A WORLD LEADER IN POOL BETTING

Annual Report and
Accounts 2016

Sportech PLC

Welcome to our Annual Report 2016

Sportech is one of the largest pool betting operators and technology suppliers in the world, with international reach and a presence in over 30 countries.

What's inside this report

Highlights of the year

"A transformational year ...."

Group highlights

- Profit before tax increased to £30.7m (2015: £9.7m)
- Results in line with expectations with overall EBITDA up 3% to £23.8m (2015: £23.1m)
- Successful outcome to our eight-year £97m VAT refund appeal after rulings at the Supreme Court and the Court of Appeal
- Announced a return of capital to shareholders by way of a tender offer for approximately £20m of Sportech ordinary shares, representing a buyback of 10% of the Company's issued share capital
- Transformation in Group's financing with adjusted net cash balances at 31 December 2016 of £36.5m compared to adjusted net debts of £57.7m in 2015
- Balance sheet strengthened by £22.6m despite a detailed review of assets leading to a non-cash impairment of £63.7m
- Board restructured to include relevant industry experience and associated knowledge
- Announced the sale of The Football Pools for £83.0m, subject to certain conditions

Financial highlights

Group

- Adjusted profit before tax is up by 17% to £13.8m (2015: £11.8m)
- The Group holds adjusted net cash of £36.5m at 31 December 2016 (2015: adjusted net debt of £57.7m), which reduces by £21.5m once the Spot the Ball tax and fees are paid, and following receipt of the remaining £3m
- On a constant currency basis, EBITDA, excluding the closed collector channel, remained level with prior year at £23.8m

Sportech Racing and Digital

- EBITDA of £9.4m, £0.3m down on prior year at constant currency, new contract wins mitigating impact on business of loss of material contract in California

Sportech Venues

- EBITDA of £2.7m, £0.5m decrease from prior year at constant currency, with online handle growth partly offsetting the industry handle decline

Football Pools

- EBITDA from continuing channels up by £0.7m (5%) to £15.0m

Overview
Sportech at a glance

> We are confident in the strategic positions that each of our divisions have secured, whilst recognising that further investment is required, ahead of anticipated revenue and profit benefits, to enable them to deliver their full potential.

Roger Withers
Chairman

Sportech Racing and Digital

Supplier of tote equipment, services and software both on and off-track (online and mobile). The division also includes Bump 50:50, our professional sports charitable lotteries business.

Division information	The division is the largest supplier of tote based technology and services to the global racing industry and has expanded into sports charitable lotteries	
Location	US, Canada, UK and Ireland	
Revenue (£m)	**2016** **36.0**	2015* 38.8
EBITDA (£m)	**2016** **9.4**	2015* 9.7
Capital expenditure (£m)	**2016** **5.3**	2015 4.5
Employees	**2016** **314**	2015 356

* Numbers are at 'constant currency', translated using 2016 exchange rates

Sportech Venues

Operator of betting on racing in venues and online across Connecticut and The Netherlands. New venue opened in California in 2016 and two new venues due to open in Connecticut in 2017.

The division operates brands Winners (Connecticut), Striders (California) and Runnerz (The Netherlands)

US (Connecticut and California) and The Netherlands

2016	2015*
35.1	36.6
2.7	3.2
3.1	1.1
248	257

Football Pools

Operator of pools betting predominantly through subscription and online channels.

215,000 customers playing a range of pools and instant win games every week

UK

2016	2015**
28.4	28.4
15.0	14.3
2.7	2.5 (2015)
101	126 (2015)

** 2015 excludes results relating to the closed collector channel

Chief Executive's review
Positioning Sportech as one of the leaders in the global betting market

This has been a transformational year. We have moved into a strong net cash position, announced details of a return of capital to shareholders, and also announced the sale of our Football Pools business for £83m, following a highly successful modernisation programme. The Group is now in a strong position and more focused to take advantage of the strategic positioning of its predominantly US-based businesses. We look forward to delivering further progress in 2017.

Overview

Sportech is one of the world's leading sports pool betting operators and technology suppliers, focused on highly regulated markets worldwide.

The Group comprises three divisions: Racing and Digital, Venues and The Football Pools. Both the Racing and Digital division (which processes over $11 billion bets annually) and the Venues division (which operates all legal betting exclusively and in perpetuity in Connecticut in venues, online and via mobile), are based in the US and Canada where we employ 570 people across field operations, 14 betting venues and four corporate offices. We are licensed by gaming regulators in 28 US States. We also have smaller operations of these divisions based in the UK, Ireland, Germany, Turkey and The Netherlands. The Football Pools is based in Liverpool, operating under a licence from the UK Gambling Commission, and is the oldest football gaming business in the world.

Group highlights

- Profit before tax increased to £30.7m (2015: £9.7m).
- Results in line with expectations with overall EBITDA up 3% to £23.8m (2015: £23.1m).
- Successful outcome to our eight year £97m VAT refund appeal after rulings at the Supreme Court and the Court of Appeal.
- Announced an intention to return capital to shareholders by way of a tender offer for approximately £20m of Sportech ordinary shares, representing a buyback of around 10% of the issued share capital.
- Transformation in Group's financing with adjusted net cash balances at 31 December 2016 of £36.5m compared to adjusted net debt of £57.7m in 2015.
- Balance sheet strengthened by £22.6m despite a detailed review of assets leading to a non-cash impairment of £63.7m.
- Board restructured to include relevant industry experience and associated knowledge.
- Announced the sale of The Football Pools for £83.0m, subject to certain conditions.

Sportech Racing and Digital

Over the past five years, we have invested heavily in new and improved betting technology products and licensing in order to create a leading gaming technology business, servicing the global horseracing industry and more recently, the North American sports industry. We are pleased that this diversification into new geographies and sports is now beginning to deliver results. As a consequence, we have recognised an impairment charge against our old technology.

In order to build upon our long-term market strength in North America and Europe and to increase our global presence, we have established a base in Singapore with the aim of driving expansion into the significant Asian market. This has led to several new contracts (which generally are for five to ten years) for the supply of Tote system software and hardware during 2016. New customers include the Macau Jockey Club, Royal Sabah Turf Club in Malaysia, and Vung Tau greyhound track in Vietnam, to whom we have supplied a full range of betting software and hardware, including our Quantum™ Tote System and newly developed BetJet Aero™ terminals. Contracts include ongoing software licensing, maintenance and support services.

The expansion of our customer base follows the successful installation of our Quantum™ Tote system for Betfred in the UK, which now processes all Tote bets on live UK Racing from all UK domestic and international sources. Licensing and software maintenance services also continue to be supplied under this contract.

Importantly, we completed the delivery of a project to enable Betfred and its full UK wagering network currently connected into their Quantum Betfred system (including all major UK LBOs and key online partners), to bet directly into the Hong Kong Jockey Club pools. We have also delivered a similar solution for others internationally including the Great Canadian Gaming Corporation, and will watch the growth of this new business stream closely.

We were also pleased to conclude a system sale to our first customer in Russia in December 2016, having developed and successfully tested a new local language Russian betting/wagering system. This is our fifth local language deployment following the development in Macau earlier this year and we now have a suite of English, Russian, Spanish and simple and traditional Chinese language options.

Existing contracts continue to be renewed in North America and Europe and we were pleased to open live racing for new customers including Lone Star Park in Texas, Remington Park in Oklahoma and Kentucky Downs. Our Digital services business has shown good growth following a tough trading period in the second half of 2015, having secured new customers including Penn National Gaming.

Our Business Model

A unique position in the regulated gaming market worldwide

Reinvesting in the business...

has built a strong foundation and placed the Group in a strategic position to take advantage of the opportunities available to it.

Growing our Digital offerings...

and solutions has powered Sportech ahead of its competitors and opened up new revenue streams.

Keeping an international focus...

ensures the best value can be driven out of the Group's assets and growth continues to be achievable.

Chief Executive's review continued

Our Bump 50:50 business which was acquired in June 2014 and supplies in-stadia electronic lotteries to professional sports teams has had another year of growth from an initial customer base of seven to 37 professional sports teams to date. The business was loss making when we acquired it and pleasingly has generated EBITDA of £0.2m in 2016, and has a strong run rate going into 2017. We have been delighted with the calibre of our customer roster, with new customers contracted in the year including Dallas Cowboys, Miami Dolphins and San Francisco 49ers (NFL), Dallas Stars and Tampa Bay Lightning (NHL), Cleveland Cavaliers and LA Clippers (NBA), and our first MLB teams, San Diego Padres and Detroit Tigers. We have also developed the business outside of sport, offering 50:50 lotteries at the Fiesta Bowl, the Cactus Bowl and at Canada's biggest music festival, the Festival d'été de Québec. During 2016, Bump's systems raised over $8m for charitable causes, and it is believed that this could grow by more than 50% in 2017.

In February 2016, the Group's existing joint venture with Playwin, India's largest lottery provider, commenced supplying technology to an Indian company engaged to provide pool services for a Sikkim licence holder. Revenues generated are currently small as we look to establish a proof of concept for the broader market in India, as legislation permits.

Sportech Venues

In Connecticut, Sportech Venues operates all legal betting on horseracing, greyhound racing and Jai Alai under an exclusive and in perpetuity licence for retail, telephone, internet and mobile. The business, which is operated with close consultation and oversight from the State of Connecticut, and is the only legally permitted betting operator in Connecticut.

Our strategy is to broaden the product offering and become a betting operator which is able to offer the full suite of gaming products (as regulation develops) in an omni-channel environment, including at venues where bets can be placed watching sport, eating and drinking. We anticipate that betting on sports is now more likely to become legalised in the US in the next few years than previously.

We have commenced construction of our 20,000 sq.ft. flagship sports bar, restaurant and betting venue in downtown Stamford, just north of the New York State border, which is due to open in June. We are again partnering with Bobby Valentine for this venue as we did with our Bradley location in the north of Connecticut. Bobby will be relocating his existing Stamford sports bar and restaurant into the new facility which is bigger, better and more centrally located in the city.

Further to this, we remain involved in the ongoing debate and discussions concerning the expansion of slots (a 'third casino') in the State. Our involvement is based on the potential opportunity for the business, but also acts as a defensive move to counter the expected loss of taxation revenues for, and employment in, the State through the future expected opening of new casinos in neighbouring States.

We continue to look for further sites where a betting venue would deliver opportunities to further expand our reach in the State and anticipate opening in Windham next month,

Delivering on our strategy

Racing and Digital

Build upon our long-term market strength in North America and Europe and increase our global presence. Leverage our licensing position, intellectual property and people to drive value.

Sportech Venues

Broaden the product offering and become a betting operator which is able to offer the full suite of gaming products (as regulation develops) in an omni-channel environment. Position to take advantage of sports betting when regulation allows.

Football Pools

Following completion of modernisation and stabilising the core distribution channel, grow the business through retail channels and increasing the subscription base as well as expanding our online offerings.

together with an additional unit before the end of 2017. Furthermore, we have appointed the land and property consultant, CBRE, to apply to change our permitting (planning) designation, to enable us to realise value from our nine-acre site in New Haven whilst relocating our existing Sports Haven venue. Realising capital next year from this surplus land asset would fund the majority of our venues build out strategy in 2017 and 2018.

We still face competition from unlicensed illegal internet operators who continue to take bets (together with tax and jobs) from Connecticut residents, despite the State's issue of cease and desist letters. We anticipate support from the State to actively protect the terms of our licence, and to grow in-State jobs and State tax revenues.

Our expansion into California gained pace in 2016 with the opening of our first sports bar, restaurant and betting venue, in San Diego, in partnership with The Silky Sullivan Group under the brand name 'Striders'. The venue has been steadily building a customer base and increasing its revenues. We have an agreement to develop up to ten similar facilities across Southern California under which the Group currently has approval to construct a second site in the town of Norco and is considering further potential sites.

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 to June 2017 and we continue to work closely with the Government, the regulator and the horseracing industry regarding the future regulatory plans.

Football Pools

We have implemented significant operational and technological change in order to turn around the fortunes of our 93-year-old football gaming business over the past few years. We are pleased therefore that the final important stages in this process were implemented in the year, such that the business now has strong foundations to move forward.

The logistically challenging and cost intensive paper coupon collector network, which has been in decline for many years, was phased out over a number of months and finally closed in June 2016. Customers from this network are now transacting with the business on a subscription or digital basis. A new customer database is now in operation following a lengthy process to move away from old legacy systems, which have now been closed down.

Having made significant improvements in technology, we are now able to extend the distribution of our products digitally through the launch of The Football Pools App, which has been downloaded 20,000 times to date. 6,000 downloads have occurred in the last four weeks since the start of the promotional campaign.

We have also continued to develop new products to drive additional revenues and increase customer engagement. This summer, we have introduced pool games with cash out functionality to footballpools.com and a new online Spot the Ball game to replace the traditional Spot the Ball paper coupon offering.

The significant improvement in the technology base has enabled us to broaden the distribution of our products not just to digital, but also to retail consumers. From the end of January 2017, the traditional Football Pools game is now available to be played in many of the WH Smiths' stores nationwide. We have embarked on a supporting digital and TV advertising campaign, as we look to boost our customer numbers.

Outlook

Sportech has been through a transformational period.

We have established a unique position in the regulated gaming market worldwide, most notably with our licensed gaming businesses in the US. Following a number of years of significant investment in our technology, licensing and geographical reach, we are now in a position to grow our business, dispose of surplus property assets, benefit from regulatory change and deliver increased value to our shareholders.

We have had a good start to the year, are trading in line with management expectations, and look forward to delivering a successful 2017.

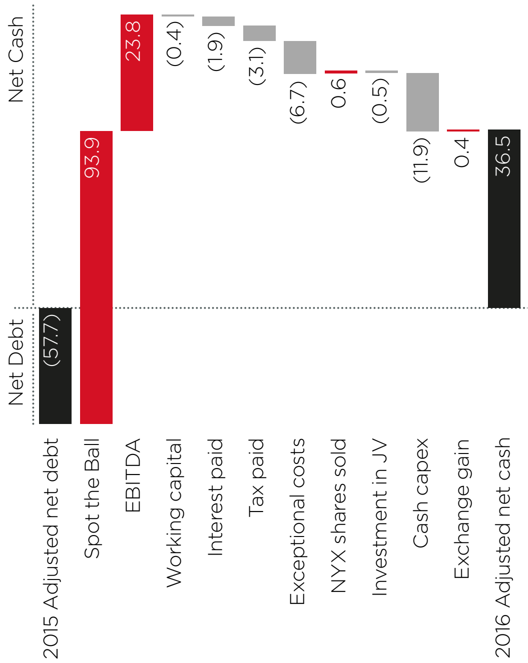
Ian Penrose
Chief Executive
2 March 2017

Financial review
How we have performed

Summary

- On a constant currency basis, EBITDA[1], excluding the closed Football Pools collector channel, remained level with prior year at £23.8m.
- The Group holds adjusted net cash[1] of £36.5m at 31 December 2016 (2015: adjusted net debt of £57.7m), which reduces by £21.5m once the Spot the Ball tax and fees are paid, and following receipt of the remaining £3m.
- Statutory profit before tax increased to £30.7m (2015: £9.7m).
- Adjusted profit before tax[1] is up by 17% to £13.8m (2015: £11.8m).

Net debt bridge



Group financial overview

	Revenue		EBITDA	
	2016 £m	2015* £m	**2016 £m**	2015* £m
Sportech Racing and Digital	**36.0**	38.8	**9.4**	9.7
Sportech Venues	**35.1**	36.6	**2.7**	3.2
Football Pools – continuing channels	**28.4**	28.4	**15.0**	14.3
Trading results	**99.5**	103.8	**27.1**	27.2
Inter-segment elimination	**(0.9)**	(0.9)	**(3.3)**	(3.5)
Results from continuing channels	**98.6**	102.9	**23.8**	23.7
Football Pools – closed collector channel	**–**	5.4	**–**	0.9
Total Group at constant currency	**98.6**	108.3	**23.8**	24.6
FX impact	**–**	(8.1)	**–**	(1.5)
Total Group	**98.6**	100.2	**23.8**	23.1

* 2015 divisional results are at 'constant currency', retranslated using 2016 exchange rates.

1 Adjusted performance measures

The Executive Committee assesses the performance of the operating segments based on a measure of adjusted EBITDA. This excludes the effects of non-recurring expenditure such as exceptional items and asset impairment charges. The share option expense is also excluded. This measure provides the most reliable indicator of underlying performance of each of the trading divisions. An adjusted profit before tax measure is also used in assessing the Group's performance. This is calculated as adjusted EBITDA less share option expense, depreciation and amortisation and finance costs. Again, this is deemed by the Executive Committee to be the most reliable indicator of Group performance.

The Executive Committee assesses the Group's liquidity using a measure of adjusted net cash/(debt) which excludes customer funds which the Group does not have beneficial ownership of. It also excludes the VAT refund in the time period prior to it becoming 'free and clear' to the Group. This is consistent with the measure used by the Group's lenders to assess the liquidity financial covenant.

At constant currency, excluding the results of the closed collector channel in the Football Pools, Group EBITDA has been maintained at £23.8m on revenues which have reduced by £4.3m (4%).

Adjusted profit before tax was £13.8m (2015: £11.8m), the EBITDA increase of £0.7m, reduced share-based payments charge of £0.7m, and lower finance costs of £1.5m were offset by increased depreciation of £0.8m. Profit before tax was £30.7m (2015: £9.7m) with basic earnings per share of 6.4p (2015: 3.3p) and adjusted earnings per share of 5.2p (2015: 4.4p).

Sportech Racing and Digital

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

	2016 £m	2015* £m
Tote services and maintenance contracts	**22.5**	26.5
System software and equipment sales	**6.0**	5.4
Digital services including sports and other lotteries	**7.5**	6.9
Total revenue	**36.0**	38.8
Payroll	**(11.0)**	(12.2)
Other costs	**(15.6)**	(16.9)
FX impact	**–**	(1.1)
EBITDA	**9.4**	8.6

* 2015 channel results are at 'constant currency', retranslated using 2016 exchange rates.

Total reported revenue has increased by 4% to £36.0m (2015: £34.6m) and EBITDA for the division was also ahead of prior year by 9% at £9.4m (2015: £8.6m). On a constant currency basis, revenue and EBITDA have reduced by £2.8m and £0.3m respectively, reflecting the effective repositioning of the business following the loss of our California Tote contract in October 2015 which had contributed $2.4m of EBITDA annually. New service contracts, including Lone Star Park and Remington Park, have each made a positive contribution towards earnings for the division.

As noted in the Chief Executive's review, we have seen growth in revenues and EBITDA in our system software and equipment sales (primarily in Asia) and our digital service contracts. This demonstrates the benefits of our expanded international focus in recent years, and the investment in our core technology. We are confident about the prospects for the division in 2017.

Sportech Venues

Key financials
A detailed analysis of our Sportech Venues division is set out as follows:

Connecticut Venues	2016 £m	2015* £m
Revenue	**29.4**	30.9
Margin	**17.0**	17.7
Connecticut EBITDA	**2.5**	2.9
Other EBITDA	**0.2**	0.3
FX impact	**–**	(0.4)
Total Venues EBITDA	**2.7**	2.8

* 2015 channel results are at 'constant currency', retranslated using 2016 exchange rates.

Revenues for the division, including Connecticut and Other Venues, have increased from prior year by £2.4m to £35.1m and EBITDA has remained broadly flat at £2.7m. On a constant currency basis, revenue and EBITDA have fallen by £1.5m and £0.5m respectively.

We continue to see the decline in industry handle across the US impacting our Connecticut retail business. However, our online betting platform ('ADW') benefited from the expected switch towards digital products with a 16% increase in handle. Last year, racing revenue was higher than normal during the Triple Crown season as a result of the interest in American Pharaoh who won all three races, the first horse to do so for 37 years. With no similar contender in 2016, revenues were lower during the Triple Crown season. Offsetting this benefit in 2015, we were also impacted by the closure of a Jai Alai venue which reopened in 2016, although revenues have not returned to levels from prior to the closure.

