** | 0.2 |
| Transaction costs in respect of the acquisition of subsidiaries | **0.2** | 0.6 |
| Licensing costs in New Jersey in respect of the acquisition of Sportech Racing | **0.3** | 0.4 |
| IFRS 3 employment costs in relation to eBet Online Inc. and Datatote (England) Limited | **0.1** | — |
| Other exceptional costs | **0.3** | 0.4 |
| | **2.7** | 2.8 |
| Included in net finance costs: | | |
| Refinancing fee | **—** | 2.1 |
| Fair value of derivative financial instruments reclassified to the income statement | **—** | 3.3 |
| Movement on derivative financial instruments post designation as ineffective | **(1.4)** | (0.5) |
| | **(1.4)** | 4.9 |
| Total exceptional costs | **1.3** | 7.7 |

## 3. Expenses by nature

| | 2013 £m | Restated 2012 £m |
|---|---|---|
| Continuing operations: | | |
| Selling commissions | **3.2** | 3.6 |
| Betting and gaming duties | **6.9** | 7.1 |
| Track and tote fees | **15.7** | 15.3 |
| Marketing, printing and postage costs | **6.4** | 6.0 |
| Employment costs (note 6) | **31.5** | 31.0 |
| Share option expense (note 6) | **1.5** | 1.4 |
| Depreciation and amortisation (notes 12 and 13) | **12.9** | 10.7 |
| Distribution costs | **1.1** | 1.1 |
| IT and telecommunications costs | **3.7** | 3.7 |
| Cost of inventories recognised as an expense (note 19) | **2.7** | 3.4 |
| Exceptional costs excluding redundancy and restructuring costs and compensation for loss of office (note 2) | **1.4** | 1.6 |
| Property related costs | **5.3** | 5.2 |
| Other costs | **9.1** | 7.3 |
| Total expenses of continuing operations | **101.4** | 97.4 |
| Expenses of discontinued operations (note 15) | **5.3** | 3.5 |
| Total expenses | **106.7** | 100.9 |

Included in the above table are exceptional costs of £2.7m (2012: £2.8m).

# Notes to the financial statements continued

for the year ended 31 December 2013

## 4. Net finance costs

| | 2013 £m | 2012 £m |
|---|---|---|
| Interest payable on bank loans, derivative financial instruments and overdrafts | **4.3** | 4.1 |
| Refinancing fee | **—** | 2.1 |
| Fair value of derivative financial instruments reclassified to the income statement | **—** | 3.3 |
| Movement on derivative financial instruments post designation as ineffective | **(1.4)** | (0.5) |
| Non-cash finance charges/(income) * | **0.4** | (0.1) |
| Foreign exchange loss/(gain) on financial assets and liabilities denominated in foreign currency | **0.2** | (0.1) |
| Net finance costs | **3.5** | 8.8 |

* Non-cash finance charges/(income) are in respect of the deferred consideration payable on the acquisition of Sportech Racing in October 2010.

The refinancing fee, the fair value movements on derivative financial instruments, the foreign exchange loss/(gain) on financial assets and liabilities denominated in foreign currency and the non-cash finance charges/(income) are all together shown as other finance income/(charges) in the income statement. Included in the above table is exceptional income of £1.4m (2012: costs of £4.9m).

## 5. Profit before taxation

Profit before taxation is stated after charging:

| | Note | 2013 £m | 2012 £m |
|---|---|---|---|
| Employment costs | 6 | **33.0** | 32.4 |
| Depreciation of property, plant and equipment | 13 | **3.2** | 2.6 |
| Amortisation of acquired intangibles | 12 | **7.2** | 5.9 |
| Amortisation of other intangibles | 12 | **2.5** | 2.2 |

The fees of the auditors in relation to their audit of the Company and consolidated accounts are £38,000 (2012: £38,000).

Fees paid to auditors for other services comprise:

| | 2013 £m | 2012 £m |
|---|---|---|
| Audit of the Group's subsidiaries | **0.2** | 0.2 |
| Taxation compliance and advisory services | **0.5** | 0.2 |
| Corporate advisory costs | **—** | 0.1 |
| Total fees | **0.7** | 0.5 |

## 6. Employment costs

Average number of monthly employees including Executive Directors comprised:

| | 2013 Number | 2012 Number |
|---|---|---|
| Sales and marketing | **105** | 112 |
| Operations and distribution | **567** | 595 |
| Administration | **123** | 91 |
| Total employees | **795** | 798 |

Their aggregate remuneration comprised:

| | 2013 £m | Restated 2012 £m |
|---|---|---|
| Wages and salaries | **28.6** | 26.9 |
| Social security costs | **2.0** | 3.2 |
| Pension costs – defined contribution scheme (note 32) | **0.7** | 0.7 |
| Pension costs – defined benefit scheme (note 32) | **0.2** | 0.2 |
| Share option expense (note 26) | **1.5** | 1.4 |
| Total remuneration | **33.0** | 32.4 |

## 7. Directors and key management remuneration

### Directors

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Short term employee benefits | **1,345** | 1,461 |
| Share-based payments | **1,505** | 1,381 |
| Termination benefits | **141** | 254 |
| Post employment benefits | **60** | 68 |
| Total remuneration | **3,051** | 3,164 |

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration Report on pages 37 to 53. This information forms part of the financial statements. No Director exercised share options in the year (2012: none).

### Key management compensation

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Short term employee benefits | **1,780** | 1,813 |
| Termination benefits | **141** | 254 |
| Post employment benefits | **66** | 74 |
| Share-based payments | **831** | 942 |
| Total | **2,818** | 3,083 |

Key management is considered to be the Directors of the Company (Executive and Non-executive) and senior Executives.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 8. Taxation

| | 2013 £m | 2012 £m |
|---|---|---|
| Current tax: | | |
| Current tax on profit for the year | 1.8 | 1.1 |
| Adjustments in respect of prior years | — | (0.1) |
| Total current tax | 1.8 | 1.0 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (0.1) | (0.4) |
| Effect of changes in tax rates | 0.2 | 0.2 |
| Total deferred tax | 0.1 | (0.2) |
| Total taxation charge | 1.9 | 0.8 |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits and losses of the consolidated entities as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Profit before taxation | 5.2 | 1.3 |
| Add share of loss after tax of joint ventures | 0.2 | 0.2 |
| Profit before taxation and share of loss after tax of joint ventures | 5.4 | 1.5 |
| Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries | 1.5 | 0.8 |
| Tax effects of: | | |
| – permanent differences | 0.3 | (0.1) |
| – deferred tax not previously provided | (0.1) | — |
| – effect of changes in tax rates | 0.2 | 0.2 |
| – adjustments in respect of prior years | — | (0.1) |
| Total taxation charge | 1.9 | 0.8 |

The weighted average applicable tax rate was 26.8% (2012: 36.5%). The decrease is as a result of a change in mix of profits in jurisdictions with varying tax rates.

For UK taxation, as the Group's year end is after the substantive enactment date (2 July 2013) of the Finance Act 2013 and after the substantive enactment date of the March 2013 UK Budget Statement changes, these financial statements account for the change in UK corporation tax rate from 24% to 23% with effect from 1 April 2013, the change in tax rate from 23% to 21% with effect from 1 April 2014 and the change in tax rate from 21% to 20% with effect from 1 April 2015 and therefore the rate at which deferred tax is calculated has changed. Deferred tax in the UK is provided at 21%, a blended rate of 21.5% or at 20%, depending on when the deferred tax is expected to unwind.

## 9. Loss of holding company

Of the profit for the year, a loss of £10.9m (2012: £3.9m) is dealt with in the accounts of Sportech PLC and the statement of changes in equity. The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement and statement of comprehensive income for the Company alone.

The individual income statement of Sportech PLC was approved by the Board on 5 March 2014.

## 10. Earnings per share

### a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2013 £m | 2012 £m |
|---|---|---|
| Profit from continuing operations attributable to the owners of the Parent | **3.3** | 0.5 |
| Profit from discontinued operations attributable to the owners of the Parent | **0.1** | 0.8 |
| **Total** | **3.4** | 1.3 |
| Weighted average number of ordinary shares in issue ('000) | **200,227** | 198,810 |

### b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Certain employee options (707,070 in number; 2012: 707,070) have been excluded from the calculated diluted EPS as their exercise price is greater than the weighted average share price during the year and therefore would not be dilutive. The weighted average number of shares that have a dilutive effect on adjusted EPS is 13,161,000 (2012: 13,742,000). Diluted basic EPS is 1.6p (2012: 0.6p) and diluted adjusted EPS is 4.9p (2012: 5.0p).