Financial review continued

We are encouraged that our innovative sports bar, restaurant and betting concept is beginning to produce positive results. At our Bradley venue, we now generate a contribution of over $1.0m, which includes a first-time contribution from food and beverage of $0.2m, with total revenues up by 16%. This bodes well for our new flagship venue which will open in downtown Stamford.

In our other venues in California and The Netherlands the combined revenues and EBITDA were in line with prior year.

Football Pools

Key financials

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

Continuing channels	**2016 £m**	2015 £m
Revenue	**28.4**	28.4
Sales related costs	**(4.6)**	(4.4)
Overheads	**(8.8)**	(9.7)
EBITDA – continuing channels	**15.0**	14.3
EBITDA – collector channel	**–**	0.9
Total EBITDA	**15.0**	15.2
Weekly revenue per Classic Pools customer (£)	**3.24**	3.03

Revenues were stable at £28.4m and EBITDA was up by £0.7m to £15.0m when excluding the impact of the contribution last year from the now closed collector channel (which had become loss making in 2016).

Weekly spend per Classic Pools customer has increased by 7% to £3.24 per week. Total new player acquisition in the year was 16,000, with 68% being recruited online. Total customer numbers at 31 December 2016 were 215,000 (2015: 230,000), with 64% of our Classic Pools customer base now playing by direct debit. A continued focus on the cost base has achieved a further reduction of £0.7m in the continuing business, in addition to stripping out £4.5m of costs in relation to the collector channel.

We have announced the sale of the Football Pools business and have reflected on the carrying value of this division by recognising a goodwill impairment charge of £37.7m. This reduces the carrying value of goodwill to £81.8m. In addition, we have impaired fixed assets by £4.8m, taking the total Football Pools asset impairment to £42.5m.

Corporate costs

Corporate costs of £3.3m (2015: £3.5m) have been reduced by 6% and remain tightly controlled. In addition, we have a non-cash share option credit under IFRS 2 of £0.1m (2015: charge of £0.5m).

Depreciation, amortisation and impairments

The Group's normal depreciation and amortisation charge increased in the period to £8.4m (2015: £7.6m), owing principally to the ongoing investment into our businesses in North America.

The Group has recognised various non-cash impairments to assets across the business, including £42.5m in the Football Pools, £17.2m in Sportech Racing and Digital and £4.0m in Sportech Venues. The impairments were identified through a review of the asset base of each division following the end of modernisation in the Football Pools business, the completion of a six-year road map of software and ancillary product development in Sportech Racing and Digital and a review of fixed assets in Connecticut, as well as our intention to realise value through sale of our venue in New Haven, Connecticut.

The Group incurred a non-cash amortisation charge of £0.6m (2015: £1.2m) on the intangible assets acquired with eBet in 2012, Datatote in 2013 and Bump in 2014.

Net exceptional income

The Group has recorded a pre-tax net gain of £91.0m in relation to the VAT refund which was successfully concluded by the Supreme Court in December 2016. Total income of £93.9m has been received with an expected further £3.0m to be received in the next few weeks. Costs in relation to this successful eight-year legal process of £5.9m have been recognised and are detailed in note 2.

Exceptional costs

The Group has incurred exceptional administration costs of £9.7m (2015: £2.6m) in the year. Of those costs, £2.4m relates to the modernisation of the Football Pools division (representing £2.2m of restructuring costs and £0.2m of losses in winding down and closing the collector channel). Costs of £4.4m (2015: £0.3m) have been incurred in relation to ongoing corporate activity and a loss of £0.7m was realised on the sale of 25% of our holding in NYX Gaming Group Limited. A further £0.5m of redundancy and restructuring costs were incurred within our US business, £1.0m has been provided in respect of irrecoverable VAT on asset impairments and £0.7m of other exceptional costs have been incurred in the year (see note 2 for further analysis). All these costs are considered to be one-off in nature and not relevant to the underlying performance of the Group or of such a size that their exclusion from underlying profits is considered necessary to understand the true performance of the Group.

Net finance costs

The Group has reduced its finance costs by 47% in the year to £1.7m (2015: £3.2m) due to the lower average levels of net debt. In addition, other finance income amounted to £1.1m (2015: £0.6m), representing foreign exchange gains on inter-company loans and cash balances held.

Taxation

A tax charge for the period of £17.6m (2015: £3.0m) has been provided at the weighted average applicable tax rate for the Group of 16.2% (2015: 17.0%) together with the tax effects of permanent differences and other adjustments. The increase in the Group's tax charge is a result of the Spot the Ball net gain. The underlying adjusted effective tax rate has marginally reduced to 22.8% (2015: 23.7%).

Tax has been provided on the net Spot the Ball gain of £91.0m at the UK corporation tax rate of 20%. Impairments to goodwill have impacted the overall effective tax rate, increasing it to 57.3%.

The Group has a net deferred tax asset of £3.1m (2015: £0.5m), representing primarily carried forward net operating losses and foreign taxes withheld which can be utilised against future profits. The Group has made a value adjustment of £3.1m to the carrying value of its carried forward foreign tax credits as a result of a reassessment of future recoverability. Tax payments of £3.1m were made during the year (2015: £2.3m), principally representing final payments for prior-year tax liabilities and overseas tax deducted at source.

VAT claim

On 4 May 2016, the Court of Appeal judges found unanimously in favour of the Group in respect of its £97m VAT reclaim relating to its 'Spot the Ball' game. On 13 May 2016, HMRC sought permission from the Court of Appeal to appeal to the Supreme Court, which was refused. We announced on 6 June 2016 that HMRC had lodged an application to appeal directly to the Supreme Court which we were delighted to hear on 8 December 2016 had been refused which brought the litigation to an end in the Group's favour.

The Group has currently received £93.9m and expects to receive the remaining balance within the next few weeks. Following the successful conclusion to this case, the Group has recognised the income net of costs in the income statement.

Financial review continued

Cash position and bank facility

The Group ended the year in an adjusted net cash position of £36.5m. Our £50.0m facility with the banking syndicate of Royal Bank of Scotland plc, Barclays Bank PLC and Bank of Scotland plc will be reviewed during 2017. £25.0m of the original facility of £75.0m was cancelled in December 2016 to reduce commitment charges being incurred. The Group's bank leverage covenant under the existing facility is 2.50x in June 2017. There was no leverage to be tested at 31 December 2016.

Foreign exchange

The Group generates approximately 40% and 10% of EBITDA in US dollars and Euros respectively. Movements in overseas currency rates are closely monitored by management and action taken to minimise cash flow risk arising from this. The Group has benefited in its reported results from the weakening of Sterling in 2016: EBITDA in prior year would have been £1.5m higher had 2016 exchange rates prevailed.

Capital expenditure

	2016 £m	2015 £m
Sportech Racing and Digital	**5.3**	4.5
Sportech Venues	**3.1**	1.1
Football Pools	**2.7**	2.5
Corporate costs	**0.8**	0.3
	11.9	8.4

Capital expenditure in the year of £11.9m (2015: £8.4m) includes platform and product modernisation in the Football Pools, approximately 40% of the Stamford venue build out, and improvements made to the Group's Digital offering.

Distributions to shareholders

The Board has decided to return money to shareholders by way of the Tender Offer announced today. Once the Board has considered the impact of the Tender Offer, the timing of The Football Pools sale and ongoing strategic initiatives, alongside new banking facilities, the Board will determine the appropriate capital structure and ongoing distribution policy. Therefore, no dividend is currently proposed.

Shareholders' funds

Total equity and the Group's net assets at 31 December 2016 have increased to £148.8m (31 December 2015: £126.2m).

Mickey Kalifa
Chief Financial Officer
2 March 2017

Principal risks
Effective risk management

Measuring risk

Our risk management strategy is to consider risks arising from each area of the business through a top-down and bottom-up approach. This is achieved by the communication through the Group of a risk appetite statement and the activities of the Group's Risk Committee, as further explained below.

The Board established and approved a risk appetite statement in 2015, which has been distributed to the Executive Boards of the three main business units. This statement, which has been reviewed by the Board during the year, provides guidance on the Group's appetite for risk across business areas and supports the Executive Boards in determining the appropriate balance of risk and return within their businesses.

The Risk Committee, which is led by the Chief Financial Officer, meets with the Executive Boards of each of the three main business units to assess risk and formally update their business-specific risk registers. Risks are measured in relation to their mitigated likelihood and their prospective impact were they to arise, in accordance with the following risks matrix:

Risks matrix

Impact	Low	Medium	High
High	4	8	12
Medium-High	3	6	9
Medium-Low	2	4	6
Low	1	2	3
	Mitigated likelihood		

The Risk Committee reports to the Board which in turn formally reviews a Group principal risk register annually. Principal risks to the Group are considered to be those risks identified by the Divisions as having an overall rating of eight or higher or an impact of four despite the low level of mitigated likelihood.

The table below shows the most significant risks to Sportech PLC as a Group, the potential impact of such risks and the mitigating activities that the Group carries out to reduce the likelihood and impact of such risks.

Risk area	Description and mitigating actions	Heat map rating
Regulatory The Group operates under numerous licences worldwide. 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 associated risks as follows: – the Group employs a Director of Corporate Affairs, one of whose primary roles is to ensure compliance with the requirements of our licences worldwide; – the Group employs a Group General Counsel in the UK and a General Counsel in the US who oversee regulatory and legal compliance worldwide; – the Group employs third-party specialist legal counsel as appropriate to ensure relationships with regulatory bodies are maintained at the highest level and specialist local advice is available as may be required; and – 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 are required to adhere.	**4** The Group continues to hold licences in the same jurisdictions and monitors the changing gaming environment. There have been no detrimental changes of note during the period.

Principal risks
Effective risk management continued

Risk area	Description and mitigating actions	Heat map rating
Product A significant proportion of the Group's annual income is derived from the traditional football pools betting product together with pools betting on US horseracing in both Venues and Racing and Digital divisions. In recent years, both products have experienced challenges in the recruitment of customers, leading to an ageing player base. Our objective is to modernise our business and expand our product base to address these challenges. In the US, certain horseracing, greyhound and Jai Alai venues that provide the Group's betting content operate under tight financial conditions.	Management has taken, and continues to take, mitigating actions to protect the Group from the impact of decline in the popularity of products offered as follows: – the Football Pools division continues to recruit new players to the products on offer and retention and marketing resources are being increased; – the Football Pools is changing its distribution methods to online and direct relationships with customers rather than through commission agents; – the Group is investing in its venues in Connecticut and California with a sports bar concept to attract younger, new customers to bet on horseracing; – the Group invests significant amounts in developing new and innovative products; and – where possible, fixed income or minimum guaranteed income contracts (in respect of Sportech Racing and Digital) have been entered into with our customers, limiting downside risk.	9 If the recruitment and retention of younger players to the Group's products is not successful there is an increase in the risk that the current products will decline in popularity. The risk of certain racetracks closing also remains.
Technology A significant proportion of the Group's annual income is dependent on the sale of technology-led products and the effective delivery of services through such products. The Group's sales are at risk if its technology products are not competitive. The Group is also exposed to the risk of failure in software/hardware used across the business in both operations and back office support.	Management ensures that the risks posed by technology are mitigated where possible as follows: – the Group has invested heavily in up-to-date server and storage infrastructure in its principal data centre and continues to invest in improving its applications to ensure compliance with best practice and customer needs; – the Group employs skilled and experienced system developers and operators to ensure that its applications run without material error or interruption and our software is continually improved; – the Group invests significant amounts in developing new and innovative products such as Digital Link; – Group systems, principally in the US, UK and in The Netherlands, are subject to annual third-party audits to provide assurances to our customers that our systems are robust and complete; – where third-party software is utilised, leading technology providers are chosen as suppliers of choice; and – 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.	9 The Group continues to invest in upgrading and enhancing its technology to keep pace with technological change.

Risk area	Description and mitigating actions	Heat map rating
Industry competition The Group's pool betting processing business, Sportech Racing and Digital, is dependent on key contracts and established software and systems. The market for these services in the US is particularly competitive, with our business being one of three main operators. Contracts have a typical three- to ten-year term. Competitive tenders issued as part of a renewal process can lead to a loss of a contract or a reduction in revenues in order to retain the contract.	The Group: – maintains good relationships with all of its current and potential customers; – ensures that actual and potential customers are aware of the premium products and technologies that it can deliver; – provides a first-class service to seek to avoid the desire for a customer to run a competitive bid process; and – is developing new and innovative products by which to differentiate the Company from the competition.	**8** The Group's Racing and Digital division has retained most of its existing customer contracts that were up for renewal, won a number of new racetracks, and secured new international system sales.

Viability statement

The Board has assessed the prospects of the Group over a longer period than the 12 months required by the going concern requirements of the UK Corporate Governance Code (the 'Code'). This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, made on page 48. The Board conducted this review for a period up to December 2019, which was selected for the following reasons:

i. The Group's strategic review process generally covers a three-year period.

ii. The Group's operations are underpinned by largely stable businesses and medium-term contracts, allowing for sufficient certainty to forecast results for this length of time.

The Group's financing facilities are due to expire in August 2018, and an assumption has been made for this review that refinancing will be available during this period.

The February 2017 strategic review considered the Group's cash flows, earnings, leverage, and other key financial ratios over the period. These metrics were subject to sensitivity analysis which involved flexing a number of the main assumptions underlying the forecast, both individually and in unison. The assumptions included the impact of the potential occurrence of the Group's principal risks and the effectiveness of available mitigating actions, other than the impact of a loss of a key licence or severe technology failure. These were not included within the forecasts as it is the Board's opinion that the likelihood of those risks occurring is minimal.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities, as they fall due, over the period of their assessment.

On behalf of the Board

Mickey Kalifa
Director
2 March 2017

Corporate social responsibility report
Operating responsibly

Customers

The Group's divisions hold licences to permit the provision of business-to-business services for pari-mutuel betting on horse and greyhound racing in over 30 jurisdictions in the Americas and Europe. Licences for business-to-consumer activity for the same products are held in Connecticut, California and The Netherlands, and for a wider range of gambling products in the UK. 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.

In the UK, the Group actively promotes GamCare to its customers, and nearly £0.5m has been contributed to GambleAware, GamCare's major funder, and its predecessor bodies over recent years. In Connecticut, the Venues business contributes over £0.1m annually to promote responsible gambling in the state.

Society

The Group remains focused on supporting good causes in the communities where our customers live and our businesses operate, and identifying further opportunities to continue this support.

Through its Bump 50:50 subsidiary, the Group has raised $8.6m for sports foundations in the US and Canada in 2016, including those associated with Dallas Cowboys, LA Clippers and San Diego Padres.

The Group's support for communities across the UK is virtually unparalleled in the sector. 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 nearly £150,000 annually for charitable use through its management and operation of society lotteries within its Football Pools business activities.

Environment

The Group recognises its responsibility to achieve good environmental practice and continues to strive to improve its environmental impact. The nature of its business results in the principal environmental 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 encourage the use of technology to facilitate information, data collection and dissemination, which 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 the Group is reporting on greenhouse gas emissions (see table below). As well as providing a summary of the CO_2 emissions produced, an intensity ratio using Group revenue is also included. In 2016, a decrease in intensity of 14.6% from prior year has been achieved, due to reduced use of natural gas, electricity and motor fuel, following business reorganisation in California and Germany, and closer control of utility usage.

	2016	2015	2014
CO_2 (metric tonnes)	**6,022**	7,176	6,202
Group revenues	**98.6**	100.2	104.1
Intensity ratio	**61.1**	71.6	59.6
Movement on prior year (%)	**(14.6)**	20.0	—

Neil Ruddock (ex-Liverpool and England) helping the Football Pools raise money for 'Balls to Cancer UK'

Sportech's Bump 50:50 platform helps professional sports teams' foundations support their charitable missions

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 and meetings.

Employee representatives are consulted regularly on a wide range of matters affecting their interests. The Group's 'Investors 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. Information on gender diversity is contained in the Corporate governance report on page 28.

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.

Human rights

Following a review, the Board considers that it is not necessary for the Group to operate a specific human rights policy at present.

Our policies operate within a framework to comply with relevant laws, to behave in an ethical manner and to respect the human rights of our employees and other stakeholders in the business.

On behalf of the Board

Ian Penrose
Chief Executive
2 March 2017

Chairman's statement
Generation of value for shareholders

Dear Shareholder

I am delighted that the position of the Group has been transformed. Financially we have moved into a net cash position, having previously been heavily indebted. We are also making the first returns to shareholders in the Group's history.

Performance

The Board is pleased to report that the Group's results for the year are in line with expectations and ahead of last year. We are confident in the strategic positions that each of our divisions have secured, whilst recognising that further investment is required, ahead of anticipated revenue and profit benefits, to enable them to deliver their full potential.

VAT claim

After nearly eight years, the Board was extremely pleased to announce in December 2016 that the Group had finally been successful at the Supreme Court in its reclaim of £97m of VAT from HMRC. There is the potential to receive compound interest on this money, which could more than double the amount received to date. We will watch the developments in the Supreme Court in July 2017 with interest.

Shareholder distribution

The Group is now in a position to make its first return to shareholders. Today we announced we intended to return £20m to shareholders, and following consultation with our advisers, we will be carrying this out using existing authorities available to us via a Share Tender Offer to buy up to 10% of the share capital of Sportech for a consideration of approximately £20m.

Today the Board also announced the disposal of the Football Pools for £83.0m, subject to shareholder approval and the purchaser receiving the appropriate licences from the Gambling Commission. We anticipate completion by the end of May 2017. The Board will subsequently consider the Group's optimal capital structure and dividend policy, taking into account business development and acquisition opportunities.

Board and employees

The Board has been reconstructed during the year in order to be better placed to address the opportunities and challenges ahead. We made two internal promotions to Executive Directors, namely Mickey Kalifa (as Chief Financial Officer) and Andrew Gaughan (as Executive Director, Andrew continues to act as President, Sportech Racing//Digital). We also welcomed a new Non-executive Director – Richard McGuire (as Independent Non-executive Director and Chairman of Remuneration Committee), and we look forward to announcing further appointments in the near future.

This has been a transformational year for the Group. I would like to record my sincere thanks to all my colleagues for the tremendous effort in bringing our Company to such a good position, and for putting us in a situation to deliver such value to loyal shareholders.

Corporate governance report

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.

This Annual Report is intended to outline the Group's corporate governance structure, policies and procedures, and inform shareholders of the activities of the Board and its Committees during the year to 31 December 2016. As a whole, it is considered by the Board, to be 'fair, balanced and understandable' as is required by the UK Corporate Governance Code.

The Board is committed to high standards of governance but acknowledges that certain provisions of the Code were not complied with during the year, as explained further in the Corporate governance report on page 22. We also acknowledge the non-compliance with DTR 7.1.1A from 1 January 2017 to date in that the majority of members of the Audit Committee should be Independent Non-executive Directors. Notwithstanding this, the Board is comfortable that it has achieved, and continues to achieve, good governance.

Outlook

This is an exciting time, with the Group having forged a leading industry position, established a strong financial structure and having developed many opportunities, all from a very difficult position several years ago.

Roger Withers
Non-executive Chairman
2 March 2017

Board of Directors

Roger Withers (74)
Non-executive Chairman

Date of appointment: February 2011
Board Committees: **A, N, R**

Roger was appointed Non-executive Chairman in February 2011. Roger has over 40 years' experience in the leisure and gaming industries. He was appointed as Non-executive Chairman of AIM-listed Safecharge International Group Limited in March 2014 and Director and Chairman of the Compensation Committee of Inspired Entertainment, Inc. in January 2017. He has previously held a number of Non-executive Directorships, including Chairman of Playtech Ltd, Chairman of Arena Leisure PLC and Executive Chairman of Bass Leisure South Africa.

Ian Penrose (51)
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, 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.