### c) Basic adjusted

The calculations of adjusted EPS are based on the following profits attributable to ordinary shareholders, the weighted average number of shares and an estimated adjusted tax charge of 27.7% (2012: 28.2%):

| | 2013 | | | Restated 2012 | | |
|---|---|---|---|---|---|---|
| | Profit £m | Weighted average number of shares '000 | Per share amount Pence | Profit £m | Weighted average number of shares '000 | Per share amount Pence |
| Operating profit before amortisation of acquired intangibles and exceptional costs | **18.8** | **200,227** | **9.4** | 19.0 | 198,810 | 9.6 |
| Net finance costs (excluding other finance income/(charges)) | **(4.3)** | **200,227** | **(2.1)** | (4.1) | 198,810 | (2.1) |
| Adjusted profit before taxation | **14.5** | **200,227** | **7.3** | 14.9 | 198,810 | 7.5 |
| Tax at 27.7% (2012: 28.2%) | **(4.0)** | **200,227** | **(2.0)** | (4.2) | 198,810 | (2.1) |
| Adjusted basic EPS | **10.5** | **200,227** | **5.3** | 10.7 | 198,810 | 5.4 |

## 11. Goodwill

| Group | 2013 £m | Restated 2012 £m |
|---|---|---|
| **Cost** | | |
| At 1 January 2013 | **171.0** | 165.5 |
| Business combination (note 16) | **—** | 5.5 |
| **At 31 December 2013** | **171.0** | 171.0 |
| **Accumulated impairment charges** | | |
| At 1 January 2013 and 31 December 2013 | **(17.9)** | (17.9) |
| Opening net book amount | **153.1** | 147.6 |
| **Closing net book amount** | **153.1** | 153.1 |

The goodwill brought forward in the accounts relates to the acquisition of Littlewoods Leisure, including the Littlewoods Football Pools business, in September 2000 amounting to £145.2m, the goodwill arising on the acquisition of Vernons Football Pools in December 2007 amounting to £20.3m, and the goodwill arising on the acquisition of eBet Online Inc. Goodwill has been restated by £0.3m as a result of changes to fair value assumptions as detailed within note 16. During the year the Group carried out its annual impairment review of the carrying value of its goodwill. The goodwill from the Littlewoods Leisure and Vernons acquisitions is attributed to the Football Pools segment. The goodwill from the eBet Online Inc. acquisition is attributed to the Sportech Racing and Digital segment.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 11. Goodwill continued

For the purpose of the annual impairment review of the Football Pools goodwill, the recoverable amounts are measured based on value in use, calculated using discounted future cash flows. The key assumptions in the value-in-use calculations were:

- the cash flow forecasts used are based upon the budget approved by the Board for 2014 and on cash flow projections for 2015 to 2018 also approved by the Board, with a terminal value at 2018 calculated in accordance with IAS 36;
- revenue forecasts for the core Football Pools business reflect the improvement in spend per player from core customer numbers within the last four years, the introduction of new customers and acquisition activities and additional distribution routes, the improvement in technology following the continued investment through 2013, additional investment in the Football Pools online presence and the increase to 104 pool games, the impact all of which the Board believes will lead to a stabilisation of revenues within the core Football Pools business;
- the terminal value is based on a nil growth rate given the expected stabilisation of profit streams;
- cash flows have been discounted at 8.3% (2012: 8.3%), reflecting the weighted average cost of capital for the Group; and
- there are no material adverse changes in legislation.

For the purpose of the annual impairment review of the eBet Online Inc. goodwill, the recoverable amounts are measured based on value in use, calculated using discounted future cash flows. The key assumptions in the value-in-use calculations were:

- the cash flow forecasts used are based upon the budget approved by the Board for 2014 and on cash flow projections for 2015 to 2018 also approved by the Board, with a terminal value at 2018 calculated in accordance with IAS 36;
- the terminal value is based on a nil growth rate given the expected maturity of the business by 2018;
- cash flows have been discounted at 8.3% (2012: 8.3%), reflecting the weighted average cost of capital for the Group; and
- there are no material adverse changes in legislation.

Following the impairment review an impairment of £nil was charged to the income statement (2012: £nil). Various sensitivity tests were performed on the calculation of value in use. These indicated that changes to the revenue forecasts generated the greatest sensitivity and in certain scenarios an impairment may arise. The Football Pools goodwill impairment test cash flows are taken from the Group's strategic plans and rely on the objectives being achieved. If these do not come to fruition then an impairment may also arise. If the WACC were to increase to above 9.3% an impairment in The Football Pools goodwill would result. However, a reasonably possible combination of changes in assumptions did not result in an impairment for either The Football Pools or eBet Online Inc. goodwill.

## 12. Intangible fixed assets

| Group | Customer contracts and relationships £m | Software £m | Other £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2013 | 34.5 | 33.4 | 21.8 | 89.7 |
| Business combination (note 16) | 1.9 | — | — | 1.9 |
| Disposals | — | (0.3) | — | (0.3) |
| Reclassification | — | 0.8 | (0.8) | — |
| Additions | — | 3.6 | 0.2 | 3.8 |
| **At 31 December 2013** | **36.4** | **37.5** | **21.2** | **95.1** |
| **Accumulated amortisation** | | | | |
| At 1 January 2013 | 24.2 | 15.0 | 2.8 | 42.0 |
| Charged during the year | 6.9 | 2.5 | 0.3 | 9.7 |
| **At 31 December 2013** | **31.1** | **17.5** | **3.1** | **51.7** |
| Exchange differences | — | — | (0.7) | (0.7) |
| **Net book amount at 31 December 2013** | **5.3** | **20.0** | **17.4** | **42.7** |

### Customer contracts and relationships

Customer contracts and relationships as at 1 January 2013 are in relation to the acquisition of Vernons, which have a useful life of five years from 1 July 2009, and to eBet Online Inc., which have a useful life of four years from 19 December 2012.

During the year, the Group acquired Datatote (England) Limited giving rise to the further recognition of customer contracts and relationships. The useful life is four years and eight months from 27 September 2013.

## 12. Intangible fixed assets continued

### Software

Included in software are assets under construction with a cost of £1.0m (2012: £1.9m). Accordingly, these assets are not currently amortised.

### Other intangibles

The Group holds a licence in perpetuity to offer pari-mutuel off-track betting in the state of Connecticut in the USA. Given this licence is in perpetuity, the book value of the asset amounting to £15.2m (2012: £15.5m) is not amortised and the useful economic life allocated to the asset is indefinite. The movement in net book value is as a result of movement in exchange rates given the asset is denominated in US Dollars. As required by IAS 36 'Impairment of Assets' an impairment test has been carried out as at 31 December 2013.

The recoverable amount of the asset has been determined based on a value-in-use calculation and is allocated to the Sportech Racing CGU. The calculation used post tax cash flow projections based on financial budgets and forecasts approved by management covering a five-year period. The following assumptions were made in determining the recoverable amount:

- the CGU was determined to be the assets which require the licence in order to provide off-track betting to the public. Only the cash flows expected to be generated from these assets were included in the calculation;
- EBITDA forecasts are in line with the approved 2014 budget and 2015 to 2018 strategic plans;
- capital expenditure was included in the cash flows at management's best estimate of industry norm for re-investment in retail outlets of the kind under review;
- cash flows beyond the fifth year were extrapolated using a nil growth rate given the expected stabilisation of cash flows over time; and
- a post tax discount rate of 8.3% was used representing the weighted average cost of capital of the Group. The CGU operates in a highly regulated market, equivalent to the majority of the Group's activities and therefore the use of the Group's weighted average cost of capital ("WACC") in the value-in-use calculation is considered to be appropriate.

The impairment test showed significant headroom over the book value of the asset and various sensitivity tests were performed showing that no reasonably possible change to a key assumption would cause the CGU's carrying amount to exceed the recoverable amount.

| Company | Software £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2013 | 15.7 | 0.6 | 16.3 |
| Additions | — | 0.2 | 0.2 |
| **At 31 December 2013** | **15.7** | **0.8** | **16.5** |
| **Accumulated amortisation** | | | |
| At 1 January 2013 | 2.4 | — | 2.4 |
| Charged during the year | 1.0 | — | 1.0 |
| **At 31 December 2013** | **3.4** | **—** | **3.4** |
| **Net book amount at 31 December 2013** | **12.3** | **0.8** | **13.1** |

The software provides pari-mutuel services to customers in North America. Management has estimated the useful economic life of the asset to be 15 years. The net book amount at 31 December 2013 was £12.3m and the remaining life was eleven years and nine months (2012: net book amount of £13.3m and the remaining life was twelve years and nine months).

# Notes to the financial statements continued

for the year ended 31 December 2013

## 12. Intangible fixed assets continued

### Other intangibles continued

| Group | Customer contracts and relationships £m | Software £m | Other £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2012 | 32.7 | 31.6 | 19.2 | 83.5 |
| Business combination (note 16) | 1.8 | 0.3 | 0.9 | 3.0 |
| Additions | — | 1.5 | 1.7 | 3.2 |
| At 31 December 2012 | 34.5 | 33.4 | 21.8 | 89.7 |
| **Accumulated amortisation** | | | | |
| At 1 January 2012 | 18.3 | 12.5 | 2.7 | 33.5 |
| Charged during the year | 5.9 | 2.5 | 0.1 | 8.5 |
| At 31 December 2012 | 24.2 | 15.0 | 2.8 | 42.0 |
| Exchange differences | — | — | (0.3) | (0.3) |
| Net book amount at 31 December 2012 | 10.3 | 18.4 | 18.7 | 47.4 |

| Company | Software £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2012 | 15.7 | 0.5 | 16.2 |
| Additions | — | 0.1 | 0.1 |
| At 31 December 2012 | 15.7 | 0.6 | 16.3 |
| **Accumulated amortisation** | | | |
| At 1 January 2012 | 1.3 | — | 1.3 |
| Charged during the year | 1.1 | — | 1.1 |
| At 31 December 2012 | 2.4 | — | 2.4 |
| Net book amount at 31 December 2012 | 13.3 | 0.6 | 13.9 |

Amortisation has been included within administrative expenses.

## 13. Property, plant and equipment

| Group | Short leasehold land and buildings £m | Long leasehold and owned land and buildings £m | Plant and machinery £m | Fixtures and fittings £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2013 | 0.1 | 9.0 | 10.4 | 0.8 | 4.9 | 25.2 |
| Additions | — | 0.1 | 0.5 | 0.1 | 8.1 | 8.8 |
| Acquired with subsidiary | — | 0.1 | 0.3 | — | — | 0.4 |
| Disposals | — | — | (1.1) | — | — | (1.1) |
| Transfer | — | 0.3 | 2.6 | 0.1 | (3.0) | — |
| **At 31 December 2013** | **0.1** | **9.5** | **12.7** | **1.0** | **10.0** | **33.3** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2013 | 0.1 | 2.8 | 5.6 | 0.1 | — | 8.6 |
| Disposals | — | — | (1.0) | — | — | (1.0) |
| Charged during the year | — | 0.7 | 2.3 | 0.2 | — | 3.2 |
| **At 31 December 2013** | **0.1** | **3.5** | **6.9** | **0.3** | **—** | **10.8** |
| Exchange differences | — | (0.4) | (0.1) | (0.1) | (0.3) | (0.9) |
| **Net book amount at 31 December 2013** | **—** | **5.6** | **5.7** | **0.6** | **9.7** | **21.6** |

| Company | Short leasehold land and buildings £m | Plant and machinery £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January and 31 December 2013 | 0.1 | 0.2 | 0.3 |
| **Accumulated depreciation** | | | |
| At 1 January and 31 December 2013 | 0.1 | 0.1 | 0.2 |
| **Net book amount at 31 December 2013** | **—** | **0.1** | **0.1** |

| Group | Short leasehold land and buildings £m | Long leasehold and owned land and buildings £m | Plant and machinery £m | Fixtures and fittings £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2012 | 0.1 | 8.9 | 8.1 | 0.6 | 3.7 | 21.4 |
| Additions | — | 0.2 | 0.7 | 0.1 | 4.1 | 5.1 |
| Disposals | — | (0.2) | (1.0) | (0.1) | — | (1.3) |
| Transfer | — | 0.1 | 2.6 | 0.2 | (2.9) | — |
| At 31 December 2012 | 0.1 | 9.0 | 10.4 | 0.8 | 4.9 | 25.2 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2012 | 0.1 | 2.3 | 4.8 | 0.1 | — | 7.3 |
| Disposals | — | (0.2) | (1.0) | (0.1) | — | (1.3) |
| Charged during the year | — | 0.7 | 1.8 | 0.1 | — | 2.6 |
| At 31 December 2012 | 0.1 | 2.8 | 5.6 | 0.1 | — | 8.6 |
| Exchange differences | — | (0.2) | (0.1) | (0.1) | (0.1) | (0.5) |
| Net book amount at 31 December 2012 | — | 6.0 | 4.7 | 0.6 | 4.8 | 16.1 |

# Notes to the financial statements continued

for the year ended 31 December 2013

## 13. Property, plant and equipment continued

| Company | Short leasehold land and buildings £m | Plant and machinery £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January and 31 December 2012 | 0.1 | 0.2 | 0.3 |
| **Accumulated depreciation** | | | |
| At 1 January and 31 December 2012 | 0.1 | 0.1 | 0.2 |
| Net book amount at 31 December 2012 | — | 0.1 | 0.1 |

## 14. Investments in subsidiaries

| | Group | | Company | |
|---|---|---|---|---|
| Investments in Group companies | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| At 1 January | **—** | — | **201.2** | 195.5 |
| Capital contribution | **—** | — | **2.5** | 5.7 |
| At 31 December | **—** | — | **203.7** | 201.2 |

Investments in Group companies are stated at cost which is the fair value of the consideration paid.

## 14. Investments in subsidiaries continued

The Company is the holding company of the Group. The following table shows details of the Company's principal subsidiaries and joint venture investments:

| Name of company | Holding | Proportion of voting rights | Country of incorporation | Nature of business |
|---|---|---|---|---|
| Sportech Gaming Limited * | Ordinary shares | 100% | England and Wales | Holding company |
| The Football Pools Limited | Ordinary shares | 100% | England and Wales | Pools betting and gaming |
| UK Lottery Management Limited | Ordinary shares | 100% | England and Wales | Management of charity lotteries |
| Football Pools 1923 Limited | Ordinary shares | 100% | England and Wales | Asset hiring |
| Football Pools Games Limited (previously Vernons Games Limited) | Ordinary shares | 100% | England and Wales | Gaming |
| TFPL Financial Services Limited (previously Vernons Financial Services Limited) | Ordinary shares | 100% | England and Wales | Database income |
| Sportech Alderney Limited | Ordinary shares | 100% | Alderney, Channel Islands | Gaming |
| Datatote (England) Limited | Ordinary shares | 100% | England and Wales | Betting systems provision |
| Sportshub Private Limited | Ordinary shares | 50% | India | Sport entertainment |
| Sportech Racing GmbH | Ordinary shares | 100% | Germany | Pari-mutuel systems provision |
| Sportech Racing GmbH | Ordinary shares | 100% | Austria | Pari-mutuel systems provision |
| Sportech France SAS | Ordinary shares | 100% | France | Pari-mutuel systems provision |
| Sportech Racing BV | Ordinary shares | 100% | Netherlands | Off-track betting and venues management |
| Racing Technology Ireland Limited | Ordinary shares | 100% | Ireland | Pari-mutuel systems provision |
| Sportech Racing Limited | Ordinary shares | 100% | Turkey | Pari-mutuel systems provision |
| Sportech Inc. | Ordinary shares | 100% | USA | Holding company |
| Sportech Racing Panama Inc. | Ordinary shares | 100% | Panama | Pari-mutuel systems provision |
| Sportech Racing LLC | Ordinary shares | 100% | USA | Pari-mutuel systems provision |
| Trackplay LLC | Ordinary shares | 100% | USA | Pari-mutuel systems provision |
| Sportech – NYX Gaming LLC | Ordinary shares | 50% | USA | Gaming software and services |
| Sportech Racing Canada Inc. | Ordinary shares | 100% | Canada | Pari-mutuel systems provision |
| Sportech Venues Inc. | Ordinary shares | 100% | USA | Off-track betting and venues management |
| S&S Venues California LLC | Ordinary shares | 50% | USA | Sports bar owner and operator |
| eBet Technologies Inc. | Ordinary shares | 100% | USA | Online pari-mutuel systems and services provision |
| Picklive USA LLC | Ordinary shares | 51% | USA | Social gaming |

* Ownership is directly held by the Company, Sportech PLC.

All of these companies have been included in the consolidated financial statements. A full list of Group subsidiaries can be found in the Company's annual return available from Companies House.

The Directors believe that the carrying value of investments is supported by their underlying net assets. An impairment test has been carried out in relation to the investment held by Sportech PLC in Sportech Gaming Limited (carrying value of £167.1m) which specifically related to the onward investment in The Football Pools Limited, following an indication of a potential impairment. The recoverable amount was determined based on value-in-use calculations. The calculations used post tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of nil%. The headroom in the impairment calculation is tight. Relatively small changes in the discount rate or cash flows would lead to an impairment. While the Directors are confident that there is no impairment, they continue to monitor the position closely.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 15. Discontinued activities and disposal

On 31 October 2013, the Group disposed of the trade and assets of its UK-facing e-Gaming division to NetPlay TV Group Limited for total cash consideration of £3.0m.

| Group | 2013 £m | 2012 £m |
|---|---|---|
| Operating cash flows | (0.5) | 0.5 |
| Investing cash flows | (0.3) | — |
| **Total cash flows** | **(0.8)** | **0.5** |

Analysis of the results of the discontinued operation is as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Revenue | 3.9 | 4.3 |
| Expenses | (5.3) | (3.5) |
| (Loss)/profit after tax of discontinued operations | (1.4) | 0.8 |

The table below analyses the net gain on disposal of the e-Gaming division:

| Group | £m |
|---|---|
| Proceeds from sale | 3.0 |
| Impairment of assets | (0.4) |
| Redundancy and other closure costs | (0.3) |
| Other costs of disposal | (0.8) |
| Loss after tax for the year from discontinued activities | (1.4) |
| **Net profit after tax on disposal** | **0.1** |

## 16. Business combinations

### a) Datatote (England) Limited

On 27 September 2013, the Group acquired 100% of the issued share capital of Datatote (England) Limited ("Data Tote"), a leading UK betting operator and technology and services provider focused on the European greyhound and horseracing betting market.

The acquisition of Data Tote further reinforces Sportech's position as one of the largest operators and providers of betting technologies and services in the world. Data Tote brings an incremental customer base with strong year-on-year revenue growth that will broaden Sportech's share of the European betting market.

Goodwill arising on the acquisition amounted to £nil.

The following table summarises the fair value of consideration paid for Data Tote and the amounts of the assets acquired and liabilities assumed recognised at acquisition date.

| Provisional fair value of consideration at 27 September 2013 | £m |
|---|---|
| Cash | 3.1 |
| Deferred contingent consideration | 0.1 |
| **Total fair value of consideration transferred** | **3.2** |

| Recognised provisional fair value amounts of identifiable assets acquired and liabilities assumed | £m |
|---|---|
| Cash | 0.7 |
| Intangible assets – customer contracts and relationships (note 12) | 1.9 |
| Property, plant and equipment (note 13) | 0.4 |
| Trade and other receivables | 0.6 |
| Inventories | 0.1 |
| Trade and other payables | (0.1) |
| Deferred tax liability (note 20) | (0.4) |
| **Total identifiable net assets** | **3.2** |
| **Goodwill** | **–** |
| **Total fair value of consideration transferred** | **3.2** |

### Deferred contingent consideration

There is potential for contingent consideration of up to £1.0m to be payable if the Data Tote business' EBITDA for the period from 1 July 2013 to 30 June 2016 reaches the following:

- less than £2.0m – the contingent consideration payable will equal £nil; and
- equal or greater than £2.0m – the contingent consideration payable will equal £0.5m plus £1.00 for every £1.00 that the Data Tote business exceeds £2.0m by, up to a maximum amount payable of £1.0m.

The amount payable is due five business days after the date on which the calculation of the earn out EBITDA becomes final and binding.

The Directors have reviewed the potential consideration payable based on the above performance requirements and accordingly recognised a fair value of £0.1m, representing the present value of the Group's estimate of the probability weighted cash outflow (discounted at 8.3%). An additional £0.9m of potential consideration payable has been treated as employment costs under IFRS 3 'Business Combinations' (revised) and will accordingly be accrued on a time apportioned basis to 30 June 2016. This expectation will be reviewed annually in accordance with IFRS 3 'Business Combinations' (revised).

### Acquisition costs

Acquisition related costs amounting to £0.2m have been recognised as an expense in the consolidated income statement as an exceptional item.

### Provisional fair value amounts of identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets acquired and liabilities assumed are considered provisional in nature due to the business combination occurring close to the year end. Management will continue to monitor the provisional values during the year ended 31 December 2014 to ensure any fair value amendments are identified as a hindsight adjustment.