Mickey Kalifa (49)
Chief Financial Officer

Date of appointment:
March 2016

Mickey was appointed to the Board in March 2016. Mickey was our Corporate Development Director for six years prior to taking his current position. He has extensive experience in finance and executive roles with some of the world's largest media and technology companies, including Young & Rubicam, Disney, Time Warner, BSkyB and Liberty Media.

Andrew Gaughan (51)
Executive Director

Date of appointment:
January 2017

Andrew joined Sportech in 2010 following the Company's acquisition of the Scientific Games Racing business, and has served as President: Sportech Racing // Digital for the last four years. He was appointed to the Board in January 2017. Andrew has extensive experience in the gaming, technology and horseracing sectors, having previously held senior positions at Scientific Games Corporation, Magna Entertainment Corporation and Woodbine Entertainment Group. He is a qualified lawyer, and is based in Toronto, Canada.

Richard McGuire (50)
Non-executive Director

Date of appointment:
August 2016
Board Committees: **R, A, N**

Richard McGuire joined Sportech as a Non-executive Director to the Board in August 2016. Richard has extensive experience in capital markets and the leisure and gaming industries, and previously held a number of Non-executive directorships. Prior to joining Sportech he sat as Chairman at Timeweave plc, the joint owner of TurfTV, a dedicated TV channel providing horseracing pictures and data to the vast majority of licensed betting offices in the UK and Ireland. He also held the position of Non-executive Director at Mitchells and Butlers Plc, one of the largest operators of restaurants, pubs and bars in the UK.

Full biographies of the Board members can be found at www.sportechplc.com

R Remuneration Committee
A Audit Committee
N Nomination Committee

Note: Red icon indicates Chairman of Committee

Senior management

Sportech PLC

Luisa Wright
Group General Counsel and Company Secretary

Richard Boardley
Director of Corporate Affairs

Nicola McCabe
Group Financial Controller

Football Pools

Conleth Byrne
Managing Director

Carl Lynn
Finance Director

Kevan Woodcock
Director of Technology

Michelle Robbins
Head of Marketing

Sportech Racing and Digital

Andrew Gaughan
President

Bob Mercer
Finance Director

Louis Skelton
Chief Technical Officer

Dan Tanenbaum
President – Bump 50:50

Sportech Venues

Ted Taylor
President

James D Birney
Vice President of Finance

Frank J. Chesky III
Executive Vice President and General Counsel

Paul Klomp
Managing Director – Netherlands Venues and Online

Corporate governance report

Compliance with the UK Corporate Governance Code

Sportech is committed to a high standard of corporate governance and, throughout the financial year ended 31 December 2016, has complied with the provisions of the UK Corporate Governance Code (the 'Code'), save as described in the paragraphs below. A copy of the Code is publicly available from www.frc.org.uk. 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 is able and believes it is practical.

The Board acknowledges that, following the resignation of Peter Williams on 17 May 2016 (who had been Senior Independent Non-executive Director and Chairman of the Remuneration Committee until such date) and David McKeith on 24 August 2016 (who had been Chairman of the Audit Committee until such date), it has not complied with the provisions of the Code in the following respects: (i) the requirement to have at least two Independent Non-executive Directors as members of the Remuneration and Audit Committees and for the majority of Nomination Committee members to be independent (Code Provisions D.2.1, C.3.1 and B.2.1), (ii) there being an identified Senior Independent Director (Code Provision A.4.1) and (iii) the Chairman should not be a member of or chair the Audit Committee or Remuneration Committee given his non-independent status on appointment (Code Provisions C.3.1 and D.2.1), during the year under review.

Notwithstanding the above, the Board is comfortable that it has achieved, and continues to achieve, good governance, as a result of the experience of the Chairman and the appointment of Richard McGuire as a new Independent Non-executive Director on 24 August 2016. The Company confirms that Richard McGuire has the recent, relevant financial expertise required to effectively challenge and review accounting judgements and reporting. With this, and the extensive corporate experience of Roger Withers in mind, the Company is comfortable that the Committees have continued to function to a high standard throughout, and robustly challenge management and the preparation of the financial statements.

The search for a further new Independent Non-executive Director, who is intended to be appointed as Chairman of the Audit Committee, has been rigorous and taken time, as the Board has been mindful of its responsibility to appoint an individual who achieves the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. Further to this, the Board anticipates announcing the appointment of a further Independent Non-executive Director to the Board imminently and, following such appointment, proposes immediately to appoint such person to the role of Chairman of the Audit Committee, and to the Remuneration and Nomination Committees, and appoint one of the Independent Non-executive Directors as Senior Independent Non-executive Director. Following such appointment, the Audit Committee and Remuneration Committee will comprise two Independent Non-executive Directors and the Chairman will no longer chair, or be a member of, the Committees. The Nomination Committee will comprise majority Independent Directors and be chaired by the Senior Independent Director.

In addition to the above, DTR 7.1.1A has been breached following the revision to the Rule for the period beginning 1 January 2017, in relation to the majority of members of the Audit Committee being independent. Following the appointment of a new Independent Director, this breach will be rectified.

This report, together with the Remuneration report on pages 31 to 46, describes how the Company has applied the main principles of corporate governance as set out in the Code.

Board of Directors

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

Roger Withers	Non-executive Chairman
Ian Penrose	Chief Executive
Mickey Kalifa	Chief Financial Officer
Andrew Gaughan	President: Sportech Racing // Digital
Richard McGuire	Independent Non-executive Director

Biographies of the current Board members appear on page 20. 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 Richard McGuire to be an Independent Director. Roger Withers cannot be deemed to be independent, in light of his previous roles as Chairman of Playtech Limited, from which he resigned on 10 October 2013 (although he was retained as an industry adviser through to September 2014) and his capacity as a 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.

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 or 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.

Board effectiveness

Division of responsibilities and information

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/investors/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. 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.

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 Committee, 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.

Procedure for appointments to the Board, induction for Board members and ongoing training

The Chairman is responsible for taking the lead on issues of Director development and encouraging all Board members to engage in Board and Committee meetings by drawing on their skills, experience and knowledge. Non-executive Directors regularly deepen their knowledge of the business through site visits across the business. Each newly appointed Director receives an induction and each induction programme is tailored specifically to suit the needs of the newly appointed Director. The induction process includes meeting members of the Board and of the Group Executive team.

Each Director has access to all required information relating to the Group and to the advice and services of the Company Secretary. The Board also obtains advice from professional advisers as and when required and Directors may, as required, obtain external advice at the expense of the Group.

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. Roger Withers was appointed Director and Chairman of the Compensation Committee of Inspired Entertainment, Inc. on 27 January 2017. This additional commitment is not anticipated to impact his ability to effectively discharge his duties to the Company.

Corporate governance report continued

Full-scale Board and Committee review processes are 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 confidential questionnaires were completed in January 2017 and the results were circulated to the Directors in February 2017. The results will be discussed by the Board at the April 2017 Board meeting. The Board will review the key findings and ensure that any follow-up action required is undertaken promptly. It will continue to review its procedures, its effectiveness and development in the financial year ahead.

The Code provides that the Non-executive Directors should meet without the chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. The Chairman's performance was reviewed as part of the Board Evaluation process conducted in January 2016. The Code also requires the performance of Non-executive Directors to be appraised and this is done through the Board evaluation process described above.

Board meetings

The Board meets at least six 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 and divisional reports. 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.

	Main Board	Remuneration Committee	Audit Committee	Nomination Committee	Independent Directors Committee
Number of meetings held in the year	7	3	3	1	—
Executive Directors					
Ian Penrose	7	—	—	—	—
Mickey Kalifa (appointed 3 March 2016)	4	—	—	—	—
Cliff Baty (resigned 3 March 2016)	3	—	—	—	—
Rich Roberts (resigned 18 July 2016)	4	—	—	—	—
Non-executive Directors					
Roger Withers	7	3	3	1	—
Peter Williams (resigned 17 May 2016)	3	1	1	1	—
David McKeith (resigned 24 August 2016)	5	2	2	1	—
Richard McGuire (appointed 24 August 2016)	2	1	1	—	—

There are eight scheduled Board meetings for 2017.

Board Committees

The Committees of the Board are the Audit Committee, Remuneration Committee and the Nomination Committee. The Independent Directors Committee, which was initially set up to deal with ongoing conflicts from a Board and shareholder perspective, was disbanded by the Board on 14 June 2016 as it was deemed no longer applicable or required. 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/investors/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.

The Audit Committee

The Audit Committee of the Board currently comprises the Independent Non-executive Director, Richard McGuire, and the Chairman, Roger Withers, who also chairs the Committee.

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 has 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 Chief Executive 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.

The Committee considered internal reports from the Chief Financial Officer and the Group Financial Controller, together with the external Auditors' report in their half-year review and annual audit, in reviewing the Group's financial reporting function.

The primary areas of judgement considered by the Committee in relation to the 2016 financial statements were:

- the assumptions underlying impairment testing of the Group's goodwill and intangible assets; and
- the carrying value of contingent consideration receivable in relation to NYX.

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
- scenario analysis.

Corporate governance report continued

In testing assets for impairment, the key assumptions underpinning their value-in-use are discount rates and growth rates applied to projected earnings. These assumptions are inherently judgemental. The Committee considers those judgements in light of regular updates received on business plans and performance against targets, and has challenged management as to their rational for recognising impairments in the current year. In addition, the Committee considers findings of the work of the Auditors in this area.

In assessing the carrying value of the contingent consideration receivable from NYX, the Committee receives updates from executive management on the development of the North American online gaming market and the pertinent regulatory and commercial issues.

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 and as of 1 January 2017, tax advice and any advisory service which ultimately has an impact, material in size, on the treatment of items in the financial statements. The Group intends to comply with the new ethical standards which also require that fees for non-audit services do not exceed 70% of the average of the audit fee for the prior three years, prospectively from 1 January 2017. 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 2016 relates to work undertaken in respect of corporate activity. 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 2016 the significant risks identified were in relation to asset impairment, management override of controls, fraud in revenue recognition and the carrying value of contingent consideration in relation to NYX. The Committee has time with the external Auditors without management present at each meeting to provide additional opportunity for open dialogue and feedback. 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 reappointment
The Committee considers the reappointment 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, Nigel Reynolds, has performed the role since 2014.

PricewaterhouseCoopers LLP have been the Company's external Auditors for more than 20 years, 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 2016. 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. Transitional arrangements in the new ethical standards allow for the Auditor to remain in place for no longer than six years from 16 June 2014 and as such PricewaterhouseCoopers will be allowed to remain as the Group's Auditor until post signing of the 31 December 2019 financial statements, at which point the Group will be required to rotate its Auditor.

The Audit Committee provided the Board with its recommendation to the shareholders on the reappointment of PricewaterhouseCoopers LLP as external Auditors for the year ending 31 December 2017 and as a result, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the reappointment of PricewaterhouseCoopers LLP as our Auditors will be put to shareholders at the 2017 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.

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. The principal risks facing the Group and the mitigating actions taken by the Board and management are included on pages 13 to 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 Indian joint venture. The accounting for the Group's Californian joint venture is performed by the Venues division and the Vice President of Finance of that division ensures 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 is regularly reviewed by the Board and accords with the UK Corporate Governance Guidance. The Audit Committee and Board have reviewed the effectiveness of the internal controls of the Group for the year ended 31 December 2016 and up to the date of approval of the Annual Report and Accounts. This review covered controls in areas of finance, operations, risk management and compliance.

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 its findings to the Audit Committee. The Committee will continue to assess the need for specific internal audit reviews and 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. No instances of serious wrongdoing have been reported to the Audit Committee during the period.

Roger Withers
Non-executive Chairman and
Chairman of the Audit Committee
2 March 2017

Corporate governance report continued

The Remuneration Committee

The Remuneration Committee of the Board currently comprises the Independent Non-executive Director, Richard McGuire and the Chairman, Roger Withers. It is chaired by Richard McGuire.

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 31 to 46.

The Nomination Committee

The Nomination Committee currently comprises the Independent Non-executive Director and the Chairman of the Board, who also chairs this Committee.

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. Notably, during the year under review, the Committee recommended to the Board the appointment of Richard McGuire to the role of Independent Non-executive Director and the search, which is at an advanced stage, for a new Independent Non-executive Director, who will also be appointed as Audit Committee Chairman.

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, 44% are female and out of 21 members of senior management 33% 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.

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 2016 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.

The Board recognises the high level of withholding of votes and abstentions in relation to the Auditors' remuneration (resolution 6) and reappointment (resolution 5) respectively at the 2016 AGM. The appointment of PricewaterhouseCoopers LLP as external Auditors is subject to regular review by the Audit Committee and it is the belief of the Committee, as stated in the Audit Committee report, that the effectiveness, independence and value for money of PricewaterhouseCoopers LLP as external Auditors remains appropriate.

On behalf of the Board

Luisa Wright
Company Secretary
2 March 2017

Report of the Remuneration Committee

Letter from the Remuneration Committee Chairman

Dear Shareholder

On behalf of the Board I am pleased to present, for the first time as Sportech's Remuneration Committee chair, the Directors' remuneration report (the 'Report') for the year ended 31 December 2016.

This annual statement, together with the annual report on remuneration (pages 31 to 46), will be put to an advisory shareholder vote at the 2017 AGM. Our approach to pay is governed by our remuneration policy, which was last approved by shareholders in 2014. Shareholders will therefore be asked to approve a revised directors' remuneration policy (pages 31 to 37) at the 2017 AGM in a binding vote.

There have been a number of changes at the Board-level and to the Committee membership over the last 12 months meaning that it has not been the optimum time to conduct an in-depth review of the remuneration policy. Further to this, we are not proposing any substantive changes at the 2017 AGM. However, we will be taking the opportunity to make a number of minor amendments to bring the policy further into line with good practice. We now have the stability required to ensure an in-depth review of the remuneration policy can be conducted and the Committee therefore intends to do so over 2017 (including consultation with major shareholders) to ensure it appropriately drives performance and aligns our executives and employees with our shareholders.

Performance and reward in relation to 2016

In determining remuneration levels for the executive directors, the Committee has taken account of market conditions, internal reference points, the performance of the Company, responsibility to shareholders and good corporate governance.

The basic salaries of the Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') for 2017 have increased by 1.5%, consistent with the general pay award for our UK-based employees. In addition, following the promotion of Mickey Kalifa to CFO in March 2016, he received an increase during the year from £230,000 to £250,000, commensurate to that of his predecessor, to reflect his successful transition into the role. Mickey's salary is now positioned broadly in line with the market and no further such one-off increases are proposed.

As set out in detail in the Strategic report, the Company delivered against a number of strategically important objectives during the year under review and delivered EBITDA of £23.8m. The EBITDA targets set for 2016 were partially achieved during the year, and a number of personal and strategic objectives were achieved. Therefore, overall bonuses earned were 39.2% of maximum for the CEO (39.2% of salary) and 39.7% of maximum for the CFO (29.8% of salary).

During the year under review, Sportech was successful in a VAT repayment claim in respect of 'Spot the Ball' ('STB') which resulted in the Group receiving approximately £97m gross. The success of this claim is transformational for the business. Therefore, during 2016, in accordance with the remuneration policy, the Committee consulted with the Company's major shareholders with regard to awarding an exceptional bonus to reward the performance of the Executive Directors in achieving this outcome. The Committee proposed that 1.75% of gross proceeds be allocated to management and other employees who had materially contributed to the outcome, and that 37.5% and 6% of such allocation be awarded to the CEO and CFO respectively. The shareholders consulted, representing the majority of the shareholder base, were supportive of this award. The bonuses are £637,000 for the CEO and £102,000 for the CFO.

Performance Share Plan ('PSP') awards granted in 2014 will be eligible to vest in 2017 subject to two independent performance conditions. The 50% of the award subject to a relative total shareholder return ('TSR') performance condition has a performance period ending in March 2017 but based on the most recent assessment, TSR performance is ranked below the median position on a relative basis, so there is no vesting expected from this element of the award. The remaining 50% of the PSP awards was based on EPS growth over the three-year period ending 31 December 2016 with this element of the awards not vesting due to EPS growth over the financial years not achieving the minimum target. The Committee has reviewed the variable incentive payouts based on the financial period ended 31 December 2016 and is satisfied that the overall reward reflects the performance delivered.

Implementation of policy in 2017

The policy in 2017 will operate on a largely similar basis to how it operated in 2016. The annual bonus will be assessed against stretching EBITDA targets and personal objectives linked to the Company's strategic KPIs, and the LTIP which will be granted in 2017 will be based on relative TSR performance conditions with a financial modifier.

Changes to the Board

Andrew Gaughan was appointed to the Board as an Executive Director as President: Sportech Racing // Digital on 25 January 2017. His salary on joining the Board was set at CAD$400,000. Details of the rest of his package can be found in the annual report on remuneration on pages 37 to 42. Cliff Baty and Rich Roberts stepped down from the Board on 3 March 2016 and 14 July 2016 respectively. Details of their leaving arrangements can be found on page 43.

Shareholder feedback

I thank shareholders for their helpful and constructive feedback, particularly in relation to the consultation on the STB VAT reclaim outcome. I look forward to engaging with you further when we undertake a thorough review of our remuneration policy during the course of 2017 and seek to better align objectives and targets to tangible shareholder returns. In the meantime, we would welcome your support for the AGM remuneration resolutions.

Richard McGuire
Independent Non-executive Director and
Chairman of the Remuneration Committee
2 March 2017

Remuneration report

for the year ended 31 December 2016

This Report has been prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013 (the 'Regulations') and is intended to be in full compliance with the requirements of the Regulations and the UK Corporate Governance Code 2014 issued by the Financial Reporting Council (the 'Code'). PricewaterhouseCoopers LLP have audited the contents of the Report to the extent required by the Regulations.

Directors' Remuneration Policy

This part of the Directors' remuneration report sets out the remuneration policy for the Group. This revised Directors' remuneration policy will be put to shareholders for approval in a binding vote at the AGM on 24 May 2017. The effective date of the revised policy will be 24 May 2017.

The primary objective of the remuneration policy is to promote the long-term success of the Company. In working towards the fulfilment of this objective the Committee aims 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 with increasing 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 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 it continues to operate within the agreed risk framework of the Group.

The Committee 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 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, regarding the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters.

Changes to the remuneration policy approved by shareholders at the 2014 AGM

The Committee has undertaken a review of the existing remuneration policy taking account of the Group's strategic objectives and developments in the executive pay environment. The Committee believes that the current overarching remuneration policy continues to be effective and that no significant changes are required at this stage. However, some minor amendments have been proposed to ensure that the policy is sufficiently flexible to operate effectively over the policy period (for example the Committee has built in some additional flexibility regarding the specific measures which will be used for the bonus and PSP to ensure that targets are fully aligned with the strategic imperatives prevailing at the time they are set).

The Committee intends to further conduct a thorough review of the remuneration policy during 2017 and will consult with major shareholders if any substantive changes are proposed.

Remuneration for Executive Directors

The main component parts of the remuneration packages for Executive Directors are detailed in the table on pages 32 to 33, which should be read in conjunction with the recruitment/promotion policy on page 36, and the 'Detailed remuneration policy for 2017' section of the Annual report on remuneration, which starts on page 37.

Remuneration report continued

for the year ended 31 December 2016

Policy table

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Base salary To attract and retain key individuals. Reflects the relevant skills and experience in role.	– Salaries are normally set on 1 January each year and typically reviewed annually taking account of performance, experience, responsibilities, relevant market information, internal reference points and the level of workforce pay increases.	– The current salaries are set out in the Annual report on remuneration on page 37. – Annual increases will typically be commensurate with those of the wider workforce (in percentage of salary terms). – If there are significant changes in responsibility or a change in scope, increases may exceed this level. – 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 and subject to satisfactory performance.	A broad-based assessment of individual and Company performance is considered as part of any salary review.
Pension 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.	– Up to 8% of salary for UK Executive Directors. Only basic annual salary is pensionable.	Not applicable.
Benefits To provide cost-effective, yet market competitive, benefits.	Benefits may include a combination of the following: – Car or car allowance; – Family cover private health insurance; – Life insurance cover. Benefits such as relocation allowances may also be offered if considered appropriate and reasonable by the Committee. Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and where Executive Directors are recruited from overseas, benefits more tailored to their geographical location may be provided. Executive Directors are also eligible to participate in any all-employee share schemes operated by the Company, in line with prevailing HMRC guidelines (where relevant), on the same basis as for other eligible employees. Any reasonable business-related expenses can be reimbursed.	There is no maximum limit but the Committee reviews the cost of the benefits provision on a regular basis to ensure that it remains appropriate. Participation in the all-employee share plans is subject to the limits set out by HMRC.	Not applicable.