The fair value of trade and other receivables is £0.6m. The gross contractual amount for trade receivables due is £0.6m, of which £nil is expected to be uncollectable.

No contingent liabilities have been recognised as at the acquisition date.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 16. Business combinations continued

### a) Datatote (England) Limited continued

#### Data Tote contribution to the Group results

Data Tote has contributed £0.3m and £nil to the Group's revenues and profit, respectively, from the acquisition date to 31 December 2013. Had the acquisition occurred on 1 January 2013, the Group's revenue for the period ended 31 December 2013 would have been £112.5m and the Group's profit for the year would have been £3.7m. These amounts have been determined by applying the Group's accounting policies and adjusting the results of Data Tote to reflect additional depreciation and amortisation that would have been charged, assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from 1 January 2013, together with their consequential tax effects.

### b) eBet Online Inc.

On 19 December 2012, the Group acquired 100% of the issued share capital of eBet Online Inc. ("eBet"). There were no changes to the fair value assumptions applied by management at acquisition during the hindsight period in relation to net assets acquired and consideration paid other than in relation to the contingent deferred consideration expected to be paid in early 2016. EBITDA estimates for the combined Interactive Products and Services business have been revised down and as a result the estimate of deferred contingent consideration expected to be paid have been revised down from £0.8m ($1.3m) to £0.5m ($0.9m). Given the reassessment was within the hindsight period, the prior year accounting for the acquisition has been restated as follows:

| Fair value of consideration at 19 December 2012 | Final £m | Provisional £m |
|---|---|---|
| Cash | 5.8 | 5.8 |
| Deferred consideration | 0.9 | 0.9 |
| Deferred contingent consideration | 0.5 | 0.8 |
| **Total fair value of consideration transferred** | 7.2 | 7.5 |

| Recognised provisional fair value amounts of identifiable assets acquired and liabilities assumed | Final £m | Provisional £m |
|---|---|---|
| Cash | 0.1 | 0.1 |
| Intangible assets – customer contracts and relationships | 1.8 | 1.8 |
| Intangible assets – software | 0.3 | 0.3 |
| Intangible assets – other | 0.9 | 0.9 |
| Trade and other receivables | 0.3 | 0.3 |
| Trade and other payables | (0.5) | (0.5) |
| Income tax liability | (0.1) | (0.1) |
| Deferred tax liability (note 20) | (1.1) | (1.1) |
| **Total identifiable net assets** | 1.7 | 1.7 |
| **Goodwill** | 5.5 | 5.8 |
| **Total fair value of consideration transferred** | 7.2 | 7.5 |

### c) Sportech Racing

On 5 October 2010, the Group acquired 100% of the issued share capital of the racing businesses and venues management business of Scientific Games Corporation Inc.

The performance period for the contingent consideration targets ended on 31 December 2013 and it has been confirmed that no contingent consideration is payable due to failure to meet minimum EBITDA targets. No liability was recognised in the consolidated financial statements in relation to this potential liability and as a result there has been no effect on the 2013 income statement.

## 17. Investment in joint ventures

The Group has the following investments in joint ventures:

| Group | Description | Country of Incorporation | Year of investment | % holding |
|---|---|---|---|---|
| Sportshub Private Limited | Provides a suite of prediction and fantasy games centred on cricket, football and Formula One | India | 2008 | 50 |
| Picklive USA LLC | Distribution of Picklive's live fantasy sports game across the US | USA | 2013 | 51 |
| Sportech – NYX Gaming LLC | Provides online products and services in the US for social and pay-to-play gaming | USA | 2013 | 50 |
| S&S Venues California LLC | Sports bars with wagering facilities in California, USA | USA | 2013 | 50 |

| Group | 2013 £m | 2012 £m |
|---|---|---|
| At 1 January | **0.5** | 0.3 |
| Additions | **0.2** | 0.3 |
| Direct investment in joint ventures | **—** | 0.1 |
| Share of loss after tax | **(0.2)** | (0.2) |
| **At 31 December** | **0.5** | 0.5 |

The Group's share of the results in its joint ventures, which are unlisted, and its share of the aggregated assets and liabilities are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Non-current assets | **0.1** | 0.1 |
| Current assets | **0.1** | — |
| Total assets | **0.2** | 0.1 |
| Current liabilities | **—** | (0.3) |
| **Net assets/(liabilities)** | **0.2** | (0.2) |
| Total revenue | **—** | — |
| Expenses | **(0.2)** | (0.2) |

The Group's share of capital commitments amounted to £nil (2012: £nil).

## 18. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Trade receivables | **5.2** | 5.5 | **—** | — |
| Less provision for impairment of receivables | **(0.3)** | (0.3) | **—** | — |
| Trade receivables – net | **4.9** | 5.2 | **—** | — |
| Amounts owed by Group companies | **—** | — | **14.6** | 9.0 |
| Other receivables | **1.1** | 1.1 | **0.2** | 0.3 |
| Accrued income | **1.0** | — | **—** | — |
| Prepayments | **2.0** | 1.7 | **0.5** | 0.3 |
| Total | **9.0** | 8.0 | **15.3** | 9.6 |

Other classes of trade and other receivables are not impaired. Non-current trade receivables of £0.3m (2012: £nil) relate to accrued income due after more than twelve months.

The fair value of trade and other receivables is not considered to be different from the carrying value recorded above for either the Group or the Company.

Trade receivables that are less than three months past due are not considered impaired as management considers the amounts to be fully recoverable. As at 31 December 2013, £0.1m (2012: £0.2m) of trade receivables were past due and not impaired. Management also considers that these receivables are recoverable in full due to good credit quality.

As at 31 December 2013, trade receivables of £0.3m (2012: £0.3m) were impaired and fully provided for.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 18. Trade and other receivables continued

Movements on the Group provision for impairment of trade receivables were as follows:

| | Group | |
|---|---|---|
| | 2013 £m | 2012 £m |
| At 1 January | 0.3 | 0.2 |
| Provided for during the year | — | 0.1 |
| **At 31 December** | 0.3 | 0.3 |

The carrying amounts of trade and other receivables, current and non-current, are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Sterling | 1.5 | 1.9 | 6.3 | 5.7 |
| US Dollar | 5.3 | 4.5 | 8.2 | 3.8 |
| Euro | 1.2 | 1.1 | 0.8 | 0.1 |
| Other | 1.3 | 0.5 | — | — |
| Total | 9.3 | 8.0 | 15.3 | 9.6 |

## 19. Inventories

| | Group | |
|---|---|---|
| | 2013 £m | 2012 £m |
| Work in progress | 0.1 | 0.2 |
| Spare parts | 1.2 | 1.2 |
| Finished goods | 0.2 | 0.2 |
| Total | 1.5 | 1.6 |

The cost of inventories recognised as an expense and included in cost of sales amounted to £2.7m (2012: £3.4m).

Provisions for obsolescence held against inventories at 31 December 2013 amounted to £nil (2012: £nil).

## 20. Deferred tax

The movement on the deferred tax account is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Net deferred tax asset at 1 January | 1.3 | 3.0 | 1.3 | 0.8 |
| Income statement (charge)/credit | (0.1) | 0.2 | (0.3) | 1.4 |
| Business combination (note 16) | (0.4) | (1.1) | — | — |
| Tax charged directly to equity | (0.1) | (0.8) | — | (0.9) |
| Net deferred tax asset at 31 December | 0.7 | 1.3 | 1.0 | 1.3 |

The tax charged directly to equity is the deferred tax on the retirement benefit obligations; in the prior year it also related to the derivative financial instruments.

## 20. Deferred tax continued

Deferred tax assets have been recognised in respect of trading losses and all other temporary differences, where it is probable that these assets will be recovered. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the liabilities net. The movements in deferred tax assets and liabilities during the year are shown below:

### Deferred tax assets

| Group | Pension £m | Capital allowances £m | Losses £m | Temporary differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2012 | 0.6 | 0.3 | 1.3 | 0.8 | 3.0 |
| Income statement (charge)/credit | (0.2) | (1.5) | (0.2) | 2.1 | 0.2 |
| Business combination (note 16) | — | — | — | (1.1) | (1.1) |
| Tax credited/(charged) directly to equity | 0.1 | — | — | (0.9) | (0.8) |
| At 31 December 2012 | 0.5 | (1.2) | 1.1 | 0.9 | 1.3 |
| Income statement (charge)/credit | — | (1.0) | 0.6 | 1.0 | 0.6 |
| Tax charged directly to equity | (0.1) | — | — | — | (0.1) |
| **At 31 December 2013** | **0.4** | **(2.2)** | **1.7** | **1.9** | **1.8** |

Deferred tax of £nil is expected to be recovered within twelve months (2012: £nil) with £1.8m expected to be recovered after more than twelve months (2012: £1.3m).

The deferred tax asset in the Company consists of temporary differences of £0.8m and capital allowances of £0.2m (2012: timing differences of £1.3m).

The losses in the Company have been fully surrendered as Group relief. In addition to the deferred tax asset which has been recognised, the Group has not recognised further deferred tax assets of £3.1m (2012: £2.8m) arising from unutilised trading losses. The Directors do not consider there will be sufficient future profits against which these losses can be offset due to the low level of trading in these particular business units.

Expiry of these losses is as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| Gross losses | **Provided £m** | **Unprovided £m** | Provided £m | Unprovided £m |
| In more than four years | **1.0** | **14.0** | 3.1 | 11.1 |

Deferred tax assets are recognised on losses carried forward when it is probable that future taxable profits will be generated against which the losses can be utilised.

### Deferred tax liabilities

| Group | Temporary differences £m |
|---|---|
| At 1 January 2011, 2012 and 2013 | — |
| Business combination (note 16) | (0.4) |
| Income statement charge | (0.7) |
| **At 31 December 2013** | **(1.1)** |

## 21. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Cash balances | **2.6** | 2.9 | **0.2** | — |
| Overdrafts | **—** | — | **—** | (5.2) |
| Total | **2.6** | 2.9 | **0.2** | (5.2) |

The fair value of cash and cash equivalents is not considered to be different from the carrying value recorded above for either the Group or the Company.

Cash balances of £2.1m (2012: £0.8m) are held on behalf of customers in respect of certain e-Gaming online and telephone betting activities and on behalf of registered charities relating to the sale of charity scratchcards and lotto products. These balances are excluded from Group cash and are netted against a corresponding payable within accruals and deferred income (note 22).

# Notes to the financial statements continued

for the year ended 31 December 2013

## 22. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Trade payables | 7.6 | 6.1 | 0.5 | 0.5 |
| Amounts owed to Group companies | — | — | 40.4 | 19.8 |
| Other taxes and social security costs | 0.8 | 0.8 | — | — |
| Accruals and deferred income | 12.7 | 15.4 | 1.2 | 1.3 |
| Total | 21.1 | 22.3 | 42.1 | 21.6 |

There is no difference between book values and fair values of trade and other payables. All amounts are due within one year.

## 23. Provisions

| Group | Onerous contracts £m | Other provisions £m | Total £m |
|---|---|---|---|
| At 1 January 2012 | 0.6 | 0.4 | 1.0 |
| Utilised during the year | (0.2) | — | (0.2) |
| At 31 December 2012 | 0.4 | 0.4 | 0.8 |
| Utilised during the year | (0.1) | (0.1) | (0.2) |
| **At 31 December 2013** | **0.3** | **0.3** | **0.6** |

Provisions have been recognised where the Group has contractual obligations to provide services where the estimated unavoidable costs to carry out the obligation exceed the expected future economic benefits to be received. Other provisions include provisions for obligations to reinstate property to its original condition at the start of the lease term. Of the provisions included in the above table, £0.2m is expected to be utilised within twelve months (2012: £0.3m) and £0.4m is expected to be utilised after twelve months (2012: £0.5m).

## 24. Financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| **Current** | | | | |
| Deferred consideration due within one year | 0.7 | 6.3 | — | 6.1 |
| **Total current financial liabilities** | 0.7 | 6.3 | — | 6.1 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 £m | Restated 2012 £m | 2013 £m | 2012 £m |
| **Non-current** | | | | |
| Drawn revolving credit facility due after one year | 66.0 | 60.0 | 66.0 | 60.0 |
| Deferred consideration due after one year | 0.6 | 1.2 | — | — |
| **Total non-current financial liabilities** | 66.6 | 61.2 | 66.0 | 60.0 |

## 24. Financial liabilities continued

### Bank loans and revolving credit facility

On 18 July 2012, the Group entered a senior facility agreement which made available a multi-currency, revolving credit facility of £75.0m including up to £5.0m of ancillary facilities bearing interest of LIBOR plus a bank margin dependent on leverage levels, initially 3.5% to 31 December 2012. The borrowings are secured by a composite debenture incorporating fixed and floating charges over all assets (excluding monies standing to credit of trust accounts) and undertakings of Sportech PLC, all UK trading companies, UK holding companies of overseas entities, Sportech Mauritius Limited and Racing Technology Ireland Limited. In addition, share charges have been entered into in respect of shares in Racing Technology Ireland Limited, Sportech Racing BV (a Netherlands company), Sportech Inc., Sportech Venues Inc., Sportech Venues CA Holdco LLC, Sportech Venues California LLC, Sportech Games Holdco LLC, Sportech Racing LLC, Trackplay LLC (all seven are US companies) and Sportech Mauritius Limited. Furthermore, a Guernsey law security interest agreement has been entered into by Sportech Alderney Limited.

During the year ended 31 December 2013, the Group obtained proceeds from borrowings of £6.0m.

Covenants on the Group's borrowings include a leverage covenant (being the ratio of EBITDA to net bank debt) and an interest cover covenant (being the ratio of EBITDA to senior finance charges). None of the covenants were breached during the period.

### Deferred and deferred contingent consideration

Deferred consideration of £6.5m in relation to the acquisition of Sportech Racing in October 2010 was paid on 30 September 2013. Interest was charged at the average daily Bank of England base rate plus 1% for the period 5 October 2010 (inclusive) to 30 September 2013 (inclusive).

Deferred and deferred contingent consideration of £1.8m and £1.0m in relation to the acquisitions of eBet Online Inc. and Datatote (England) Limited respectively is payable or potentially payable as outlined in note 16.

## 25. Financial instruments

### Financial risk management policies and objectives

The Group's activities expose it to a variety of financial risks: fair value and cash flow interest rate risk; liquidity risk; credit risk; and foreign exchange risk. Where appropriate the Group uses derivative financial instruments to hedge certain risk exposures.

The policy for each of the above risks is described in more detail below:

#### Fair value and cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its long term bank borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's bank borrowings are a multi-currency, revolving credit facility with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc until August 2015 and at variable interest rates (a debt margin payable of between 250 and 375 basis points per annum) dependent on leverage ratio. The Group's policy is to hedge interest rate risk where appropriate using interest rate swaps at contract lengths consistent with the expected levels of the long term bank borrowings. This policy is a cash flow hedge and is approved by the Board and the Board receives updates on a regular basis in respect of the hedging position.

The Group has entered into a number of swap agreements with terms remaining of between one month and two years, on a total of £30.0m, at an average swap rate before any lending margin of 4.80%. The hedges comprise three £10.0m hedges with expiry dates ranging from 2014 to 2016. The contracts are not designated effective hedges and, as a result, gains and losses are recognised in the income statement within finance costs.

As at 31 December 2013 the fair value of these interest rate swaps was a liability of £1.3m (2012: £2.6m).

At 31 December 2013, if interest rates on borrowings had been 50 basis points higher/lower with all variables held constant, post tax profit for the year would have been £0.2m (2012: £0.1m) higher/lower as a result of higher/lower interest expense on unhedged variable rate borrowings. This sensitivity is considered a reasonable assumption based on current economic conditions.

#### Liquidity risk

Cash flow forecasting is performed on a regular basis in the operating entities of the Group and is aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure each operating entity has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. The Group's borrowing facilities are with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc. Group Finance monitors the level of excess cash over and above that required for working capital management and ensures the excess is loaned to the UK to minimise the facility required to be drawn. Bank facilities have been agreed at appropriate levels having regard to the Group's operating cash flows and future development plans.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 25. Financial instruments continued

### Financial risk management policies and objectives continued

#### Credit risk

The Group's UK operation has limited exposure to credit risk. Transactions within the Football Pools segment are predominantly either weekly cash receipts in advance or multiple weeks in advance by credit card, debit card or direct debit. Credit exposure is limited to overseas collection agencies on short credit terms, managed centrally by the UK finance function. The Group's main exposure to credit risk is in accounts receivable in the Sportech Racing and Digital segment. Credit risk in these entities is managed locally by assessing the creditworthiness of each new customer before agreeing payment and delivery terms. The Group does not hold significant amounts of deposits with banks and financial institutions. Amounts held in cash for the Sportech Venue division are held in highly secure environments.

#### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and US Dollar. Foreign exchange risk arises from transactions undertaken in foreign currencies, the translation of foreign currency monetary assets and liabilities and from the translation into Sterling of the results and net assets of overseas operations.

The Group continually monitors the foreign currency risk and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level, inter alia, by using foreign exchange forward contracts designed to fix the economic impact of forecasted profitability. At 31 December 2013, the notional principal amounts of foreign exchange forward contracts outstanding were $2.0m (2012: $10.5m). The contracts are not designated effective hedges and, as a result, gains and losses are recognised in the income statement within finance costs. At 31 December 2013, the fair value of these forward contracts was £nil (2012: £0.1m). No charge or credit has thus been recognised in profit and loss arising from fair value movement (2012: debit from fair value movement of £0.1m).

The average rate of the US Dollar during the year was 1.56 and the Euro was 1.18; if the USD had averaged at 1.65 and the Euro at 1.25, profit after tax would have been £3.2m and net assets would have been £139.7m at 31 December 2013.

| | Group | | Company | |
|---|---|---|---|---|
| Current liabilities | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Interest rate swaps – cash flows hedges | **1.3** | 2.6 | **1.3** | 2.6 |
| Forward foreign exchange contracts – cash flow hedges | **—** | 0.1 | **—** | 0.1 |
| Total | **1.3** | 2.7 | **1.3** | 2.7 |

The above financial instruments are carried at fair value. The level 2 valuation method is used; the valuation methods are summarised as follows:

- level 1 – quoted prices (adjusted) in active markets for identical assets or liabilities;
- level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- level 3 – inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. Note that all of the resulting fair value estimates are included in level 2.

## 25. Financial instruments continued

### Financial risk management policies and objectives continued

### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to achieve an efficient capital structure to minimise the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total financial liabilities (including current and non-current), as shown in the Consolidated Balance Sheet, less cash and cash equivalents. Total capital is calculated as equity, as shown in the Consolidated Balance Sheet, plus net debt.

The Group's strategy has been to target a reasonable level of gearing for a group of Sportech's size and industry presence. The Board considers gearing of between 20% and 40% to be appropriate. During 2013, net debt (including deferred consideration) was increased by £0.1m (0.2%) (2012: reduced by £0.4m (0.6%)). Gearing has remained static principally due to the cash generated by the Group from operations during the year offset by cash used to purchase tangible and intangible assets and to acquire Data Tote. The total net debt and gearing ratios at 31 December 2013 and 2012 were as follows:

| | Note | **2013 £m** | Restated 2012 £m |
|---|---|---|---|
| Total financial liabilities | 24 | **67.3** | 67.5 |
| Less cash and cash equivalents | 21 | **(2.6)** | (2.9) |
| Net debt | | **64.7** | 64.6 |
| Total equity | | **139.7** | 135.4 |
| Total capital | | **204.4** | 200.0 |
| Gearing ratio | | **32%** | 32% |

### Fair value of non-current borrowings

| | **Group** | | **Company** | |
|---|---|---|---|---|
| As at 31 December 2013 | **Book value £m** | **Fair value £m** | **Book value £m** | **Fair value £m** |
| Bank borrowings due after one year | **66.0** | **65.7** | **66.0** | **65.7** |

| | Group | | Company | |
|---|---|---|---|---|
| As at 31 December 2012 | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Bank borrowings due after one year | 60.0 | 53.8 | 60.0 | 53.8 |

The fair values are based on cash flows discounted at a rate of 8.3% (2012: 8.3%) and are within level 2 of the fair value hierarchy. Future interest payments are £3.0m payable within one year (2012: £2.7m), £2.0m payable between one and two years (2012: £2.7m) and £nil payable between two and five years (2012: £1.8m).