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Annual bonus plan To motivate Executive Directors and incentivise the achievement of key financial and strategic goals and targets over the financial year.	– Bonus is typically paid in cash. – Based on the achievement of performance metrics with a sliding scale from a threshold to maximum level of performance. – Levels of award are determined by the Committee after the year end based on performance against the targets set. – Recovery provisions may be applied in the event of material misconduct and/or an error in the calculation of the bonus payable.	– Maximum bonus potential is up to 100% of salary for the Chief Executive and up to 75% of salary for other Directors. 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 profit-based 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. 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.
Long-term incentive plan To motivate Executive Directors and incentivise delivery of performance over the long term. To encourage greater shareholder alignment and to facilitate share ownership.	– Awards of performance shares are normally made annually. – The Committee reviews the quantum of awards annually and monitors the continuing suitability of the performance measures. – Directors may be entitled to dividends which accrue on vested awards.	– 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. – The policy is to grant awards of up to 100% of salary for Directors.	Performance is normally measured over three years. Awards are currently granted subject to performance based on a combination of relative TSR and financial measures (such as EPS). The Committee will review the appropriateness of the performance conditions on an annual basis and may make changes to the weightings or use different measures which are aligned to the Company's strategic priorities at that time. A minority (no more than 25%) of the award will vest for threshold levels of performance, rising on a straight-line basis to full vesting for outperformance.
Executive share ownership To align Executive Directors' and shareholders' interests.	– Executive Directors are expected to hold an investment of at least 100% of base salary in the company, using 50% of net awards vesting under the Company's LTIPs to achieve the shareholdings, if required.	– 100% of salary for all Executive Directors.	Not applicable.
Non-executive Director fees To attract and retain high-calibre Non-executive Directors. 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 the context of the fee levels in companies of a comparable size and complexity, and reflecting the onerous obligations of international racing regimes. – Any increase in fees will also take account of increases in salaries across the workforce. – Fees are normally paid monthly in cash. – Any reasonable business-related expenses can be reimbursed.	– The Non-executive Chairman's fee and Non-executive Directors' fees are set out in the Annual report on remuneration on page 38. – There is no prescribed maximum fee or fee increase. Any increase will be guided by changes in market rates, time commitments and responsibility levels. – 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 2016

Choice of performance measures
The choice of the performance metrics applicable to the annual bonus scheme reflects the Committee's belief that any incentive compensation should be appropriately challenging and tied to both the delivery of targets relating to key financial measures which support the Company's strategic objectives and individual and/or strategic performance measures intended to ensure that Executive Directors are incentivised to deliver across a range of objectives for which they are accountable. The Committee has retained some flexibility on the specific measures which will be used to ensure that any measures are fully aligned with the strategic imperatives prevailing at the time they are set.

The performance conditions applicable to the LTIP awards have been selected by the Committee on the basis that a combination of relative TSR and key financial measures (such as EPS) provides strong alignment with the delivery of long-term returns to shareholders and incentivises strong Group financial performance – consistent with the Company's objective of delivering superior levels of long-term value to shareholders. The Committee has retained flexibility on the measures which will be used for future award cycles to ensure that the measures are fully aligned with the strategy prevailing at the time the awards are granted. Notwithstanding this, the Committee would seek to consult with major shareholders in advance of any material change to the choice or weighting of the LTIP performance measures.

The Committee operates the annual bonus plan and long-term incentive plans per 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:

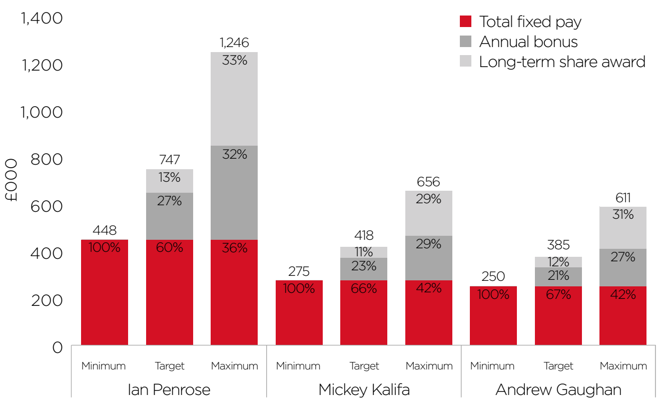
- timing of awards and payments;
- the size of an award (within the limits noted in the table on page 36), and when and how much should vest;
- who receives an award or payment;
- dealing with a change of control or restructuring of the Group;
- determining whether a participant is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest;
- any adjustments required to awards in certain circumstances (for example 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.

Existing awards
The Committee intends to honour any commitments, including outstanding LTIP awards, on the terms applicable at the time each such commitment was made. The relevant outstanding awards are described in more detail on pages 40 to 42.

Reward scenarios
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.

Illustration of policy application



Notes

1 Minimum = fixed pay only (base salary, benefits and pension).

2 Target = 50% of annual bonus and 25% vesting of the PSP awards.

3 Maximum = 100% of annual bonus payable and 100% vesting of the PSP awards.

4 Salary levels are based on those applying on 1 January 2017. An exchange rate of 1.6576 has been used to translate Andrew Gaughan's salary, benefits and pension from Canadian Dollars to Sterling, being the rate per the Bank of England as at 31 December 2016.

5 The value of taxable benefits is the estimated cost of supplying those benefits (using the cost for the year ended 31 December 2016 as a proxy). Benefits for Andrew Gaughan are an estimate based on what is expected to be received.

6 The pension value is based on an 8% of salary contribution/ supplement for Ian Penrose and Mickey Kalifa and 3% for Andrew Gaughan.

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

Policy on contracts of service
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 (for example, 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 (e.g. 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.

Copies of the Executive Directors' service contracts are available for inspection on request to the Company Secretary.

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, if these are not likely to lead to conflicts of interest.

Other employees' pay
The Committee does 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. The Committee therefore regularly interacts with the senior operational executives and monitors pay trends and conditions across the workforce. In particular, the Committee is made aware of general salary increases, general benefit provision and the proposed level of annual bonuses. Salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce. The Committee is also responsible for reviewing the participants of the LTIPs and participation levels in the all-employee plans.

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 quantum will operate below the Board level. Over a quarter of full time employees currently benefit from being part of an annual incentive plan to drive exceptional performance and long-term growth across the business. The Committee plans to review the annual incentive plan population as part of its 2017 review of policy.

Long-term incentives are reserved for those judged as having the greatest potential to influence the Group's strategic direction, earnings growth and share price performance.

The Committee is aware of the support expressed by some investors for the harmonisation of executive pension allowances to bring them into line with percentages for the wider workforce. Current allowances for Sportech's Executive Directors are up to 8% of base salary, which is below mid-market practice; however, the Committee will continue to closely monitor how market practice and investor views about this topic develop.

Remuneration report continued
for the year ended 31 December 2016

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: – the particular experience, knowledge and skill of the individual; – market rates for comparable positions in companies of a similar size and complexity; and – internal Company relativities. Where considered appropriate the Committee may wish to set the initial salary below the market rate but with the view to make a series of planned 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. 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 up to 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. 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	The maximum initial level of long-term incentives which may be awarded to a new Executive Director will be limited to the maximum LTIP limit of 200% of salary. 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. For internal promotions, existing awards will continue over their original vesting period and remain subject to their terms as at the date of grant. A new appointment would be eligible to participate in any all-employee share 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. Any buy-out awards will be in addition to the limits set out above. 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.

The fee structure and quantum for Non-executive Director appointments will be based on the prevailing Non-executive Director fee policy.

Shareholder engagement

The Committee is mindful of the concerns of shareholders and stakeholders and 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

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 during regular meetings throughout the year and this, plus any additional feedback received from time to time, is considered as part of the Committee's annual review of remuneration policy. The Committee also closely monitors developments in institutional investors' best practice expectations.

Annual report on remuneration

Detailed remuneration policy for 2017

Basic annual salary

- Ian Penrose, Chief Executive, was awarded a salary increase of 1.5%, which is consistent with the general pay award for all UK-based employees. He is paid a salary of £399,000 per annum with effect from 1 January 2017.
- Mickey Kalifa, Chief Financial Officer, was awarded a salary increase of 1.5%, which is consistent with the general pay award for all UK-based employees. He is paid a salary of £254,000 per annum with effect from 1 January 2017. Mickey was previously awarded a salary increase from £230,000 to £250,000 with effect from 1 September 2016. This increase was awarded to bring his salary to a level commensurate to that of his predecessor, to reflect his successful transition into the role. Mickey's salary is now positioned broadly in line with the market and no further such one-off increases are proposed.
- Andrew Gaughan, President, Sportech Racing // Digital, who was appointed to the Board on 25 January 2017, is paid a salary of CAD$400,000 per annum with effect from 1 January 2017.

Performance-related bonus

The maximum bonus potential for the Chief Executive for 2017 is 100% of basic salary, and for the other Executive Directors is 75% of basic salary.

For each Executive Director, their performance-related bonus is based on the adjusted EBITDA performance of the Group (and operating divisions as appropriate), delivering on Group strategic objectives and meeting personal targets. The adjusted EBITDA-based proportion of the bonus, which represents a majority of each Director's bonus entitlement, is operated with a range set around an agreed budgeted adjusted EBITDA figure. Strategic and personal objectives are designed to protect and enhance the Company's position across key geographical regions and enhance shareholder value. Metrics include the success of new venues opening in the US in 2017; further enhancements to the Company's product capabilities within the Racing and Digital division and effective cash management and implementing effective cost savings throughout the Group. The targets themselves are considered commercially sensitive and will therefore be disclosed on a retrospective basis only in next year's annual report on remuneration (as long as such targets are no longer considered commercially sensitive at that point). This bonus is wholly payable in cash. Recovery provisions may be applied in the event of material misconduct and/or an error in the calculation of the bonus payable.

Pension arrangements

The Company will contribute into a defined contribution scheme or as a cash payment in lieu of pension for Ian Penrose and Mickey Kalifa at a rate of 8% of base salary and for Andrew Gaughan at a rate of 3% of salary.

Other benefits

Executive Directors are entitled to the following other main benefits:

- a car allowance of £16,000 for the Chief Executive;
- private health insurance for themselves, their spouse and children; and
- life insurance of four times salary (UK Directors only).

Long-Term Incentive Plan ('LTIP')

It is the Committee's intention to grant awards in 2017 at 100% of salary to the Chief Executive and 75% of salary to the other Executive Directors. The targets to apply to the 2017 awards are to be structured in a similar way to the 2016 awards, with a focus on incentivising growth in total shareholder return. As a result, the primary performance metric will be the Company's relative TSR performance measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over a three-year performance period (the comparator group set as at the date of grant). The following vesting schedule will apply:

The Company's TSR rank against the TSR of the comparator companies	Extent of vesting
Below median	0%
Median	25%
Between median and upper quartile	Pro rata between 25% and 100%
Upper quartile (or better)	100%

A general financial modifier will also apply requiring the Committee to consider the Company's financial performance over the performance period when determining the final vesting result.

Remuneration report continued

for the year ended 31 December 2016

The Committee is aware that the LTIP does not currently operate recovery or withholding provisions. The Committee believes there are strong internal controls, a relatively simple reporting process and a robust level of oversight which means the risk of a material misstatement to the accounts or individual misconduct is considered to be extremely unlikely. However, the Committee will keep this issue under review for future awards.

Non-executive Directors' fees

The fees set for 1 January 2017 are unchanged for the Chairman from the prior year, being £120,000. The Non-executive Director base fee has been reduced from £47,500 to £45,000 effective 22 August 2016 and the additional Committee membership fee of £5,000 per Committee that was previously paid is no longer payable. The fees are set competitively against 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.

Directors' remuneration for 2016 (audited)

	Year of appointment	Fees/salary £000	Taxable benefits £000	Pension £000	Bonuses £000	Long-term incentives £000	Pay in Lieu of notice £000	2016 Total £000
Executive Directors								
Ian Penrose	**2005**	**393**	**18**	**31**	**791**	**–**	**–**	**1,233**
Mickey Kalifa (appointed 3 March 2016)	**2016**	**198**	**1**	**16**	**161**	**–**	**–**	**376**
Cliff Baty (resigned 3 March 2016)	**2013**	**48**	**–**	**4**	**–**	**–**	**–**	**52**
Rich Roberts (resigned 14 July 2016)	**2014**	**120**	**13**	**3**	**16**	**–**	**231**	**383**
Non-executive Directors								
Roger Withers	**2011**	**120**	**–**	**–**	**–**	**–**	**–**	**120**
Richard McGuire (appointed 24 August 2016)	**2016**	**16**	**–**	**–**	**–**	**–**	**–**	**16**
Peter Williams (resigned 17 May 2016)	**2011**	**22**	**–**	**–**	**–**	**–**	**–**	**22**
David McKeith (resigned 24 August 2016)	**2011**	**38**	**–**	**–**	**–**	**–**	**13**	**51**
Aggregate emoluments		**955**	**32**	**54**	**968**	**–**	**244**	**2,253**

- Ian Penrose, Chief Executive, was paid a basic annual salary of £393,000 per annum, with effect from 1 January 2016.
- Mickey Kalifa, Chief Financial Officer, was paid a basic annual salary of £230,000 per annum with effect from 1 January 2016, increasing to £250,000 per annum with effect from 1 September 2016 (appointed to the Board 3 March 2016).
- Rich Roberts, former President: Sportech Digital, was paid a basic annual salary of $306,000 per annum with effect from 1 January 2016 (stepped down from the Board 14 July 2016).
- Cliff Baty, former Chief Financial Officer, was paid a basic annual salary of £249,000 per annum (stepped down from the Board 3 March 2016).
- Rich Roberts is eligible to receive a bonus in relation to 2016 (pro-rated to 14 July 2016) on the basis that he served in an Executive capacity for the performance year up until the date he stepped down from the Board. Cliff Baty is not eligible for a bonus in relation to 2016.
- Mickey Kalifa earned a bonus of £11,000 for performance in 2016 prior to his appointment to the Board. This is in addition to the figure set out above.

Directors' remuneration for 2015 (audited)

	Year of appointment	Fees/salary £000	Taxable benefits £000	Pension £000	Bonuses £000	Long-term incentives £000	2015 Total £000
Executive Directors							
Ian Penrose	2005	389	17	31	80	—	517
Cliff Baty	2013	247	1	20	32	—	300
Rich Roberts	2014	198	14	4	22	—	238
Non-executive Directors							
Roger Withers	2011	120	—	—	—	—	120
Peter Williams	2011	58	—	—	—	—	58
David McKeith	2011	58	—	—	—	—	58
Aggregate emoluments		1,070	32	55	134	—	1,291

Performance-related bonus

The maximum bonus potential for the Chief Executive in the year under review was 100% of basic salary, and for the Chief Financial Officer (former and current) was 75% of basic salary. For the President: Sportech Digital, the maximum bonus potential was 50% of basic salary. For each Executive Director, their performance-related bonus was based on (i) the adjusted EBITDA performance of the Group and (ii) strategic objectives aligned with Group strategic goals. In addition, the Executive Directors were considered for an upwards alteration to their respective overall bonus outcomes in light of the successful outcome of the STB VAT Repayment Claim, which occurred during the year.

Adjusted EBITDA performance

The Committee considered the Group's adjusted EBITDA performance for these purposes and in this respect, achievement was determined to be 25.7% out of a maximum target of 70% of overall potential bonus. The targets set were to achieve adjusted EBITDA of between threshold £23.1m (0% of this element of bonus achievement) and stretch £24.9m (100% of this element of bonus achievement), with target set at £24.0m (50% of this element of bonus achievement). Actual adjusted EBITDA performance was £23.8m.

Strategic objectives

With regards to the Chief Executive, his 2016 targets related to: implementing cost savings across the Group beyond that budgeted; improving customer retention across significant business lines; improved communication with shareholders and external advisers; restructuring the Group's European operations; successful implementation of key IT projects; and driving the growth of our US Venues business. Achievement against each of these targets was assessed by the Committee, resulting in an award of 13.5% out of a maximum target of 30% of potential bonus. The 2016 strategic targets relating to the Chief Financial Officer were in relation to: effective cash management and adherence to banking covenants; the implementation of cost savings beyond those set out in the budget; establishing a strong presence as CFO with key stakeholders and successful implementation of key IT projects; and driving the growth of our US business. Achievement against each of these targets was assessed by the Committee, resulting in an award of 14% out of a maximum target of 30% of potential bonus. The strategic targets of the President: Sportech Digital related to: managing the Group's interest in DraftDay; increasing the US advance deposit wagering 'ADW' EBITDA; working with the Sportech Racing and Digital Chief Technical Officer in developing new digital projects; and implementing cost savings beyond those budgeted. Achievements against these targets were assessed prior to his departure, resulting in no award out of a maximum target of 30% of potential bonus.

Remuneration report continued
for the year ended 31 December 2016

The table below summarises the overall bonus result.

Individual	Total bonus: % Maximum (% salary payable)
Chief Executive (Ian Penrose)	39.2% out of the maximum entitlement (39.2% of salary payable)
Chief Financial Officer (Mickey Kalifa)	39.7% out of the maximum entitlement (29.78% of salary payable), pro-rated per date of appointment
President: Sportech Digital (Rich Roberts)	25.7% out of the maximum entitlement (12.85% of salary payable), pro-rated per date of stepping down from the Board

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

STB VAT repayment claim bonus
In December 2016, Sportech was successful in a VAT repayment claim in respect of 'Spot the Ball' ('STB') which resulted in the Group receiving approximately £97m gross. The claim, which was first submitted in March 2009, was heard by the First-tier Tribunal's Tax Chamber ('FTT') in 2012. In 2013, it was announced that the FTT had found in Sportech's favour.

Following the FTT's rejection of HMRC's subsequent application for leave to appeal to the Upper Tribunal (Tax and Chancery Chamber) ('UT'), HMRC then applied directly to the UT which granted such permission. The claim was heard by the UT in April and May of 2014 and it was announced in September that the UT had ruled in HMRC's favour.

In January 2015, Sportech announced that it had been granted the right to appeal to the Court of Appeal. The hearing took place in April 2016, following which in May 2016 the Court of Appeal judges found unanimously in favour of Sportech. On 13 May 2016, HMRC sought permission from the Court of Appeal to appeal to the Supreme Court, which was refused. Sportech announced in June 2016 that HMRC had lodged an application to appeal directly to the Supreme Court.

The ultimate success of this £97m claim was led by the Chief Executive Officer, supported by a significant number of staff and senior Executives across the Group over the last seven years, above and beyond their ongoing business demands.

The success of this claim is transformational for the business, therefore during 2016, in accordance with the remuneration policy, the Committee consulted with the Company's major shareholders with regard to awarding an exceptional bonus to reward the performance of the Executive Directors in achieving this outcome which is of material benefit to the Group. The Committee proposed that 1.75% of gross proceeds be allocated to management and other employees who had materially contributed to the outcome, and that 37.5% and 6% of such allocation be awarded to the Chief Executive Officer and Chief Financial Officer respectively. The shareholders consulted, representing just under 60% of the shareholder base, were supportive of this award. The bonuses are £637,000 for the Chief Executive Officer and £102,000 for the Chief Financial Officer.