### Maturity of bank borrowings

Bank borrowings are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Contractual undiscounted amount | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Between one and two years | **66.0** | — | **66.0** | — |
| Between two and five years | **—** | 60.0 | **—** | 60.0 |
| Total | **66.0** | 60.0 | **66.0** | 60.0 |

# Notes to the financial statements continued

for the year ended 31 December 2013

## 25. Financial instruments continued

### Financial risk management policies and objectives continued

### Maturity of bank borrowings continued

The maturity analysis of derivative financial liabilities is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Contractual undiscounted amount | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Within one year | 3.0 | 9.2 | 3.0 | 9.2 |
| Between one and two years | 0.5 | 1.8 | 0.5 | 1.8 |
| Between two and five years | — | 0.4 | — | 0.4 |
| Total | 3.5 | 11.4 | 3.5 | 11.4 |

The maturity analysis of non-derivative financial liabilities is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Contractual undiscounted amount | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Within one year | 23.1 | 29.5 | 42.1 | 32.9 |
| Between one and two years | 0.4 | 1.2 | — | — |
| Between two and five years | 68.1 | 62.1 | 66.0 | 60.0 |
| Total | 91.6 | 92.8 | 108.1 | 92.9 |

### Borrowing facilities

The Group had the following undrawn committed borrowing facilities available as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Floating rate: | | |
| – expiring within one year | — | — |
| – expiring beyond one year | 9.0 | 15.0 |
| Total | 9.0 | 15.0 |

### Financial asset and liabilities

The Group had the following categories:

| | 2013 £m | Restated 2012 £m |
|---|---|---|
| Loans and receivables | 7.0 | 6.3 |
| Financial liabilities at fair value through profit or loss: | | |
| – designated post refinancing | 1.3 | 2.6 |
| – designated upon initial recognition | — | 0.1 |
| Financial liabilities measured at amortised cost | 67.3 | 67.5 |

## 26. Ordinary shares

### Authorised, issued and fully paid

| Ordinary shares of 50p each (2012: 50p) | 2013 '000 | 2013 £m | 2012 '000 | 2012 £m |
|---|---|---|---|---|
| At 1 January | **198,810** | **99.4** | 198,810 | 99.4 |
| New shares issued to satisfy PSP vesting | **6,041** | **3.0** | — | — |
| At 31 December | **204,851** | **102.4** | 198,810 | 99.4 |

### Potential issue of ordinary shares

#### Sportech share option schemes

Certain Directors and Senior Executives hold options to subscribe for shares in the Company at prices ranging from £0.817 to £1.064 (2012: £0.817 to £1.064) under Sportech share option schemes approved by the shareholders. Share options at the end of the period had a weighted average exercise price of £0.888 (2012: £0.888). The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. There were no movements in the year.

| Year of grant | Exercise price | Exercise period | Outstanding at 31 December 2013 and 2012 Number |
|---|---|---|---|
| 2005 (September) | £0.817 | 2008–2015 | **505,050** |
| 2006 (March) | £1.064 | 2009–2016 | **202,020** |
| Total | | | **707,070** |

The options are exercisable at any time during the seven-year period commencing three years from the date of the grant. The Company has no legal or constructive obligation to settle the options in cash. The weighted average remaining contractual life of outstanding share options under the Sportech Share Option Scheme at 31 December 2013 was one year and eleven months (31 December 2012: two years and eleven months).

Exercise of the 2005 options is subject to the share price reaching the following closing prices at any time during the exercise period:

| Shares | Closing price |
|---|---|
| 151,515 | £1.237 |
| 151,515 | £1.732 |
| 101,010 | £2.227 |
| 101,010 | £2.722 |
| 505,050 | |

Exercise of the 2006 options is subject to the share price reaching the following closing prices at any time during the exercise period:

| Shares | Closing price |
|---|---|
| 50,505 | £1.732 |
| 75,757 | £2.227 |
| 75,758 | £2.722 |
| 202,020 | |

The market price of the ordinary shares at 31 December 2013 was £0.815 (2012: £0.705) and the range during the year was £1.080 to £0.690 (2012: £0.428 to £0.710).

# Notes to the financial statements continued

for the year ended 31 December 2013

## 26. Ordinary shares continued

### Potential issue of ordinary shares continued

#### Sportech share option schemes continued

Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. Options were valued using the Black-Scholes option pricing model. No performance conditions are included in the fair value calculation. The fair value per option granted and the assumptions used in the calculations are as follows:

| | 2005 | 2006 |
|---|---|---|
| Risk-free interest rate | 4.18% | 4.40% |
| Vesting period | 3 years | 3 years |
| Option life | 10 years | 10 years |
| Expected life of options | 5 years | 5 years |
| Expected share price volatility | 66.29% | 48.61% |
| Dividend growth | — | — |
| Fair value of option | £0.556 | £0.601 |

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate is based on Bank of England bonds of a term consistent with the assumed option life. Dividend growth is based on historical dividends over the last three years.

#### The Performance Share Plan ("PSP")

Certain Executive Directors and Senior Executives have been awarded grants to acquire shares in the Company under the PSP, subject to performance conditions. During the year ended 31 December 2013, 2,406,000 shares have been awarded (2012: 4,123,000), 1,649,000 awards lapsed due to failure to meet the performance conditions (2012: nil), 674,000 awards lapsed due to employees ceasing to be employed by the Group (2012: 1,662,000) and no awards were cancelled during the year (2012: nil). 6,041,000 shares vested during the period of which 4,072,000 remain unexercised as at 31 December 2013. 8,608,000 (2012: 13,563,000) share awards remained outstanding (unvested) at 31 December 2013.

#### Performance conditions

The Remuneration Committee can set different performance conditions from those described below for future awards provided that, in the reasonable opinion of the Remuneration Committee, the new targets are not materially less challenging in the circumstances than those described below. The Remuneration Committee determines the comparator group for each award.

The Remuneration Committee may also vary the performance conditions applying to existing awards if an event has occurred that causes the Remuneration Committee to consider that it would be appropriate to amend the performance conditions, provided that the Remuneration Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event in question.

The awards are at nil cost to the employee. Awards will normally vest on the third anniversary of the date of grant subject to the participants' continued employment within the Group and the satisfaction of the performance conditions noted below.

#### 2013 grants

The vesting of one-half of the award ("Part A") will be dependent on the Company's Total Shareholder Return ("TSR") over a fixed three-year period beginning on the date of grant relative to that of the FTSE Small Cap Index (excluding investment trusts). For the purpose of calculating TSR, the base figure is averaged over the six weeks preceding the start of the performance period and the end figure is averaged over the last six weeks of the performance period.

No portion of Part A will vest unless the Company's TSR performance at least matches that of the index. Thereafter, a vesting schedule no less demanding than the following will apply:

| **The Company's TSR performance over the performance period relative to comparator index** | Extent of vesting of Part A |
|---|---|
| Equal to the index | 25% |
| Between equal to the index and upper quartile | Pro rata between 25% and 100% |
| Upper quartile or better | 100% |

## 26. Ordinary shares continued
### Potential issue of ordinary shares continued
### The Performance Share Plan ("PSP") continued
#### 2013 grants continued

The vesting of the second half of the award is dependent on an EPS performance criterion ("Part B"); the average annual percentage growth in the Company's EPS in excess of the UK Retail Prices Index ("RPI") over the EPS performance period must at least equal 4%. Vesting is determined by the following schedule:

| The Company's average annual growth in EPS in excess of RPI during the performance period | Extent of vesting of Part B |
|---|---|
| Less than 4% per annum | 0% |
| 4% per annum | 25% |
| Between 4% and 10% per annum | Pro rata between 25% and 100% |
| 10% or better | 100% |

#### 2012, 2011 and 2010 grants

The vesting of one-third of the award ("Part A") will be dependent on the Company's Total Shareholder Return ("TSR") over a fixed three-year period beginning on the date of grant relative to that of the FTSE Small Cap Index (excluding investment trusts). For the purpose of calculating TSR, the base figure is averaged over the six weeks preceding the start of the performance period and the end figure is averaged over the last six weeks of the performance period.