Pension arrangements
The Company contributed into a defined contribution scheme for the UK-based Executive Directors at a rate of 8% of base salary. The Company paid a maximum of $6,750 per annum into a defined contribution scheme for Rich Roberts, a US-based director, until the date of his resignation.

Long-Term Incentive Plans ('LTIPs')
Awards vested in relation to performance ending 2016
Awards granted in March 2014 reached the end of their performance periods or were substantially complete in the year under review. This includes 50% of awards subject to relative TSR (performance period to end 7 March 2017) and 50% of awards subject to EPS (performance period ended 31 December 2016). Summary details of the full conditions applying to the 2014 awards are included as a footnote to the PSP table on page 42.

In terms of the 2014 award, the latest assessment of the TSR measures was made independently by NBS who advised that Sportech's TSR performance measured to 18 February 2017 was 1.8% which resulted in the Company being ranked below the median position on a relative basis. As a result no vesting of this part of the awards is expected.

The Committee noted the significant increase in EPS during the three-year period to 31 December 2016, increasing from 1.66p to 6.34p following the successful STB VAT repayment claim. However, the Committee determined it was appropriate to use the adjusted or normalised EPS recorded as it reflects the underlying performance of the business during the period. The normalised EPS over the three-year period declined thereby triggering no vesting of this element of the award.

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

Performance Share Plan – 2016 Vesting

Measure	Condition	Threshold	Maximum	Actual	Vesting
Relative TSR (2014)	TSR measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over the three years from date of grant*	Median rank 68.0	Upper quartile rank 34.3	TSR 1.8% rank 82	0%
EPS (2014)	Annualised adjusted EPS growth measured against RPI over three financial years	RPI +4% p.a.	RPI +10% p.a.	(0.5)%	0%

*Indicative figures to 18 February 2017.

Executive	Award	Number of awards granted	Vesting	Number of shares vesting	Value of awards
Ian Penrose	2014 (Part A and B)	432,525	0%	—	—
Mickey Kalifa	2014 (Part A and B)	96,441	0%	—	—
Rich Roberts	2014 (Part A and B)	212,470*	0%	—	—

* Rich Roberts' award granted on 4 September 2014 has the same performance period and criteria as the awards on 7 March 2014 for Ian Penrose and Mickey Kalifa. Due to Rich's status as a 'good leaver' his shares have been pro-rated to his leaving date. The original number of shares awarded was 349,650.

Cliff Baty's outstanding PSP awards have been treated as lapsed in 2015.

LTIP awards granted during 2016

Performance Share Plan ('PSP')

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	607,636	100% of salary	64.625p	£392,685	25%
Mickey Kalifa	Performance share	290,135	75% of salary	64.625p	£187,500	25%

2016 awards – targets

In connection with the awards to the Executive Directors, the primary performance metric is the Company's relative TSR performance, subject to the application of a general financial performance modifier to ensure that financial performance is taken into account when determining the vesting of such awards.

The vesting 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). The grant was delayed until 3 November 2016 as a result of the Company being in an extended close period at the normal grant date. However, for consistency of approach, the performance period will be the three-year period beginning on 3 March 2016, i.e. the date the award would have been made had the Company not been in a close period (with the comparator group also set at the same time).

The following vesting schedule will apply:

The Company's TSR rank against the TSR of the comparator companies	Extent of vesting
Below median	0%
Median	25%
Between median and upper quartile	Pro rata between 25% and 100%
Upper quartile (or better)	100%

A modifier performance condition shall apply to all of the shares comprised within the award and provides that the extent of vesting that would otherwise result may be scaled back or increased by such extent (including as to 100%) as the Committee may consider appropriate having considered the effect of any materially adverse or advantageous circumstances that have impacted the Company's financial performance over the performance period on such basis as the Committee reasonably determines.

Remuneration report continued
for the year ended 31 December 2016

Directors' share-based incentives

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 2016 Number	Awarded during the year Number	Exercised during the year Number	Lapsed during the year Number	**As at 31 December 2016 Number**	Market price on date of grant Pence	Date from which exercisable	Award expiry date	Share Price at date of exercise Pence
Ian Penrose	02.12.11[1]	193,610	—	(193,610)	—	**—**	39.75	02.12.14	02.12.15[4]	85.1095
	08.03.12[1]	173,618	—	(173,618)	—	**—**	51.52	08.03.15	08.03.16[4]	85.1095
	21.03.13[2]	377,400	—	—	(377,400)	**—**	100.00	21.03.16	21.03.17	n/a
	08.03.14[2]	432,525	—	—	—	**432,525**	89.00	08.03.17	08.03.18	n/a
	09.03.15[2]	584,657	—	—	—	**584,657**	66.50	09.03.18	09.03.19	n/a
	03.11.16[3]	—	607,636	—	—	**607,636**	64.625	03.11.19	03.11.20	n/a
Total		1,761,810	607,636	(367,228)	(377,400)	**1,624,818**				
Mickey Kalifa	02.12.11[1]	39,245	—	(39,245)	—	**—**	39.75	02.12.14	02.12.15[4]	85.1095
	08.03.12[1]	38,712	—	(38,712)	—	**—**	51.52	08.03.15	08.03.16[4]	85.1095
	21.03.13[2]	84,150	—	—	(84,150)	**—**	100.00	21.03.16	21.03.17	n/a
	08.03.14[2]	96,441	—	—	—	**96,441**	89.00	08.03.17	08.03.18	n/a
	09.03.15[2]	130,362	—	—	—	**130,362**	66.50	09.03.18	09.03.19	n/a
	03.11.16[3]	—	290,135	—	—	**290,135**	64.625	03.11.19	03.11.20	n/a
Total		388,910	290,135	(77,957)	(84,150)	**516,938**				
Total PSP awards		2,150,720	897,771	(445,185)	(461,550)	**2,141,756**				

1 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 specific details of the performance targets for the 2011 and 2012 awards was disclosed in full in the 2014 Annual Report. The awards remain unexercised until December 2016 due to an extended close period.

2 2013, 2014 and 2015 awards were subject to relative TSR and EPS growth performance targets each applying to one-half of the awards the structure for which was outlines in full in last year's report.

3 2016 awards were deferred until November because of certain ongoing corporate activity which delayed their grant.

4 Ian Penrose and Mickey Kalifa were unable to exercise the 2011 and 2012 awards prior to the award expiry date due to an extended close period preventing the same throughout the exercise window. Further to this, the Committee resolved, in accordance with the rules of the PSP, to extend the award expiry date in respect of such awards to the date that was 30 days after the date upon which the regulatory restrictions no longer applied.

5 2014 awards are expected to lapse in full at the end of the performance period.

6 The market price of the ordinary shares at 31 December 2016 was 87.75p and the range during the year was 50.00p to 88.38p.

The number of ordinary shares that may be issued under the LTIP and any other share plan may not exceed 10% in any ten-year period. As at 31 December 2016 the Company's potential dilution was 2.94%.

Recruitment terms
On 25 January 2017, Andrew Gaughan was appointed to the Board. His package on appointment consists of a basic salary of CAD$400,000 per annum (unchanged on appointment to the Board, his salary having been increased to this amount from CAD$336,634 with effect from 1 January 2017) and benefit and pension provisions in-line with those provided to other North American based employees. His maximum bonus opportunity is 75% of salary and annual performance share awards will be at a maximum of 75% of salary.

Payments to departing Directors
Rich Roberts stepped down from the Board and left the employment of the Company on 14 July 2016. Rich received 12 months' salary and benefits until 31 July 2016 in lieu of notice. He will also continue to receive his healthcare benefits under COBRA for a period of 12 months thereafter. Rich is eligible to receive a bonus payment in relation to 2016 on a pro-rata basis to the date of his leaving on the basis that he served in an executive function for the performance period up until such date. Rich has also been treated as a good leaver under the Rules of the LTIP and therefore he remains entitled to any benefit arising from the vesting of his outstanding LTIP awards on their normal vesting dates (to the extent such awards do so vest per the applicable performance conditions and Rules of the LTIP), pro-rated according to the date of his stepping down from the Board.

Details of Cliff Baty's leaving arrangements were fully disclosed in last year's annual report on remuneration.

David McKeith stepped down from the Board on 24 August 2016 and received three months' Non-executive Director fees in lieu of notice.

Payments for loss of office
There were no payments for loss of office during the period under review.

Payments to past directors
There were no payments to past directors during the period under review.

Directors' interests and shareholding guidelines
The following table shows Directors' interests in the Company:

Director	Total shareholding at 31 December 2015	**Total shareholding at 31 December 2016**	PSP award held unvested	Share ownership guideline expected to be achieved by third anniversary of employment	% of guideline met by 31 December 2016
Ian Penrose	850,000	**950,000**	1,624,818	100%	100%
Mickey Kalifa	—	**89,613**	516,938	100%	31.5%
Roger Withers	112,079	**112,079**	—	N/A	N/A
Richard McGuire	—	**300,000**	—	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 2016 and the percentage of the guideline currently met.

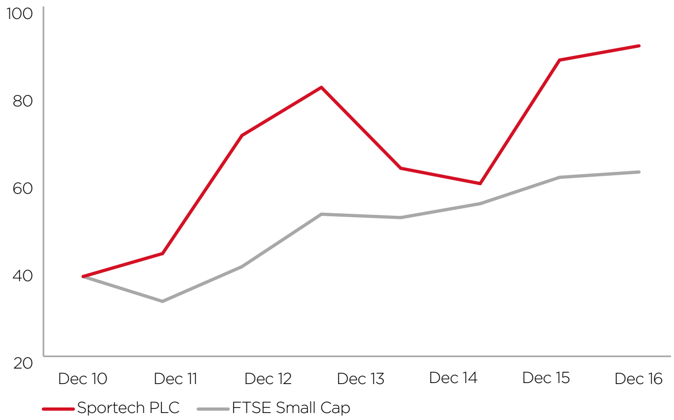
Total shareholding which counts towards the measurement of the guideline is calculated on the basis of legally owned shares plus vested LTIP awards. The percentage of guideline met is based on the annual base salary and the higher of the acquisition cost of the total shareholding or the current market 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.

Remuneration report continued
for the year ended 31 December 2016

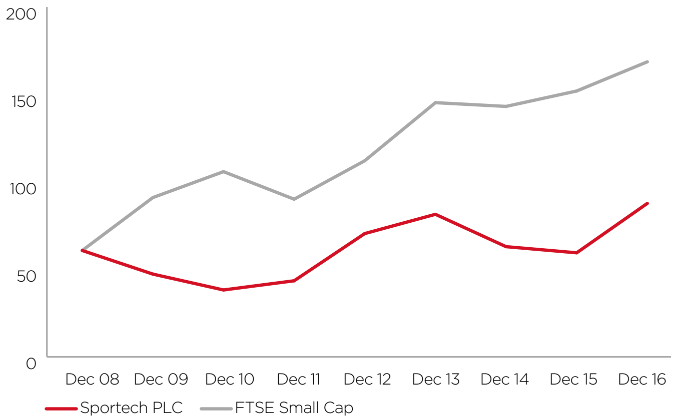
External directorships
Ian Penrose is currently a Trustee of the National Football Museum, a registered charity, and he receives no remuneration in respect of this appointment.

Performance graph and Chief Executive pay chart
The following graph demonstrates the value of £100 invested in Sportech PLC as at 31 December 2010 compared with the same investment in a fund mirroring the make-up of the FTSE Small Cap Index.

This time period reflects performance from the point in time that the Company was transformed from a highly geared, declining UK Football Pools business into the business it is today, following the acquisition of its international interest and allocated refinancing in 2010:



This graph shows the value, by 31 December 2016, 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 seven years:

	2009	2010	2011	2012	2013	2014	2015	**2016**
Remuneration before LTIPs (£000)	416	542	502	542	575	515	517	**1,233**[1]
LTIPs (£000)	—	—	—	233	836	158	—	**—**
Total remuneration (£000)	416	542	502	775	1,411	673	517	**1,233**[1]
Annual bonus (%)	33%	74%	50%	25%	40%	21.25%	20.5%	**39.2%**[2]
LTIP vesting (%)	—	—	—	62.0%	82.7%	29.7%	—	**—**

1 Includes exceptional bonus of £637,000.
2 Excludes exceptional bonus.

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

	2016	Restated[1] 2015	% change
Chief Executive (£000)			
– Salary	**393**	389	1%
– Bonus and benefits, excluding exceptional bonus	**172**	97	77%
– Exceptional bonus	**637**	—	N/A
Average of Group full-time employee (£000)			
– Salary	**56**	54	4%
– Bonus and benefits	**12**	10	20%

1 The average Group full-time employee salary and bonus and benefits for 2015 have been restated to be calculated consistent with that of 2016.

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)

	2016	2015	% change
Staff costs (£m)	**30.3**	30.5	(0.7)%
Distributions to shareholders	**Nil**	Nil	—

Dates of appointment of Directors

Details of the service contracts and letters of appointment in place as at 31 December 2016 for Directors are as follows:

	Date of Appointment	Notice period
Roger Withers	07.02.11	3 months
Ian Penrose	01.10.05	12 months
Mickey Kalifa	03.03.16	12 months
Richard McGuire	24.08.16	3 months

Shareholders' vote on remuneration

At the last Annual General Meeting on 17 May 2016, votes on the Directors' remuneration report were cast as follows:

	In favour	Against	Withheld
Ordinary Resolution – to approve the Directors' remuneration report for the year ended 31 December 2015	175,117,346 (99.64%)	573,634 (0.33%)	1,367

Remuneration report continued
for the year ended 31 December 2016

Committee activity
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/investors/corporate-governance.

The Committee met ten 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;
- approval of the PSP performance conditions and targets for the 2016 award;
- in March 2016, approval of bonus awards for achievement of FY2015 targets, and approval of bonus measures and targets for 2016;
- consultation with major shareholders in relation to the award of exceptional bonuses further to the successful outcome of the STB VAT reclaim proceedings;
- review of base salaries for the Executive team;
- approval of vesting determination for the 2013 PSP awards; and
- review and approval of terms of appointment for Andrew Gaughan.

The Committee's recommendations in 2016 and early 2017 were all accepted and implemented by the Board.

Composition of the Remuneration Committee
During the year, the Committee consisted of (i) Peter Williams (Chairman) until his stepping down from the Board in May 2016, (ii) David McKeith until his stepping down from the Board in August 2016, (iii) Roger Withers, Chairman of the Board (who became a temporary member and the Chairman following Peter Williams' stepping down from the Board in May 2016) and (iv) Richard McGuire (who became a member upon his appointment in August 2016 and became Chairman on 1 January 2017). Each of Peter Williams, David McKeith and Richard McGuire are Independent Non-executive Directors. Roger Withers will remain a member of the Committee until such time as a further Independent Non-executive Director is appointed to the Board and subsequently to the Committee. 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.

The Chief Executive and Chairman (prior to May 2016, at which time he became a member on a temporary basis) are invited to attend meetings although neither is present when matters affecting their own remuneration are discussed. The Company Secretary or their nominee acts as secretary to the Committee.

The Committee receive independent advice from New Bridge Street ('NBS') (a trading name of Aon Plc) on aspects of executive remuneration. NBS also provides Sportech with advice on non-executive director remuneration. NBS is a member of the Remuneration Consultants Group and has voluntarily signed up to its industry Code of Conduct. NBS has no connection with Sportech other than in the provision of advice on executive and non-executive director 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 £34,000 (2015: £56,000).

The Committee reviews its relationships with external advisers on a regular basis and believes that no conflicts of interest exist and that the advice they are provided with remains independent and objective.

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

Richard McGuire
Independent Non-executive Director and Chairman of the Remuneration Committee
2 March 2017

Directors' report
for the year ended 31 December 2016

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2016. General information of the Company can be found in the accounting policies on page 63.

The Strategic report and Corporate governance report are set out on pages 2 to 29. 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 2006, on pages 13 to 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 2016 are set out in the Remuneration report on pages 31 to 46.

	At 3 March 2017 and 31 December 2016 Number	31 December 2015 Number
Roger Withers	**112,079**	112,079
Ian Penrose	**950,000**	850,000
Mickey Kalifa (appointed 3 March 2016)	**89,613**	–
Andrew Gaughan (appointed 27 January 2017)	**545,111**	–
Cliff Baty (resigned 3 March 2016)	**–**	33,000
Richard McGuire (appointed 24 August 2016)	**300,000**	–
David McKeith (resigned 24 August 2016)	**–**	30,000
Peter Williams (resigned 17 May 2016)	**–**	100,000
Rich Roberts (resigned 18 July 2016)	**–**	–

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 'Employees' section of the Corporate social responsibility report on page 17.

Substantial shareholdings

	2 March 2017		31 December 2016	
Holder	**Ordinary shares of 50p**	**% of issued share capital**	Ordinary shares of 50p	% of issued share capital
Henderson Volantis	**39,269,833**	**19.0**	37,922,110	18.4
Newby Manor Limited	**35,111,010**	**17.0**	35,111,010	17.0
Artemis Investment Management LLP	**19,930,862**	**9.7**	19.930,862	9.7
Schroder Investment Management Limited	**17,745,332**	**8.6**	17,745,332	8.6
Henderson Global Investors	**16,706,396**	**8.1**	16,300,018	7.9
Richard Griffiths and Controlled Undertakings	**14,742,069**	**7.1**	14,742,069	7.1
Aviva PLC	**10,678,822**	**5.2**	10,678,822	5.2
Hargreaves Hale	**7,673,123**	**3.7**	7,673,123	3.7
Total of substantial shareholdings	**161,857,447**	**78.4**	160,103,346	77.6

Directors' report continued
for the year ended 31 December 2016

Dividend
No dividend is proposed (2015: £nil) and no dividend has been paid during the year (2015: £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 16.

Corporate governance
The Group's statement on corporate governance is set out on pages 22 to 29 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 prepayment 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.

Share capital and authority to issue shares
The Company has one class of ordinary shares and these shares have equal voting rights. The nature of the holdings of the Company's individual Directors and individually significant shareholders are disclosed on page 47. There are no restrictions on the transfer of shares.

As part of the resolutions approved at the 2016 AGM, shareholders' authority was given to the Directors for: (i) the allotment of up to 68,746,016 ordinary shares of 50p each (representing 33.3% of the issued share capital of the Company as at the date of the 2016 AGM); and (ii) the allotment of up to 137,492,032 ordinary shares of 50p each (representing 66.7% of the issued share capital as at the date of the 2016 AGM) in connection with a rights issue (including within such limit, any shares pursuant to the authority set out at (i)). As at 31 December 2016, no shares have been allotted pursuant to such authority.

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's forecasts and projections, which have been prepared as described on page 15 were reviewed and approved by the Board.

On the basis of this review, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to June 2018. Accordingly, it is deemed appropriate to prepare the financial statements on a going concern basis for the financial year ended 31 December 2016.

Financial risk management
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 in note 23.

Disclosure of information to the 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 reappointed 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. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 page 20 confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRS 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

The Notice convening the AGM of the Company on 24 May 2017 will be sent to shareholders in due course. In accordance with the Articles of Association of the Company, Ian Penrose and Mickey Kalifa retire by rotation and offer themselves for reappointment at the AGM. The profiles of those Directors appear on page 20. In addition, Richard McGuire and Andrew Gaughan, who were appointed to the Board since the last AGM, will retire and offer themselves for reappointment. Resolutions will also be proposed at the AGM to receive the Accounts and the Directors' and Independent Auditors' reports, to approve the Remuneration Policy set out on pages 31 to 37, to approve the Remuneration report set out on pages 31 to 46, to reappoint the Auditors and to authorise the Directors to fix their remuneration.

On behalf of the Board

Luisa Wright
Company Secretary
2 March 2017

Independent Auditors' report

to the members of Sportech PLC

Report on the financial statements

Our opinion

In our opinion:

- Sportech PLC's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the 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.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Balance sheets as at 31 December 2016;
- the Consolidated income statement and the Consolidated statement of comprehensive income for the year then ended;
- the Statements of cash flows for the year then ended;
- the Statements of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

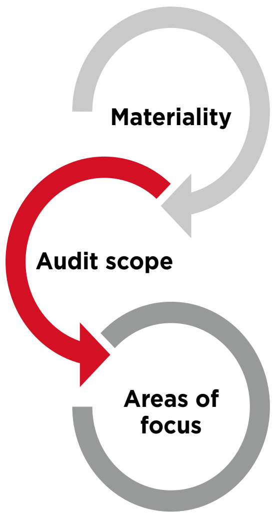
Our audit approach

Overview

- Overall Group materiality: £590,000 which represents 2.5% of adjusted EBITDA (being earnings before interest, tax, depreciation and amortisation, as adjusted also for exceptional items, impairment of assets and share option charges).

- The Group consists of 35 statutory entities (excluding dormant entities).
- Our audit focused on the most significant of these entities in terms of materiality to the Group financial statements, being: Sportech PLC (the parent company), The Football Pools Limited, Sportech Racing LLC and Sportech Venues Inc.
- The components where we performed audit procedures accounted for 82% of Group revenue and 80% of Group adjusted EBITDA.

- Goodwill and intangible asset impairment.
- Recoverability of contingent consideration receivable.



The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Goodwill and intangible asset impairment *Refer to page 25 (Audit Committee Report), page 64 (Significant Accounting Policies) and page 80 (notes).* The Group has goodwill and intangible fixed assets with carrying value of £109.6m as at 31 December 2016. Our work focused on the following specific balances, being those assets which we assessed to have a higher level of judgement involved because of key assumptions made by the Directors in assessing their carrying values.	We evaluated and challenged the Directors' future cash flow forecasts, together with the process by which they were drawn up, and tested the underlying value-in-use calculations where relevant. We noted no material inconsistencies between the forecasts and our understanding of the Board's approved future plans for the business gained from other areas of our audit. We performed the following to address the specific risks in each of the areas.
Football Pools goodwill Goodwill in relation to The Football Pools Limited has a carrying value of £81.8m, following the recognition of a £37.7m impairment in the year. In arriving at the remaining carrying value the Directors have assumed that the historic subscription channel will continue its long term EBITDA decline, at an average annual rate of 1% between 2017 and 2021, and a 1% annual decrease into perpetuity. However the Directors have assumed significant EBITDA growth in the online channel between 2017 and 2021, before then EBITDA stabilising into perpetuity at 2021 levels. The Directors believe these forecasts will be achieved primarily as a result of the expected stabilisation in the number of subscription customers, growth in the number of online customers, and the continued improvement in spend per player across both channels. We have focused on the Directors' assumptions regarding these EBITDA forecasts, given the historic downward trend in profitability on the subscription channel, and the historic performance in the online channel.	*Football Pools goodwill* In respect of The Football Pools Limited goodwill we assessed the reasonableness of the Directors' estimate for future EBITDA levels within both the subscription and online channels through comparison of forecast levels of spend per player and customer numbers, against the run rate of these assumptions within the current and previous years, taking into account expectations for the coming year. Further we performed a detailed assessment on the historical accuracy of the Directors' forecasts against actual outturn. Based on this work we found that the assumptions used within the forecasts appear within a range which we consider to be reasonable.

Independent Auditors' report continued

to the members of Sportech PLC

Area of focus	How our audit addressed the area of focus
Venues intangible assets Intangible assets associated with the gaming licence held within Sportech Venues Inc. ('Venues') have a carrying value of £19.6m, following the recognition of a £1.1m impairment in the year. In assessing the carrying value of the Venues licence, which applies to both land based and online venues, the Directors have assumed that the level of net handle (the total value of bets taken) generated by the land based venues will continue its recent decline, falling by 5% per year on average from 2017 to 2021, then stabilising into perpetuity at 2021 levels. Further, they have assumed the level of net handle in respect of internet gambling in Connecticut will grow on average 11% between 2017 and 2021, then at a rate of 3% into perpetuity. Finally the Directors have made assumptions on the expected profitability of venues which are still under construction. We have therefore focused on the Directors' assumptions over the level of net handle generated by the land based venues in these future years, given the context of a fall in net land based handle in the current year against that achieved in the prior year, the forecast growth in net handle for online gambling, given this channel is still in its relative infancy, and on the Directors' forecasts for profitability from venues under construction, given the uncertainty over the profitability of unopened venues.	*Venues intangible assets* In respect of the Venues gaming licence we evaluated the key assumptions over the net handle generated by the land based venues in 2017 and beyond by reference to the trend in total handle in recent years, after removing the impact of one off events. Further, we have critically evaluated the net handle growth assumptions adopted by the Directors in respect of online handle, via reference to historic growth rates. Finally we have assessed the reasonableness of the Directors' forecasts for the profitability of venues under construction with reference to the profitability achieved from other similar venues in the years immediately following their opening. The Directors' assumptions are supported by information currently available.
eBet goodwill Goodwill arising on the acquisition of eBet has a carrying value of £nil, following the recognition of a £1.8m impairment in the year. In determining that this impairment should be recognised, but that no further impairments to the underlying assets of the business are required, the Directors have assumed that the average annual growth rate in EBITDA between 2017 and 2021 will be 14%, before then growing at 2% per year into perpetuity. This growth is expected to be largely driven by a new contract which commenced in 2016. The Directors have however not included in their forecasts EBITDA which may be generated in the future by currently unsecured contracts, since they do not believe the likelihood of securing those contracts to be sufficiently high. We have therefore focused on the Directors' assumptions regarding the profitability of this new contract, and the assumptions surrounding the likelihood of unsecured contracts being won.	*eBet goodwill* In respect of the eBet goodwill we evaluated the assumptions surrounding the forecast rise in profitability over the coming five years, in particular the profitability of the new contract over that period, together with the assumptions surrounding the likelihood of unsecured contracts being won. In respect of the profitability of the new contract, this has been achieved by reviewing the profits generated by existing similar contracts, and comparing this to the forecast profitability level of the new contract that is anticipated. We have evaluated the likelihood of unsecured contracts being won through understanding the status of negotiations, and assessing the barriers to securing those contracts e.g. regulatory change required, to form an overall conclusion as to the reasonableness of the Directors' judgements. We found that the assumptions used by the Directors are supportable based on our audit work.

Area of focus	How our audit addressed the area of focus
Software intangbile assets Intangible assets related to software across the Group's divisions have a carrying value of £7.5m, following the recognition of a £17.4m impairment in the year. In assessing the carrying value of these assets the Directors' have carried out a thorough review of the Group's software and have made assessments as to which assets continue to generate value to the Group, and which are obsolete with no further value. We have therefore focused on the Directors' judgements as to the ongoing value of the respective items of software to the Group going forward. The Directors' projections in relation to impairment of goodwill and intangibles balances are also dependent on a range of other judgemental assumptions. In addition to those specifically referred to above, we focused on the discount rate assumption in each of the value in use calculations, given the significant amount of judgement involved in establishing an appropriate rate, and given the material sensitivity of the carrying values to small changes in this assumption.	*Software intangbile assets* In respect of software intangible assets we have evaluated the Directors' judgements regarding the ongoing value which these assets bring to the Group as to whether each individual asset is obsolete. We have done this through a critical assessment of the significant items of software within the Group versus their current usage and likely usage in the future. We found the Directors' judgements to be reasonable based on our audit work. In addition, where relevant, we have evaluated the discount rates used within the above impairment reviews to assess whether they are appropriate. This was done primarily by comparison of the weighted average cost of capital of each of the aforementioned businesses with other comparable companies within the same industry or with a similar business model. The discount rates were found to be supportable. While inherent uncertainty exists around many of the key assumptions used by the Directors in the above impairment reviews, our procedures indicated that the key assumptions were supportable and reasonable within the context of the evidence we obtained and we did not identify any material inconsistencies in the Directors' estimation technique and forecasting in these areas. Furthermore, where relevant, we performed sensitivity analysis around the above assumptions to assess the extent of change in those assumptions that either individually or collectively would be required for the goodwill and intangibles to be impaired. We determined that, while the Directors' assumptions are not inappropriate, reasonably possible changes in the key assumptions would be likely to lead to a material impairment, and hence have determined that the Directors' disclosures (see notes 11 and 12) appropriately reflected this fact and are consistent with the requirements of accounting standards.
Recoverability of contingent consideration receivable *Refer to page 25 (Audit Committee Report), page 64 (Significant Accounting Policies) and page 95 (notes).* In May 2015 the Group disposed of its 50% investment in Sportech – NYX Gaming LLC ('NYX'). Included within the consideration receivable by the Group for the sale was an amount which is contingent on NYX acquiring three new customers in the five years subsequent to the disposal. The Directors assumed, and continue to assume, that the conditions for receipt of these amounts will be met within the requisite period, and hence that the consideration will be received. As such this amount, £1.6m, continues to be included within trade and other receivables as at 31 December 2016. Given the judgement over the likelihood of this amount being received, we have focused on the Directors' assumptions in respect of this consideration.	We have evaluated the Directors' conclusions surrounding the likelihood of this contingent amount being received, focusing on the likelihood of NYX obtaining the additional three new customers within the remaining three and a half years for the consideration to be payable. During our assessment we have considered a number of factors which are relevant to the likelihood of NYX acquiring new customers in the remaining period. These factors included: the passage of gambling de-regulation through certain states within the USA in the year, the number of credible competitors to NYX in those states, and the pre-existing relationships NYX has with a number of potential customers which increase the likelihood of a new customer being acquired. We verified these factors through external research over the regulatory and competitive environment in the USA in this industry. While there is an inherent amount of uncertainty within the Directors' assumptions in respect of this item, we have concluded that, at this time, the Directors' judgement is reasonable.

Independent Auditors' report continued

to the members of Sportech PLC

How we tailored the audit scope

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

The Group is managed divisionally, with the three operating divisions being Football Pools, Racing and Digital, and Venues, with the head office function incurring certain central costs on behalf of the Group. The Group's accounting structure includes a local finance function in each of these divisions. These functions maintain their own localised accounting records and controls, distinct from those at the head office level.

While the Directors operate the Group divisionally we have scoped our audit at a statutory entity level. The Group comprises 35 statutory entities (excluding dormant entities). We performed full scope audits over four statutory entities, being Sportech PLC (the Parent Company), The Football Pools Limited, Sportech Racing LLC and Sportech Venues Inc, which we regarded as being financially significant components of the Group given their contribution to the Group's adjusted EBITDA.

The entities that were subject to audit work accounted for 82% of Group revenue and 80% of Group adjusted EBITDA.

Additionally we performed work in another four statutory entities on specific balances that we regarded to be significant to the consolidated financial statements.

We have performed sufficient testing over divisional and head office finance functions to obtain evidence over the components in scope for our Group audit. Furthermore, we have performed procedures over the Group's consolidation of these entities and significant consolidation entries.

Materiality

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

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

Overall Group materiality	£590,000 (2015: £575,000).
How we determined it	2.5% of adjusted EBITDA (being earnings before interest, tax, depreciation and amortisation, as adjusted also for exceptional items, impairment of assets and share option charges).
Rationale for benchmark applied	We believe that adjusted EBITDA provides us with a consistent year-on-year basis for determining materiality based on the underlying trading performance of the Group but eliminating one-off, non-recurring and non-cash items. Further we believe it is the key metric used by external stakeholders to assess the performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £30,000 (2015: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 48, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. 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 Parent Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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

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

In addition, in light of the knowledge and understanding of the Group, the Parent Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

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 – otherwise misleading	We have no exceptions to report.
– the statement given by the Directors on page 49, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), 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 and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report on page 25, as required by provision C.3.8 of the Code, 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.

Independent Auditors' report continued
to the members of Sportech PLC

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– the Directors' confirmation on page 15 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the Directors' explanation on page 15 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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 Directors' 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
Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not 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 ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of the Directors' responsibilities, the Directors are responsible for the preparation of the 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 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 parent 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.

What an audit of financial statements involves
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 the 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2017

Consolidated income statement
for the year ended 31 December 2016

	Note	Group 2016 £m	2015 £m
Revenue		**98.6**	100.2
Cost of sales		**(58.6)**	(58.2)
Gross profit		**40.0**	42.0
Distribution costs		**(0.2)**	(0.6)
Administrative expenses		**(98.3)**	(36.3)
Other operating income		**91.0**	8.1
EBITDA before exceptional items, share option charge and impairment of assets		**23.8**	23.1
Share option credit/(expense)		**0.1**	(0.5)
Depreciation and amortisation (excluding amortisation of acquired intangibles)		**(8.4)**	(7.6)
Amortisation of acquired intangibles		**(0.6)**	(1.2)
Impairment of assets		**(63.7)**	(6.1)
Exceptional income	2	**91.0**	8.1
Exceptional costs	2	**(9.7)**	(2.6)
Operating profit		**32.5**	13.2
Finance costs	4	**(1.7)**	(3.2)
Other finance income	4	**1.1**	0.6
Net finance costs	4	**(0.6)**	(2.6)
Share of loss after tax and impairments of joint ventures and associates	15	**(1.2)**	(0.9)
Profit before taxation	5	**30.7**	9.7
Adjusted profit before taxation*		**13.8**	11.8
Taxation	8	**(17.6)**	(3.0)
Profit for the year		**13.1**	6.7
Attributable to:			
Owners of the Company		**13.1**	6.7
Non-controlling interests		**—**	—
		13.1	6.7
Earnings per share attributable to owners of the Company			
Basic	10	**6.4p**	3.3p
Diluted	10	**6.2p**	3.1p
Adjusted earnings per share attributable to owners of the Company			
Basic	10	**5.2p**	4.4p
Diluted	10	**5.0p**	4.2p

* Adjusted profit before taxation is profit before taxation, amortisation of acquired intangibles, impairment of assets, exceptional items, share of loss after tax and impairment of joint ventures and associates, and other finance income.

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	Group 2016 £m	2015 £m
Profit for the year		**13.1**	6.7
Other comprehensive income/(expense):			
Items that will not be reclassified to profit and loss			
Actuarial gain on retirement benefit liability	30	**–**	0.2
Deferred tax on movement on retirement benefit liability	18	**–**	(0.1)
		–	0.1
Items that have been reclassified to profit and loss			
Realised fair value loss on available for sale financial assets	23	**0.7**	–
Items that may be subsequently reclassified to profit and loss			
Revaluation of available for sale financial assets	23	**(1.6)**	(1.6)
Currency translation differences		**10.5**	0.6
		8.9	(1.0)
Total other comprehensive income/(expense) for the year, net of tax		**9.6**	(0.9)
Total comprehensive income for the year		**22.7**	5.8
Attributable to:			
Owners of the Company		**22.7**	5.8
Non-controlling interests		**–**	–
		22.7	5.8

Statements of changes in equity

for the year ended 31 December 2016

Group	Ordinary shares £m	Other reserves: Share option reserve £m	Other reserves: Pension reserve £m	Other reserves: Currency translation reserve £m	Other reserves: Available for sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total £m
At 1 January 2015	102.6	2.3	(0.6)	(0.1)	—	15.6	—	119.8
Comprehensive income								
Profit for the year	—	—	—	—	—	6.7	—	6.7
Other comprehensive income/(expense)								
Actuarial loss on retirement benefit liability* (note 30)	—	—	0.1	—	—	—	—	0.1
Revaluation of available for sale financial assets	—	—	—	—	(1.6)	—	—	(1.6)
Currency translation differences	—	—	—	0.6	—	—	—	0.6
Total other comprehensive income/(expense)	—	—	0.1	0.6	(1.6)	—	—	(0.9)
Total comprehensive income/(expense)	—	—	0.1	0.6	(1.6)	6.7	—	5.8
Transactions with owners								
Share option credit (note 6)	—	0.5	—	—	—	—	—	0.5
Shares issued in relation to PSP	0.5	(0.5)	—	—	—	—	—	—
Changes in ownership interests								
Acquisition of interest in S&S Venues California, LLC	—	—	—	—	—	—	0.1	0.1
Total transactions with owners of the Company	0.5	—	—	—	—	—	0.1	0.6
Total changes in equity	0.5	—	0.1	0.6	(1.6)	6.7	0.1	6.4
At 31 December 2015	103.1	2.3	(0.5)	0.5	(1.6)	22.3	0.1	126.2
Comprehensive income								
Profit for the year	—	—	—	—	—	13.1	—	13.1
Other comprehensive income/(expense)								
Realised fair value losses on available for sale financial assets (note 23)	—	—	—	—	0.7	—	—	0.7
Revaluation of available for sale financial assets (note 23)	—	—	—	—	(1.6)	—	—	(1.6)
Currency translation differences	—	—	—	10.5	—	—	—	10.5
Total other comprehensive income/(expense)	—	—	—	10.5	(0.9)	—	—	9.6
Total comprehensive income/(expense)	—	—	—	10.5	(0.9)	13.1	—	22.7
Transactions with owners								
Share option debit (note 6)	—	(0.1)	—	—	—	—	—	(0.1)
Total changes in equity	—	(0.1)	—	10.5	(0.9)	13.1	—	22.6
At 31 December 2016	**103.1**	**2.2**	**(0.5)**	**11.0**	**(2.5)**	**35.4**	**0.1**	**148.8**

* Net of deferred tax (note 18).