No portion of Part A will vest unless the Company's TSR performance at least matches that of the index. Thereafter, a vesting schedule no less demanding than the following will apply:

| The Company's TSR performance over the performance period relative to comparator index | Extent of vesting of Part A |
|---|---|
| Equal to the index | 25% |
| Between equal to the index and upper quartile | Pro rata between 25% and 100% |
| Upper quartile or better | 100% |

The vesting of the second one-third of the award ("Part B") will be dependent on the Company's absolute TSR over the same performance period as for Part A; the TSR calculation is the same as that for Part A with the exception that the final figure for the purpose of calculating TSR is the highest six-week average over the final year of the performance period. Vesting is determined by the following schedule:

| The Company's compound annual TSR during the performance period | Extent of vesting of Part B |
|---|---|
| At least 6% | 25% |
| Between 6% and 15% | Pro rata between 25% and 100% |
| 15% or better | 100% |

The vesting of the final third of the award is dependent on an EPS performance criterion ("Part C"); the average annual percentage growth in the Company's EPS in excess of the UK Retail Prices Index ("RPI") over the EPS performance period must at least equal 4%. Vesting is determined by the following schedule:

| The Company's average annual growth in EPS in excess of RPI during the performance period | Extent of vesting of Part C |
|---|---|
| Less than 4% per annum | 0% |
| 4% per annum | 25% |
| Between 4% and 10% per annum | Pro rata between 25% and 100% |
| 10% or better | 100% |

For employees who are responsible for the management of Sportech Racing the above performance criteria are applicable in the following fractions:

Part A – two-ninths

Part B – two-ninths

Part C – two-ninths

# Notes to the financial statements continued

for the year ended 31 December 2013

## 26. Ordinary shares continued

### Potential issue of ordinary shares continued

### The Performance Share Plan ("PSP") continued

#### 2012, 2011 and 2010 grants continued

A further performance criteria is applicable for the final third of the award ("Part D"), being the average annual percentage growth in Sportech Racing's EBITDA over the performance period must equal at least 10%. Vesting is determined by the following schedule:

| Sportech Racing's average annual growth in EBITDA during the performance period | Extent of vesting of Part D |
|---|---|
| Less than 10% per annum | 0% |
| 10% per annum | 25% |
| Between 10% and 20% per annum | Pro rata between 25% and 100% |
| 20% or better | 100% |

#### All PSP grants

Awards are valued using a stochastic (Monte Carlo) valuation model. The fair value per award granted and the assumptions used in the calculations are as follows:

| Grant date | May 2013 | March 2013 | March 2012 | December 2011 | February 2011 | October 2010 |
|---|---|---|---|---|---|---|
| Exercise price | **£nil** | **£nil** | £nil | £nil | £nil | £nil |
| Number of employees issued awards | **1** | **70** | 47 | 22 | 3 | 51 |
| Share price at award date | **£0.900** | **£1.000** | £0.513 | £0.399 | £0.425 | £0.425 |
| Expected term (fixed) | **3 years** | **3 years** | 3 years | 3 years | 3 years | 3 years |
| Expected volatility | **29.6%** | **29.6%** | 33.1% | 33.9% | 39.5% | 39.5% |
| Dividend yield | **0%** | **0%** | 0% | 0% | 0% | 0% |
| Fair value of award | **£0.844** | **£0.844** | £0.407 | £0.301 | £0.346 | £0.346 |

The weighted average remaining contractual life of outstanding awards under the PSP at 31 December 2013 was one year and five months (2012: one year and four months). The weighted average exercise price of awards granted during the period was £nil (2012: £nil).

PSP awards are not affected by the risk-free rate input since no payment is required by the recipient and therefore no interest could be earned elsewhere.

The expected volatility is based on movements in the historical return index (share price with dividends re-invested) for the three years prior to the award date. The dividend yield does not affect the fair value of the award as the rules of the PSP entitle a participant to receive cash equal in value to the dividends that would have been paid on the vested shares in respect of dividends paid during the vesting period and is therefore assumed to be 0%.

See note 6 and note 7 for the total expense recognised in the income statement for share options granted and PSP awards made to Directors and employees respectively.

## 27. Cash flow from operating activities

### Reconciliation of profit/(loss) before taxation to cash flows from operating activities

| | Note | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|---|
| Profit/(loss) before taxation including profit from discontinued operations | | **5.3** | 2.1 | **(11.9)** | (7.6) |
| **Adjustments for:** | | | | | |
| Exceptional costs | 2 | **2.7** | 2.8 | **1.4** | 0.7 |
| Share of loss after tax of joint ventures | 17 | **0.2** | 0.2 | **—** | — |
| Depreciation | 13 | **3.2** | 2.6 | **—** | — |
| Amortisation of acquired intangibles | 12 | **7.2** | 5.9 | **—** | — |
| Amortisation of other intangibles | 12 | **2.5** | 2.6 | **1.0** | 1.1 |
| Net finance costs | 4 | **4.3** | 4.1 | **4.9** | 4.0 |
| Other finance (income)/charges | 4 | **(0.8)** | 4.7 | **(0.8)** | 4.7 |
| Share option expense | 6 | **1.5** | 1.4 | **1.5** | 1.4 |
| Movement in retirement benefit obligation | 32 | **0.2** | — | **—** | — |
| Movement in provisions | 23 | **(0.2)** | (0.2) | **—** | — |
| Loss on disposal of property, plant and equipment | 13 | **0.1** | — | **—** | — |
| Loss on disposal of intangible assets | 12 | **0.3** | — | **—** | — |
| Gift of shares to EBT | | **—** | — | **3.0** | — |
| **Changes in working capital:** | | | | | |
| (Increase)/decrease in trade and other receivables | | **(0.4)** | 1.0 | **(5.7)** | 12.1 |
| Decrease in inventories | | **0.2** | 1.0 | **—** | — |
| (Decrease)/increase in trade and other payables | | **(1.9)** | (1.6) | **21.1** | (6.9) |
| Cash flows from operating activities | | **24.4** | 26.6 | **14.5** | 9.5 |

### Non-cash transactions

There were no significant non-cash transactions during the year (2012: nil).

## 28. Contingent assets and liabilities

### Contingent assets

The Board has previously announced that the Group had submitted a claim for in excess of £40.0m to HMRC for the repayment of VAT overpaid in respect of the "Spot the Ball" game from 1979 to 1996. Interest may also be added to the principal sum claimed, which, if successful, given the timeframe of the claim, could increase the sum claimed to approximately £95.0m. The Group was informed on 7 March 2013 that the First-tier Tax Tribunal had found in favour of the Group. HMRC has been given leave to appeal and the case will be heard at the Upper Tribunal on 29 and 30 April 2014. Accordingly, the claim has not been recognised in the Group's financial statements.

### Contingent liabilities

The Group has contingent liabilities in respect of legal claims in the ordinary course of business; it is not considered that any material liabilities will arise from these.

In respect of the acquisition of eBet Online Inc. on 19 December 2012, additional consideration is payable under certain circumstances as outlined in note 16.

In addition, additional consideration is payable under certain circumstances as outlined in note 16 in respect of the acquisition of Datatote (England) Limited on 27 September 2013.

# Notes to the financial statements continued

for the year ended 31 December 2013

## 29. Commitments

### Capital commitments

The Group had no contracts placed for capital expenditure that were not provided for in the financial statements in the current or prior year.

### Operating lease commitments

The Group leases various OTB venues and other operating sites under non-cancellable operating lease arrangements. The lease terms are generally between three and five years and are renewable at the end of the lease period at market rates. The expenditure charged to the income statement was £2.0m (2012: £2.3m).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| No later than one year | **1.9** | 1.5 | **0.1** | 0.1 |
| Later than one year and no later than five years | **4.1** | 3.1 | **0.7** | 0.3 |
| Later than five years | **0.2** | 1.9 | **0.1** | — |
| Total | **6.2** | 6.5 | **0.9** | 0.4 |

## 30. Other financial commitments

In December 1996, an incentive scheme to reward Football Pools collectors was established by a subsidiary company.

Under the terms of the scheme, the collectors earn points on the basis of their sales. These points can be converted into vouchers to purchase items from high street shops. On the basis of similar schemes, a redemption rate attributable to these points has been established and an appropriate charge made in these accounts. The potential liability in respect of these points not provided for in these financial statements is £0.4m (2012: £0.4m). This liability has not been provided for as it is the judgement of management that it will never crystallise.

The Group was required to enter into a performance guarantee bond in October 2010, which is reviewed annually, for 15% of the contract value, being $190,000 at 31 December 2013, in relation to a contract to provide and maintain pari-mutuel betting terminals to a customer in Turkey.

## 31. Related party transactions

The extent of transactions with related parties of Sportech PLC and the nature of the relationships with them are summarised below:

a. Key management compensation is disclosed in note 7.

b. The Company had the following transactions with subsidiaries during the year:

| | **2013 £m** | 2012 £m |
|---|---|---|
| Management charges received | **1.3** | 1.3 |
| Royalty income received | **1.6** | 1.6 |
| Management charges paid | **0.1** | 0.1 |
| Interest received on inter-company loan balances | **0.2** | 0.3 |
| Interest paid on inter-company loan balances | **1.0** | 0.1 |

The amount outstanding in relation to management charges at the balance sheet date was £0.1m (2012: £0.1m) and the net amount outstanding for interest receivable on inter-company loan balances was £0.2m (2012: £2.0m). All inter-company transactions are on an arm's length basis.

c. The Company had no transactions with the joint ventures during the year (2012: no transactions). The Group invested £0.2m cash into its Indian joint venture and contributed £nil to capital expenditure (2012: invested £0.3m and contributed £0.1m).

d. Scientific Games Corporation ("SGC") was a 19.99% shareholder in Sportech PLC throughout the period and until the disposal of 100% of its holding on 9 January 2014. SGC is therefore considered to be a related party for the whole of the period and as at 31 December 2013. Lorne Weil, Non-executive Director and shareholder (see Directors' Report on pages 54 to 56), was Chairman and Chief Executive Officer of SGC until his resignation in December 2013.