Company	Ordinary shares £m	Other reserve – share option reserve £m	Retained earnings £m	Total £m
At 1 January 2015	102.6	2.3	13.1	118.0
Comprehensive expense				
Loss for the year (note 9)	—	—	(5.7)	(5.7)
Transactions with owners				
Share option credit (note 6)	—	0.5	—	0.5
Shares issued in relation to PSP	0.5	(0.5)	0.5	0.5
At 31 December 2015	103.1	2.3	7.9	113.3
Comprehensive expense				
Loss for the year (note 9)	—	—	(29.7)	(29.7)
Transactions with owners				
Share option debit (note 6)	—	(0.1)	—	(0.1)
At 31 December 2016	**103.1**	**2.2**	**(21.8)**	**83.5**

Balance sheets

at 31 December 2016

	Note	Group 2016 £m	Group Restated 2015 £m	Company 2016 £m	Company 2015 £m
ASSETS					
Non-current assets					
Goodwill	11	**81.8**	121.3	**—**	—
Intangible fixed assets	12	**27.8**	42.1	**1.0**	12.0
Property, plant and equipment	13	**26.2**	24.0	**0.1**	0.1
Investments in subsidiaries	14	**—**	—	**194.6**	203.7
Net investment in joint ventures and associates	15	**1.4**	2.1	**—**	—
Trade and other receivables	16	**2.6**	2.0	**—**	—
Deferred tax assets	18	**3.1**	1.4	**0.1**	0.1
		142.9	192.9	**195.8**	215.9
Current assets					
Trade and other receivables	16	**14.6**	10.9	**34.5**	21.9
Inventories	17	**2.5**	2.1	**—**	—
Available for sale financial assets	23	**1.3**	2.9	**—**	—
Cash and cash equivalents	19	**39.6**	7.2	**20.2**	—
		58.0	23.1	**54.7**	21.9
TOTAL ASSETS		**200.9**	216.0	**250.5**	237.8
LIABILITIES					
Current liabilities					
Trade and other payables	20	**(31.4)**	(23.4)	**(167.0)**	(62.4)
Provisions	21	**(0.1)**	(0.1)	**—**	—
Financial liabilities	22	**(0.2)**	—	**—**	—
Current tax liabilities		**(18.1)**	(1.3)	**—**	—
		(49.8)	(24.8)	**(167.0)**	(62.4)
Net current assets/(liabilities)		**8.2**	(1.7)	**(112.3)**	(40.5)
Non-current liabilities					
Financial liabilities	22	**(0.1)**	(62.3)	**—**	(62.1)
Retirement benefit liability	30	**(1.7)**	(1.4)	**—**	—
Provisions	21	**(0.5)**	(0.4)	**—**	—
Deferred tax liabilities	18	**—**	(0.9)	**—**	—
		(2.3)	(65.0)	**—**	(62.1)
TOTAL LIABILITIES		**(52.1)**	(89.8)	**(167.0)**	(124.5)
NET ASSETS		**148.8**	126.2	**83.5**	113.3
EQUITY					
Ordinary shares	24	**103.1**	103.1	**103.1**	103.1
Other reserves		**10.2**	0.7	**2.2**	2.3
Retained earnings		**35.4**	22.3	**(21.8)**	7.9
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**148.7**	126.1	**83.5**	113.3
Non-controlling interests		**0.1**	0.1	**—**	—
TOTAL EQUITY		**148.8**	126.2	**83.5**	113.3

The financial statements on pages 58 to 107 were approved and authorised for issue by the Board of Directors on 2 March 2017 and were signed on its behalf by:

Ian Penrose
Chief Executive

Mickey Kalifa
Chief Financial Officer

Company Registration Number: SC069140

Statements of cash flows

for the year ended 31 December 2016

	Note	Group 2016 £m	Group Restated 2015 £m	Company 2016 £m	Company 2015 £m
Cash flows from operating activities					
Cash generated from operations, before exceptional items	25	**25.1**	19.3	**89.1**	13.2
Interest paid		**(1.9)**	(3.2)	**(1.9)**	(3.2)
Tax paid		**(3.1)**	(2.3)	**(1.4)**	(0.7)
Net cash generated from operating activities before exceptional cash flows		**20.1**	13.8	**85.8**	9.3
Exceptional cash inflows		**93.9**	–	**–**	–
Exceptional cash outflows		**(6.7)**	(2.3)	**(1.6)**	(0.9)
Net cash generated from operating activities		**107.3**	11.5	**84.2**	8.4
Cash flows from investing activities					
Investment in joint ventures and associates	15	**(0.5)**	(2.5)	**–**	–
Cash received on disposal of Sportech-NYX Gaming, LLC		**–**	5.1	**–**	–
Disposal of shares in NYX Gaming Group Limited	23	**0.6**	–	**–**	–
Purchase of intangible fixed assets		**(5.8)**	(4.9)	**(0.9)**	(1.2)
Purchase of property, plant and equipment		**(6.1)**	(3.4)	**–**	–
Net cash used in investing activities		**(11.8)**	(5.7)	**(0.9)**	(1.2)
Cash flows from financing activities					
Refinancing fee paid – exceptional cost	4	**–**	(0.3)	**–**	(0.3)
Net cash outflow from repayment of borrowings	22	**(62.1)**	(8.0)	**(62.1)**	(8.0)
Net cash used in financing activities		**(62.1)**	(8.3)	**(62.1)**	(8.3)
Net increase/(decrease) in cash and cash equivalents		**33.4**	(2.5)	**21.2**	(1.1)
Effect of foreign exchange on cash and cash equivalents		**0.4**	(0.3)	**–**	–
Net cash and cash equivalents at the beginning of the year		**5.8**	8.6	**(1.0)**	0.1
Net cash and cash equivalents at the end of the year		**39.6**	5.8	**20.2**	(1.0)
Represented by:					
Cash and cash equivalents	19	**39.6**	7.2		
Bank overdrafts	20	**–**	(1.4)		
Net cash and cash equivalents at the end of the year		**39.6**	5.8		
Loans repayable after one year	22	**–**	(62.1)		
Less customer funds	20	**(3.1)**	(1.4)		
Adjusted net cash/(debt) at end of the year		**36.5**	(57.7)		

Accounting policies
for the year ended 31 December 2016

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 2016 comprise the Company, its subsidiaries, joint ventures and associates (together referred to as the 'Group'). The principal activities of the Group are pools betting, both B2B and B2C, and supply of wagering technology solutions.

Going concern

As discussed in the Directors' report on page 48, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the period to 30 June 2018. 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 and available for sale financial assets) to fair value in accordance with IAS 39 'Financial Instruments: Recognition and measurement'.

The Group's accounting policies have been set by management and approved by the Audit Committee. 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.

In March 2016, IFRIC issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts to gross up both the cash and overdraft balances at each reporting date. At 31 December 2016, the impact of this is £nil as the Group is not using any of its available overdraft facilities. At 31 December 2015, the Group had overdrafts of £1.4m. This has been presented within trade and other payables in restated financial statements for that year, and the corresponding increase is shown within cash and cash equivalents.

During this review of the IFRIC guidance, the Group has also considered the most appropriate presentation of the cash it holds on behalf of customers. As disclosed in its annual financial statements, the Group has historically presented this cash within trade and other payables, offsetting the liability owing to those customers of an equal and opposite amount. Following this guidance, the Group has revised its presentation of customer cash to show as cash and cash equivalents. The liability owing to players is presented gross within trade and other payables. The impact of this at the reporting date is £3.1m of player liabilities being presented within trade and other payables. £1.4m of customer cash held at 31 December 2015 has been presented within trade and other payables in restated financial statements of that period, and the corresponding increase is shown within cash and cash equivalents.

Both of the above items have no impact on the Group's adjusted net cash/(debt) used for covenant testing purposes at any of the reporting dates.

Amounts presented in the financial statements have been rounded to the nearest £100,000.

Accounting policies continued
for the year ended 31 December 2016

Critical judgements

Critical judgements have been made in the following areas:

Carrying value of goodwill and intangible fixed assets

To determine whether an impairment of goodwill from the Littlewoods, Vernons and eBet Online, Inc. acquisitions, or of the intangible assets held by the Group has occurred, the key assumptions the Group uses in estimating future cash flows for value-in-use measures are:

- spend per player;
- rates of player retention and acquisition;
- return on brand marketing;
- new product uptake;
- success of newly-built venues;
- value that can be realised from surplus assets;
- the benefit of our continued investment in technologies;
- industry handle rates;
- levels of capital expenditure required to continue development of market-leading technologies;
- useful lives of assets developed;
- pace of technology change in the industry which would require further capital investment;
- rates of industry and market growth/decline;
- discount rates, which appropriately reflect the risks associated with those specific cash-generating units (‘CGUs’).

These assumptions, and the judgements of management that are based on them, are subject to change as new information becomes available. Economic conditions and government policy changes can also impact on the discount rates applied, which are reviewed annually. Further details are disclosed within notes 11 and 12.

Carrying value of contingent consideration receivable

An element of the consideration received on the disposal of Sportech-NYX Gaming, LLC is contingent upon NYX Gaming Group Limited (‘NYX’) customers going live on their Real Money Wagering Platform. Judgement is therefore applied by management as to the likelihood that customers will go-live on this platform, and the number of customers who do so.

Changes to market conditions, including regulatory change and competition from other online gaming suppliers, are the key assumptions used in making these judgements. Management are confident that the assumptions applied represent the best estimate of the amount receivable by the Group for future customer acquisitions made by NYX.

Basis of consolidation

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 1 January 2017 (2015: 3 January 2016). For ease of reference in this preliminary announcement, all references to the results for the year are for the year ended 31 December 2016 (2015: 31 December 2015) and the financial position at 31 December 2016 (2015: 31 December 2015).

Accounting policies

A summary of more important Group accounting policies follows. These policies have been applied consistently to all the years presented.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control of an entity is deemed to exist when the Group is exposed to, or has rights to, variable returns through its power over that entity 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 deconsolidated from the date that control ceases.

The acquisition 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 remeasured 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.

Transactions between subsidiaries are performed on an arm's-length basis. 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.

(b) Equity accounted investees
The Group equity accounts for any investees which are considered to be either a joint venture or an associate.

A joint venture is an entity which is jointly controlled by the Group and one or more venturers under a contractual agreement. An associate is an entity in which the Group has no control nor joint control, but bears significant influence over that entity. In both cases, the Group holds its interest in the entity on a long-term basis.

The Group's share of post-acquisition profits and losses made by the investee 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 an equity-accounted investee equals or exceeds its interest in that entity, 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 equity accounted investees are eliminated to the extent of the Group's interest in that entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the investee have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) 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;
- the value of stakes, 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;
- the 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. Sales which involve significant customisation are recognised on a percentage of completion basis in accordance with IAS 11; 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.

Accounting policies continued

for the year ended 31 December 2016

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, and revenue is recognised on the separate components of the contract in accordance with the appropriate revenue recognition policy for that item or service.

(d) Deferred income

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.

(e) 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 follows:

- **Football Pools:** Football Pools and associated games through traditional channels such as mail, telephone, 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 holding company of the Group.

(f) 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.

(g) 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.

(h) 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.

(i) 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% to 5.0%

Short leasehold land and buildings
Over the period of the lease

Plant, equipment and other fixtures and fittings
10.0% to 33.3%

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

Accounting policies continued

for the year ended 31 December 2016

(j) 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 specific CGUs 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.

(k) 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.

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
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.

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

(m) 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.

(n) 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.

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 the income statement.

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.

(o) 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.

Available for sale financial assets
Financial assets which do not meet the criteria of being loans and receivables, fair value through profit and loss, or held to maturity financial assets are classified as available for sale financial assets in accordance with IAS 39. Those assets are remeasured to their fair value at the reporting date, with any gains/losses recognised within other comprehensive income. An available for sale financial asset reserve holds all unrealised gains/losses within equity on the balance sheet.

Gains/losses on available for sale financial assets are realised at the point that the asset is disposed of by the Group.

Accounting policies continued
for the year ended 31 December 2016

(p) 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 'Share-based Payment', 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 the individual 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.

(q) Cash and cash equivalents
Cash and cash equivalents shown on the balance sheet represent cash in hand, cash in vaults and cash held in current accounts, both owned by the Group and held on behalf of customers. Any bank overdrafts used by the Group are shown within trade and other payables. Positive cash balances and overdrafts are only offset within cash and cash equivalents to the extent that they form part of a cash-pooling arrangement implemented by the Group where the balances will be settled on a net basis.

(r) 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.

(s) 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.

(t) 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.

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

(v) 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.

(w) 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.

(x) 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.

(y) 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.

(z) New standards, amendments and interpretations adopted by the Group
There are no new standards or amendments to standards or interpretations that are mandatory for the first time for the financial year beginning 1 January 2016 that materially impacted the Group financial statements.

(aa) 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 from
IFRS 16	Leasing	1 January 2019
Amendments to IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018

A review of the impact of those new standards will be performed in 2017, and an update of this impact will be provided in the Annual Report for the year ended 31 December 2017.

Notes to the financial statements

for the year ended 31 December 2016

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 exceptional items and asset impairment charges. 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.

	2016					
	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	**28.4**	**5.8**	**–**	**–**	**–**	**34.2**
Revenue from rendering of services	**–**	**30.2**	**35.1**	**–**	**(0.9)**	**64.4**
Total revenue	**28.4**	**36.0**	**35.1**	**–**	**(0.9)**	**98.6**
EBITDA before exceptional items, share option expense and impairment of assets	**15.0**	**9.4**	**2.7**	**(3.3)**	**–**	**23.8**
Share option credit	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Depreciation and amortisation (excluding amortisation of acquired intangibles)	**(2.0)**	**(5.0)**	**(1.3)**	**(0.1)**	**–**	**(8.4)**
Segment result before amortisation of acquired intangibles and impairment of assets	**13.0**	**4.4**	**1.4**	**(3.3)**	**–**	**15.5**
Amortisation of acquired intangibles	**–**	**(0.6)**	**–**	**–**	**–**	**(0.6)**
Impairment of assets	**(42.5)**	**(17.2)**	**(4.0)**	**–**	**–**	**(63.7)**
Exceptional income	**96.8**	**–**	**–**	**(5.8)**	**–**	**91.0**
Exceptional costs	**(3.4)**	**(1.6)**	**(0.3)**	**(4.4)**	**–**	**(9.7)**
Operating profit/(loss)	**63.9**	**(15.0)**	**(2.9)**	**(13.5)**	**–**	**32.5**
Net finance costs						**(0.6)**
Share of loss after tax and impairment of joint ventures and associates						**(1.2)**
Profit before taxation						**30.7**
Taxation						**(17.6)**
Profit for the year						**13.1**
Segment assets	**249.7**	**98.0**	**46.7**	**57.2**	**(250.7)**	**200.9**
Segment liabilities	**(30.2)**	**(93.2)**	**(13.0)**	**(166.4)**	**250.7**	**(52.1)**
Other segment items						
Capital expenditure (notes 12 and 13)	**2.7**	**5.3**	**3.1**	**0.8**	**–**	**11.9**
Depreciation (note 13)	**0.2**	**2.0**	**1.3**	**–**	**–**	**3.5**
Amortisation of intangible assets (including acquired intangibles) (note 12)	**1.8**	**3.6**	**–**	**0.1**	**–**	**5.5**

	2015 (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	33.8	4.7	—	—	—	38.5
Revenue from rendering of services	—	29.9	32.7	—	(0.9)	61.7
Total revenue	33.8	34.6	32.7	—	(0.9)	100.2
EBITDA before exceptional items, share option expense and impairment of assets	15.2	8.6	2.8	(3.5)	—	23.1
Share option expense	—	—	—	(0.5)	—	(0.5)
Depreciation and amortisation (excluding amortisation of acquired intangibles)	(1.8)	(3.8)	(1.3)	(0.7)	—	(7.6)
Segment result before amortisation of acquired intangibles and impairment of assets	13.4	4.8	1.5	(4.7)	—	15.0
Amortisation of acquired intangibles	—	(1.2)	—	—	—	(1.2)
Impairment of assets	—	(6.1)	—	—	—	(6.1)
Exceptional income	—	8.1	—	—	—	8.1
Exceptional costs	(0.2)	(1.5)	(0.2)	(0.7)	—	(2.6)
Operating profit/(loss)	13.2	4.1	1.3	(5.4)	—	13.2
Net finance costs						(2.6)
Share of loss after tax and impairment of joint ventures and associates						(0.9)
Profit before taxation						9.7
Taxation						(3.0)
Profit for the year						6.7
Segment assets	193.4	91.2	39.7	40.2	(148.5)	216.0
Segment liabilities	(19.1)	(79.1)	(9.0)	(131.1)	148.5	(89.8)
Other segment items						
Capital expenditure (notes 12 and 13)	2.5	4.5	1.1	0.3	—	8.4
Depreciation (note 13)	0.2	1.8	1.2	0.1	—	3.3
Amortisation of intangible assets (including acquired intangibles) (note 12)	1.6	3.2	0.1	0.6	—	5.5

Notes to the financial statements continued
for the year ended 31 December 2016

1. Segmental reporting continued

Information by geographical area

	Revenues from external customers		Non-current assets	
	2016 £m	2015 £m	**2016 £m**	2015 £m
United Kingdom	**30.8**	38.7	**88.5**	141.9
North and South America	**54.3**	51.3	**52.0**	48.6
Europe	**10.2**	9.3	**2.4**	2.4
Other	**3.3**	0.9	**—**	—
Total	**98.6**	100.2	**142.9**	192.9

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

2. Exceptional (income)/costs

Net exceptional (income)/costs by type are as follows:

	2016 £m	2015 £m
Included in administrative expenses:		
Redundancy and restructuring costs in respect of the rationalisation and modernisation of the business	**2.7**	1.0
Losses incurred post collector channel closure announcement (note a)	**0.2**	—
Costs incurred in relation to California contract exit	**0.2**	0.6
Costs incurred in relation to New Jersey data outage	**0.2**	—
Transaction costs	**4.4**	0.3
Licensing costs in New Jersey in respect of the acquisition of Sportech Racing	**—**	0.3
Costs in relation to the set up of joint ventures	**0.1**	0.2
IFRS 3 employment costs in relation to Datatote (England) Limited and Bump Worldwide, Inc.	**0.1**	0.2
Release of contingent consideration accrued for Datatote (England) Limited	**—**	(0.2)
Charges arising as a result of asset impairments	**1.0**	—
Fair value losses realised in respect of shares held in NYX Gaming Group Limited	**0.7**	0.2
Other exceptional items	**0.1**	—
	9.7	2.6
Included in other operating income:		
Net gain on successful outcome of Supreme Court Spot the Ball ruling (note b)	**(91.0)**	—
Net gain on disposal of Sportech-NYX Gaming, LLC	**—**	(8.1)
	(91.0)	(8.1)
Included in net finance costs:		
Refinancing fee	**—**	0.3
Movement on derivative financial instruments post designation as ineffective	**—**	(0.5)
	—	(0.2)
Net exceptional income	**(81.3)**	(5.7)

(a) Losses incurred post collector channel closure announcement
The Group announced the closure of its Football Pools collector channel in January 2016. Subsequent to this announcement, the net revenue and costs generated from this channel are deemed to be non-core trading of the Group and are exceptional in nature. Accordingly, the net losses of £0.2m have been presented as exceptional costs. Those losses are incurred after generating revenues from this channel of £1.3m in the period to closure.

(b) Spot the Ball
On 8 December 2016, the Supreme Court refused HMRC's request for permission to appeal the Court of Appeal's judgment in the Group's favour in respect of its Spot the Ball ruling. Accordingly the principal amount refunded of £43.5m together with related simple interest of £53.4m has been recognised as exceptional income in the year, net of costs relating to the claim totalling £5.9m.

An analysis of the costs in relation to the claim is shown below:

	2016 £m
Advisor fees	**3.8**
Executive Director and employee bonuses	**1.9**
Other costs	**0.2**
Total	**5.9**

3. Expenses by nature

	Note	2016 £m	2015 £m
Selling commissions		**0.6**	1.6
Betting and gaming duties		**5.4**	5.8
Track and tote fees		**14.6**	15.4
Marketing, printing and postage costs		**4.8**	5.2
Employment costs	6	**30.4**	30.0
Share option (credit)/expense	6	**(0.1)**	0.5
Depreciation and amortisation	12, 13	**9.0**	8.8
Impairment of goodwill	11	**39.5**	3.7
Impairment of property, plant and equipment and intangible assets	12, 13	**24.2**	2.4
Distribution costs		**0.2**	0.6
IT and telecommunications costs		**2.3**	2.4
Cost of inventories recognised as an expense	17	**4.4**	3.8
Exceptional costs excluding redundancy and restructuring costs in respect of the rationalisation and modernisation of the business	2	**7.0**	1.6
Property related costs		**5.5**	5.4
Other costs		**9.3**	7.9
Total expenses		**157.1**	95.1

Included in the above table are exceptional costs of £9.7m (2015: £2.6m).

Notes to the financial statements continued
for the year ended 31 December 2016

4. Net finance costs

	2016 £m	2015 £m
Finance costs		
Interest payable on bank loans, derivative financial instruments and overdrafts	**1.7**	3.2
Other finance income		
Foreign exchange gain on financial assets and liabilities denominated in foreign currency	**(1.1)**	(0.4)
Movement on derivative financial instruments post designation as ineffective	**–**	(0.5)
Refinancing fee	**–**	0.3
Net finance costs	**0.6**	2.6

5. Profit before taxation

Profit before taxation is stated after charging:

	Note	2016 £m	2015 £m
Employment costs	6	**30.3**	30.5
Depreciation of property, plant and equipment	13	**3.5**	3.3
Impairment of goodwill	11	**39.5**	3.7
Impairment of property, plant and equipment and intangible assets	12, 13	**24.2**	2.4
Amortisation of acquired intangibles	12	**0.6**	1.2
Amortisation of other intangibles	12	**4.9**	4.3
Net impairment of investments in joint ventures and associates	15	**0.6**	0.2

The fees of the Auditors in relation to their audit of the Company financial statements are £52,000 (2015: £52,000).