## 31. Related party transactions continued

During the year there have been a number of transactions and at the year end there remain outstanding balances between the Company and SGC as detailed below:

- deferred consideration of $nil (£nil discounted) is due to SGC (2012: $10.0m (£6.1m discounted) paid in September 2013);
- £0.2m (2012: £0.3m) is due to the Company from SGC for the settlement of an under-funded pension liability as at 5 October 2010, payable in five equal annual instalments which commenced September 2011;
- Sportech Racing LLC has ongoing service agreements with a subsidiary of SGC, Global Draw, to provide Global Draw with employees to operate and supervise gaming systems in Puerto Rico. During the year £0.5m (2012: £0.4m) was charged to SGC for these services;
- Sportech Racing LLC purchases ticket paper from SGC under the terms of the supply agreement entered into upon acquisition of Sportech Racing LLC by Sportech PLC from SGC. Total purchases of ticket paper during the year ended 31 December 2013 amounted to £1.2m (2012: £1.2m). Sportech Racing LLC also purchased spare parts for terminals from SGC amounting to £0.1m during the year ended 31 December 2013 (2012: £0.1m);
- Racing Technology Ireland Limited purchased spare parts for terminals from SGC amounting to £0.1m during the year ended 31 December 2013 (2012: £0.3m), and incurred commission on sales of £0.2m (2012: £nil); and
- at 31 December 2013 the following amounts were due to/from SGC from Sportech PLC Group companies:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Sportech Group company | Due to SGC £m | Due from SGC £m | Due to SGC £m | Due from SGC £m |
| Sportech PLC | — | 0.2 | 6.4 | 0.3 |
| Sportech Racing LLC | 0.9 | 0.6 | 0.2 | 0.1 |
| Racing Technology Ireland Limited | 0.1 | — | — | — |
| Total | 1.0 | 0.8 | 6.6 | 0.4 |

The amount owed by Sportech PLC in 2012, being deferred consideration, and the amount owed from SGC to Sportech PLC, being for deferred pension settlement, are both as referred to above.

e. Playtech Limited was a 10% shareholder in Sportech PLC until the disposal of 100% of its holding in June 2013. Roger Withers, Chairman, was also Chairman of Playtech Limited and Mor Weizer, former Non-executive Director until his resignation in June 2013, is Chief Executive of Playtech Limited (see Directors' Report on pages 54 to 56). Playtech Limited is therefore considered to be a related party up until the resignation of Roger Withers as Chairman of Playtech in October 2013.

Playtech Limited provided e-Gaming services to the Group comprising the platform, including the gaming software, for casino, poker, bingo and side game offerings. These services commenced in early August 2011 when Playtech became the Group's principal e-Gaming provider and ceased in the disposal of the e-Gaming division by the Group in September 2013.

- During the year ended 31 December 2013 the Group had all security deposits with Playtech Limited returned.
- Operating expenses for customer relationship management services and royalties paid to Playtech Limited during the year amounted to £1.3m (2012: £1.0m).
- At 31 December 2013, the Group owed Playtech Limited £nil (2012: £0.3m) in relation to services rendered and royalties due.
- The Company did not have any other transactions with Playtech Limited during the year (2012: no transactions).

# Notes to the financial statements continued

for the year ended 31 December 2013

## 32. Pension schemes

The Group operates two pension schemes in the UK: one is a defined contribution scheme and the other is a funded defined benefit scheme. The Group operates a further funded defined benefit scheme in the USA, two defined contribution schemes in the USA, a defined contribution scheme in the Netherlands and a defined contribution scheme in Ireland.

### Summary of pension contributions paid

| | 2013 £m | 2012 £m |
|---|---|---|
| Defined contribution scheme contributions | **0.7** | 0.7 |
| Defined benefit scheme contributions | **0.2** | 0.2 |
| Total pension contributions | **0.9** | 0.9 |

### Defined contribution schemes

Those employees who joined the Group consequent to the acquisition of Littlewoods Gaming (formerly Littlewoods Leisure) and who were aged under 50 on 4 September 2000 and all other UK employees of Sportech can join either a stakeholder pension scheme established on 6 April 2001 or alternate defined contribution arrangements. The contributions are made at a maximum rate of 8% of pensionable salaries.

A defined contribution scheme for non-unionised employees is operated in the USA, into which the Group contributes 37.5% of the first 6% of participant contributions. A further defined contribution scheme is available for unionised employees; the Group does not make contributions into this scheme. The pension scheme in the Netherlands provides benefits to employees on a percentage of salary basis. The Group contributes 7.5% of salary less state pension allowance, which is currently €12,000 (2012: €12,000) per annum, into a defined contribution scheme for employees in Ireland.

### Defined benefit schemes

Pursuant to the sale agreement between Littlewoods plc and Sportech PLC, a defined benefit scheme was set up for those employees who joined the Group consequent to the acquisition of Littlewoods Gaming (formerly Littlewoods Leisure) and who were aged 50 or over on 4 September 2000, the date of the acquisition. The scheme was formed on 6 April 2001 and is governed by a Definitive Trust Deed and Rules. It is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004. The scheme is contracted out of the State Second Pension Scheme. The scheme is currently not open to new members.

The US defined benefit scheme is administered by an insurance company in the USA and provides retirement benefits to employees who are members of a collective bargaining unit represented by the International Brotherhood of Electrical Workers. Benefits are based on value times credited service.

The amounts recognised in the balance sheet were as follows:

| | At 31 December 2013 £m | At 31 December 2012 £m |
|---|---|---|
| Fair value of plan assets: | | |
| – UK | **1.8** | 1.7 |
| – USA | **2.5** | 2.6 |
| Total fair value of assets | **4.3** | 4.3 |
| Present value of the schemes' liabilities | **(5.6)** | (5.9) |
| Deficit in the schemes | **(1.3)** | (1.6) |
| Included in: | | |
| – non-current liabilities | **(1.3)** | (1.6) |

## 32. Pension schemes continued

### Defined benefit schemes continued

The figures below have been determined by qualified actuaries at the balance sheet date using the following assumptions:

| | USA At 31 December 2013 | UK At 31 December 2013 | USA At 31 December 2012 | UK At 31 December 2012 |
|---|---|---|---|---|
| Discount rate | **4.5%** | **4.4%** | 3.5% | 4.1% |
| Rate of increase in salaries | **N/A** | **5.0%** | N/A | 4.3% |
| Rate of increase in pensions in payment: | | | | |
| – 5% LPI | **N/A** | **3.5%** | N/A | 2.8% |
| – rate of inflation | **N/A** | **3.5%** | N/A | 2.8% |
| – mortality table | **2013 IRS Static Mortality Table** | **S1NxA CMI 2012 projections 1.5% per annum long term rate of improvement** | 2012 IRS Static Mortality Table | S1NxA CMI 2009 projections 1.5% per annum long term rate of improvement |

For the UK, under the adopted mortality tables, if the future life expectancy were to be plus/minus one year the liabilities would increase/decrease by £60,000.

For the USA scheme, under the adopted mortality tables, if the future life expectancy were to be plus/minus one year the liabilities would increase/decrease by £6,000.

For the UK, if the discount rate were +4.65% the liabilities would decrease by £70,000. For the US, if the discount rate were 5% the liabilities would decrease by £154,000.

The movement in the defined benefit obligation over the year is as follows:

| | Present value of obligation £m | Fair value of plan asset £m | Total £m |
|---|---|---|---|
| At 1 January 2012 | 5.6 | (4.3) | 1.3 |
| Current service cost | 0.2 | — | 0.2 |
| Interest expense/(income) | 0.2 | (0.2) | — |
| Income statement expense/(income) | 0.4 | (0.2) | 0.2 |
| Re-measurements: | | | |
| – Loss from change in actuarial assumptions | 0.3 | — | 0.3 |
| | 0.3 | — | 0.3 |
| Contributions: | | | |
| – Employers | — | (0.2) | (0.2) |
| Payments from plans: | | | |
| – Benefit payments | (0.4) | 0.4 | — |
| At 31 December 2012 | 5.9 | (4.3) | 1.6 |

# Notes to the financial statements continued

for the year ended 31 December 2013

## 32. Pension schemes continued

### Defined benefit schemes continued

| | Present value of obligation £m | Fair value of plan asset £m | Total £m |
|---|---|---|---|
| At 1 January 2013 | 5.9 | (4.3) | 1.6 |
| Current service cost | 0.2 | – | 0.2 |
| Interest expense/(income) | 0.2 | (0.2) | – |
| Income statement expense/(income) | 0.4 | (0.2) | 0.2 |
| Remeasurements: | | | |
| Currency exchange movements | (0.1) | – | (0.1) |
| – Gain from change in actuarial assumptions | (0.3) | – | (0.3) |
| | (0.4) | – | (0.4) |
| Contributions: | | | |
| – Employers | – | (0.1) | (0.1) |
| Payments from plans: | | | |
| – Benefit payments | (0.3) | 0.3 | – |
| **At 31 December 2013** | **5.6** | **(4.3)** | **1.3** |

### Effect of change of assumptions on liability values

Changes in the financial assumptions used would have the following approximate effect on the schemes' liabilities and hence the deficit at the end of the year:

| Change | **2013 Increases/ (decreases) liability by £m** | 2012 Increases/ (decreases) liability by £m |
|---|---|---|
| Increase inflation and salary growth assumption by 0.25% (2012: 0.5%) | **0.1** | 0.1 |
| Increase salary growth assumption by 0.5% (2012: 0.1%) | **–** | – |

The assets of the UK scheme are held in an independent Trustee administered fund. The Trustee of the scheme is Sportech Trustees Limited. The Directors of Sportech Trustees Limited include Carl Lynn, a Sportech employee, who also acts as Chair of the Trustee company. The assets of the US scheme are held by an insurance company.

The actuarial method for calculating the liabilities of the scheme is the projected unit method.

The expected employer annual contributions to the schemes for the financial year ending 31 December 2014 amounted to £0.4m (year ended 31 December 2013: £0.2m).

Estimated future benefit payments for the next ten fiscal years for the US Scheme are:

| **At 31 December 2013** | Less than a year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Pension benefits | 0.2 | 0.2 | 0.7 | 6.9 | 8.0 |

The UK Company is required to agree a schedule of contributions with the Trustee of the Scheme following an actuarial valuation which must be carried out at least once every three years. A valuation of the Scheme is currently in progress with an effective date of 31 December 2012, but is yet to be completed. This valuation must be finalised by 31 March 2014. Based on current discussions the Company expects to pay contributions of around £118,000 into the Scheme in the year ending 31 December 2014, but this is subject to change.

The weighted average duration of the UK Scheme obligation is approximately twelve years.

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**Sportech PLC**
101 Wigmore Street
London W1U 1QU

**www.sportechplc.com**

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