Fees paid to Auditors during the period comprise:

	2016 £m	2015 £m
Audit fees	**0.3**	0.2
Taxation compliance	**0.1**	0.1
Taxation advisory services	**0.1**	0.1
Other assurance services	**0.6**	0.1
Total fees	**1.1**	0.5

6. Employment costs

Average number of monthly employees (full-time equivalents) including Executive Directors comprised:

	2016 Number	2015 Number
Sales and marketing	**86**	96
Operations and distribution	**466**	516
Administration	**123**	137
Total employees	**675**	749

Their aggregate remuneration comprised:

	2016 £m	2015 £m
Wages and salaries	**25.5**	25.1
Social security costs	**4.1**	4.1
Pension costs – defined contribution scheme (note 30)	**0.6**	0.7
Pension costs – defined benefit scheme (note 30)	**0.2**	0.1
Share option (credit)/expense	**(0.1)**	0.5
Total remuneration	**30.3**	30.5

7. Directors and key management remuneration

Directors

	2016 £000	2015 £000
Short-term employee benefits	**1,955**	1,236
Share-based payments	**(149)**	266
Pay in lieu of notice	**244**	—
Post-employment benefits	**54**	55
Total remuneration	**2,104**	1,557

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration report on pages 31 to 46. This information forms part of the financial statements. Retirement benefits are accruing under defined benefit pension schemes for nil Directors (2015: nil). Two Directors exercised share options in the year (2015: nil).

Key management compensation

	2016 £000	2015 £000
Short-term employee benefits	**2,448**	1,559
Share-based payments	**(168)**	335
Pay in lieu of notice	**244**	—
Post-employment benefits	**59**	58
Total remuneration	**2,583**	1,952

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 2016

8. Taxation

	2016 £m	2015 £m
Current tax		
Current tax on profit for the year	**19.5**	2.8
Adjustments in respect of prior years	**0.2**	0.4
Total current tax	**19.7**	3.2
Deferred tax		
Origination and reversal of temporary differences	**(5.8)**	0.7
Effect of changes in tax rates	**0.1**	(0.1)
Adjustments in respect of prior years	**0.5**	(0.8)
Derecognition of previously recognised deferred tax assets	**3.1**	—
Total deferred tax	**(2.1)**	(0.2)
Total taxation charge	**17.6**	3.0

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:

	2016 £m	2015 £m
Profit before taxation	**30.7**	9.7
Add share of loss after tax and impairment of non-US based joint ventures	**0.1**	0.9
Profit before taxation and share of loss and impairment of non-US based joint ventures	**30.8**	10.6
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**5.0**	1.8
Tax effects of:		
– permanent differences	**8.7**	1.7
– effect of changes in tax rates	**0.1**	(0.1)
– adjustments in respect of prior years – current tax	**0.2**	0.4
– adjustments in respect of prior years – deferred tax	**0.5**	(0.8)
– derecognition of previously recognised deferred tax assets	**3.1**	—
Total taxation charge	**17.6**	3.0

Share of loss after tax and impairment of joint ventures excludes those relating to US joint ventures as these are taxed within US taxable profits. Therefore this is not a reconciling item to the expected tax charge. The weighted average applicable tax rate was 16.2% (2015: 17.0%).

Included within permanent differences in 2016 is the tax effect at 20% of the £37.7m impairment of goodwill attributable to the Football Pools, and the tax effect at 34% of the £1.8m impairment of goodwill attributable to eBet Online, Inc., for which no tax relief is received. Additionally, certain transaction costs incurred in the UK are not deductible for corporation tax purposes. Finally, foreign taxes deducted at source amount to a difference of £0.7m due to a 34% deduction being taken for the payments in the year rather than carrying forward the credits to set off against future taxable income.

Tax on the net Spot the Ball exceptional income has been provided at 20%. It is possible that capital losses of £23.0m may be able to be offset against the gain to reduce taxation on this gain by £4.6m, however this is an uncertain tax position and therefore the charge has been provided for in full in these financial statements. No deferred tax is recognised on the capital losses being carried forward.

Derecognition of previously recognised deferred tax assets relates to deferred tax on foreign tax credits carried forward which are considered not to be recoverable in full as at 31 December 2016 as had previously been expected, due to changes in underlying taxable profit forecasts.

As the Group's year end is after the substantive enactment date (15 September 2016) of the Finance Act 2016, these financial statements account for the change in the UK Corporation Tax rate from 20% to 19% with effect from 1 April 2017, with a further change to 17% for financial years beginning 1 April 2020. Therefore the rate at which deferred tax is calculated has changed. Deferred tax in the UK is provided at a blended rate, depending on when the deferred tax is expected to unwind.

9. Result of Parent Company

Included in the Group's result for the year is a loss of £29.7m (2015: £5.7m) in respect of its Parent Company, Sportech PLC. Key drivers of the increased losses from prior year include impairments recognised in 2016 to investments in subsidiaries and intangible fixed assets of £9.1m and £10.5m (2015: £nil and £nil respectively), together with exceptional costs of £10.2m (2015: £1.0m) net of other finance income of £4.2m (2015: £0.2m).

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 2 March 2017.

10. Earnings per share

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

	2016 £m	2015 £m
Profit attributable to the owners of the Company	**13.1**	6.7
Weighted average number of ordinary shares in issue ('000)	**206,238**	206,051
Basic earnings per share	**6.4p**	3.3p

(b) Basic adjusted
Adjusted EPS is calculated by dividing the adjusted profit after tax attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. Adjusted profit after tax is calculated by applying an estimated adjusted tax charge of 22.8% (2015: 23.7%) to adjusted profit before tax as defined on the income statement. This adjusted tax charge excludes the tax impact of income statement items not included in adjusted profit before tax.

	2016			2015		
	Profit £m	**Weighted average number of shares '000**	**Per share amount Pence**	Profit £m	Weighted average number of shares '000	Per share amount Pence
Adjusted profit before taxation	**13.8**	**206,238**	**6.7**	11.8	206,051	5.7
Tax at 22.8% (2015: 23.7%)	**(3.1)**	**206,238**	**(1.5)**	(2.8)	206,051	(1.3)
Adjusted basic EPS	**10.7**	**206,238**	**5.2**	9.0	206,051	4.4

(c) 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. In 2015, 202,020 employee options were 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. Those options lapsed during the year. The weighted average number of shares that do have a dilutive effect on adjusted EPS is 5,457,000 (2015: 8,191,000). Diluted basic earnings per share is 6.2p (2015: 3.1p) and diluted adjusted EPS is 5.0p (2015: 4.2p).

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for the year ended 31 December 2016

11. Goodwill

Group	2016 Football Pools £m	2016 eBet £m	2016 Total £m	2015 Total £m
Cost				
At 1 January and at 31 December	165.5	5.5	**171.0**	171.0
Accumulated impairment charges				
At 1 January	(46.0)	(3.7)	**(49.7)**	(46.0)
Impairment charge	(37.7)	(1.8)	**(39.5)**	(3.7)
At 31 December	(83.7)	(5.5)	**(89.2)**	(49.7)
Closing net book amount	81.8	—	**81.8**	121.3

Goodwill arose on three historic acquisitions made by the Group: the acquisition of Littlewoods Leisure, including the Littlewoods Football Pools business, in September 2000 amounting to £145.2m; the acquisition of Vernons Football Pools in December 2007 amounting to £20.3m; and the acquisition of eBet Online, Inc. in December 2012 of £5.5m.

During the year the Group carried out its annual impairment reviews of the carrying value of its goodwill. For the purpose of the annual impairment reviews, the recoverable amounts are measured based on value-in-use, calculated using discounted future cash flows. For each of the reviews performed, the value-in-use is calculated using cash flow forecasts for 2017-2021 approved by the Board, and a terminal value at 2021 calculated in accordance with IAS 36 'Impairment of Assets'. The results of those specific impairment reviews are outlined below.

(a) Football Pools

The goodwill from the Littlewoods Leisure and Vernons acquisitions is attributed to the Football Pools segment.

In testing for impairment, other assets used solely to generate cash flows in the Football Pools CGU are also included, totalling £5.1m post impairment, (see note 12) (2015: £9.2m). During the year, the business has undergone significant change, including nearing completion of its modernisation programme and closing the collector channel. In addition, the division plans to launch a new retail channel in 2017 and incur significantly increased marketing expense. The changes have resulted in revisions to management's plans and forecasts to those which were in place as at 31 December 2015. These revisions are as a result of the passage of time under which management have gained more knowledge of how the underlying business will perform having been restructured and also the commencement of the new retail channel and marketing strategy.

The key assumptions in the value-in-use calculations were:

- year-on-year growth in online, reflecting the businesses focus on this channel and the improved capability and offering of the division's software following investment;
- decline of 1% in core subscription EBITDA from 2017 to 2021, with 1% decline into perpetuity thereafter of core subscription earnings;
- growth in retail sales over the period with support from investment in brand marketing;
- the terminal value for online and retail uses a nil growth rate given the expected stabilisation of profit streams; and
- cash flows have been discounted at 9.0% (2015: 8.4%), reflecting a market-based weighted average cost of capital appropriate for the Football Pools CGU.

The recoverable amount of the Football Pools goodwill was estimated to be £86.9m, and therefore an impairment of £37.7m has been recognised in administrative expenses in the income statement (2015: £nil).

As disclosed in note 31, the Group has agreed to dispose of its Football Pools division post year end, subject to certain conditions. This is expected to result in no material gain or loss being recognised in the 2017 financial statements. Accordingly management do not believe it necessary to present a reasonable downside case with a resultant impairment that may arise if any of the assumptions or variables used in the impairment review were to change.

(b) eBet Online, Inc.
The goodwill from the eBet Online, Inc. ('eBet') acquisition is attributed to the Sportech Racing and Digital segment.

In performing the annual impairment review of this goodwill, other assets used solely to generate cash flows in the eBet business are also included, totalling £3.6m. Management have reflected on the pace of regulation being slower than originally anticipated, together with the increased levels of capital expenditure required in the business for continuing development of its products, in performing this impairment review. Those assumptions are changed from the review performed at 31 December 2015.

The key assumptions in this value-in-use calculation were:

- compound annual growth in EBITDA of 14% from 2016 to 2021, reflecting market growth expectations;
- the terminal value is based on a growth rate of 2%; and
- cash flows have been discounted at 10.0% (2015: 10.0%), reflecting a market-based weighted average cost of capital appropriate for the CGU.

On the basis of this latest review, the recoverable amount of the eBet business is estimated to be £3.6m which is equivalent to the value of other assets attributable to that business. Accordingly, the goodwill of £1.8m has been impaired in full.

12. Intangible fixed assets

Group	Customer contracts and relationships £m	Software £m	Other £m	Total £m
Cost				
At 1 January 2016	36.5	47.8	20.7	105.0
Additions	—	5.2	0.6	5.8
Transfer	—	(0.3)	0.3	—
Disposals	—	(0.7)	—	(0.7)
At 31 December 2016	**36.5**	**52.0**	**21.6**	**110.1**
Accumulated amortisation				
At 1 January 2016	35.9	24.5	3.9	64.3
Charged during the year	0.6	4.7	0.2	5.5
Impairment	—	17.4	1.7	19.1
Disposals	—	(0.7)	—	(0.7)
At 31 December 2016	**36.5**	**45.9**	**5.8**	**88.2**
Exchange differences	—	1.4	4.5	5.9
Net book amount at 31 December 2016	**—**	**7.5**	**20.3**	**27.8**

Notes to the financial statements continued

for the year ended 31 December 2016

12. Intangible fixed assets continued

Company	Software £m	Other £m	Total £m
Cost			
At 1 January 2016	16.9	0.9	17.8
Additions	0.7	0.2	0.9
At 31 December 2016	**17.6**	**1.1**	**18.7**
Accumulated amortisation			
At 1 January 2016	5.3	0.5	5.8
Charged during the year	1.3	0.1	1.4
Impairment	10.0	0.5	10.5
At 31 December 2016	**16.6**	**1.1**	**17.7**
Net book amount at 31 December 2016	**1.0**	**–**	**1.0**

Software

Both Sportech Racing and Digital and the Football Pools division own their in-house developed, proprietary software. The largest component of this relates to Racing and Digital and its pari-mutuel software serving racing customers worldwide. This software is owned by the Company, and was originally estimated to have a useful life of 15 years. During the year the Group reviewed the carrying value of this software in response to the review of certain intangible assets within the Racing and Digital division and the increased spend required during the year and previous year to enhance this software and ensure it continued to meet the needs of the Group's customers. It was found that the software had a shorter life than was previously forecast and that the value of the software is reduced relative to that previously estimated. As a result the asset, which had a carrying value at 31 December 2016 of £10.3m, was impaired by £10.0m to a carrying value of £0.3m, representing the fair value of this software to the Group. The assets subject to impairment were all brought into use four years ago or more and are considered to have been superseded by more recent development work.

Sportech Racing and Digital carried out an impairment review of its intangible assets following reaching the end of a six-year road map for development of its tote software, online platform and ancillary products. The division is now committed to transferring all of its customers onto the primary platform of G4 from legacy platforms. As a result £1.5m of early G4 development costs and £0.8m of legacy platform costs, as well as £0.2m of software in relation to contracts which have been lost, are impaired. Other software within the division of £0.1m was also impaired.

Following the completion of the modernisation programme within the Football Pools division, which commenced five years ago, and the closure of the Collector channel during the year, management reviewed the carrying value of the assets of the business now that decline has been stabilised and the business has redefined its strategy. As a result, several software intangible assets were identified as being impaired including: £1.5m of costs in relation to the development of a bespoke customer database incurred in 2012 and 2013 which has been superseded; £1.5m of eGaming software developed in 2014 and prior which has been superseded by more recent development; £0.7m relating to a pools marking engine following the closure of the Collector channel; £0.6m of Betpro software acquired in 2013 which is no longer used by the division; £0.2m of NYX wallet development given the Group's strategy to design its own internally generated bespoke wallet in 2017; and other software of £0.3m.

Other intangibles

The Group holds a licence in perpetuity to offer pari-mutuel off-track betting in the State of Connecticut in the US. Given this licence is in perpetuity, the book value of the asset is not amortised and the useful economic life allocated to the asset is indefinite.

As required by IAS 36 an impairment test has been carried out as at 31 December 2016. In testing for impairment, other assets used solely to generate cash flows in the CGU are also included, totalling £11.5m post impairment (see note 13) (2015: £10.4m).

The recoverable amount of the asset has been determined based on a value-in-use calculation. In calculating value-in-use, management have revised their assumptions to reflect the continued underlying decline over and above that which was expected. In addition, Jai Alai handle did not return in 2016 to the levels expected which is a further change in assumptions from those at 31 December 2015. The key assumptions made were made as follows:

- EBITDA forecasts assume year-on-year handle decline in the land-based Venues of 5%, offset by compound annual growth in online handle of 11% in the same period;
- the future cash flow forecasts include capital expenditure and EBITDA for the build out and trading of a significant new venue, which is currently classified as an asset under construction, in addition to expected proceeds to be realised net of sale costs and investment required to fit out a new venue, of the sale of Sports Haven;
- cash flows beyond the fifth year were extrapolated using a nil growth rate for the land-based Venues, given the expected stabilisation of cash flows over time, 2% for food and beverage and a 3% growth rate in the online business, reflecting the relatively new food and beverage channel and expected growth in the online betting market;
- capital expenditure was included in the cash flows at management's best estimate of industry norm for reinvestment in retail outlets of the kind under review; and
- a post tax discount rate of 9.1% (2015: 8.5%) was used representing a market-based weighted average cost of capital appropriate for the Sportech Venues CGU.

Following the impairment review, the recoverable amount of those assets was deemed to be £30.7m and accordingly an impairment of £1.1m was charged to the income statement within administrative expenses (2015: £nil).

Management consider that the calculated recoverable amount is most sensitive to changes in the following reasonable downside assumptions. Changes to the assumptions below, all other variables held constant, would cause the indicated impairments:

	Resulting impairment £m
Land-based handle decline of 2% runs into perpetuity; online handle compound growth reduced to 6% to 2021; earnings from new Venues under construction, together with surplus asset values realised, are both 50% of expectation	**10.7**
WACC of 10% rather than 9.1%	**3.4**

Other intangibles owned by the Company are costs incurred in enabling the provision of tote software to the Group's joint venture, Sportshub Private Limited. Those costs have been written off in full during the year, together with the Group's net investment in SportsHub (see note 15).

Group	Customer contracts and relationships £m	Software £m	Other £m	Total £m
Cost				
At 1 January 2015	36.5	42.1	21.9	100.5
Additions	—	4.8	0.1	4.9
Transfer	—	1.3	(1.3)	—
Disposals	—	(0.4)	—	(0.4)
At 31 December 2015	36.5	47.8	20.7	105.0
Accumulated amortisation				
At 1 January 2015	35.0	20.7	3.3	59.0
Charged during the year	0.9	4.0	0.6	5.5
Impairment	—	0.2	—	0.2
Disposals	—	(0.4)	—	(0.4)
At 31 December 2015	35.9	24.5	3.9	64.3
Exchange differences	—	0.4	1.0	1.4
Net book amount at 31 December 2015	0.6	23.7	17.8	42.1

Notes to the financial statements continued

for the year ended 31 December 2016

12. Intangible fixed assets continued

Company	Software £m	Other £m	Total £m
Cost			
At 1 January 2015	15.7	0.9	16.6
Additions	1.2	—	1.2
At 31 December 2015	16.9	0.9	17.8
Accumulated amortisation			
At 1 January 2015	4.4	0.4	4.8
Charged during the year	0.9	0.1	1.0
At 31 December 2015	5.3	0.5	5.8
Net book amount at 31 December 2015	11.6	0.4	12.0

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 2016	0.2	11.5	20.1	0.8	3.1	35.7
Additions	—	—	0.7	0.1	5.3	6.1
Disposals	—	—	(6.5)	(0.2)	—	(6.7)
Transfer	—	0.1	3.8	—	(3.9)	—
At 31 December 2016	**0.2**	**11.6**	**18.1**	**0.7**	**4.5**	**35.1**
Accumulated depreciation						
At 1 January 2016	0.1	4.6	7.7	0.3	—	12.7
Charged during the year	—	0.5	2.8	0.2	—	3.5
Impairment	—	2.4	2.6	0.1	—	5.1
Disposals	—	—	(6.5)	(0.2)	—	(6.7)
At 31 December 2016	**0.1**	**7.5**	**6.6**	**0.4**	**—**	**14.6**
Exchange differences	—	2.1	2.3	0.1	1.2	5.7
Net book amount at 31 December 2016	**0.1**	**6.2**	**13.8**	**0.4**	**5.7**	**26.2**

Company	Short leasehold land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January and 31 December 2016	0.1	0.2	0.3
Accumulated depreciation			
At 1 January and 31 December 2016	0.1	0.1	0.2
Net book amount at 31 December 2016	**—**	**0.1**	**0.1**

Impairments – Sportech Venues

Management now intend to realise value from the land it owns, and which its Sports Haven site occupies, in Connecticut. It is expected that this land will be disposed of within two to five years, at which point the building will be demolished, having sold the land for development. The building therefore has a significantly reduced value to the Group than it previously did, and an impairment of £1.6m has been recognised in respect of this. The sports bar at Bradley has now been open for three years, and it is now thought the venue has reached a steady state of profitability. The recoverable value of the venue was reassessed and indicated an impairment of £1.2m was required which has been recognised. A further impairment of £0.1m was made following the closure of a smaller venue in Connecticut in 2016.

Impairments – Sportech Racing and Digital

The Sportech Racing and Digital division reviewed the carrying value of certain of its tangible assets following the end of a six-year road map for the development of its tote assets and suite of supporting products in addition to exiting its largest North American contract in late 2015. This review identified that the following impairments were required to bring the carrying value of the assets down to a value considered supportable by the expected future cash flows to be generated: Kiosk terminal developments of £1.0m have not generated sales of the product as expected and this has therefore been impaired; Betjet terminals relocated from California were previously thought to have been capable of redistribution for utilisation elsewhere at nil cost, however this has not been the case and therefore they have been impaired by £1.0m; and a further £0.2m of tote assets have been impaired relating to those assets used for contracts which have not been renewed.

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 2015	0.2	11.4	20.3	0.8	4.2	36.9
Additions	—	—	0.8	—	2.7	3.5
Acquisition of interests in S&S Venues California, LLC	—	—	—	—	0.6	0.6
Disposals	—	—	(5.3)	—	—	(5.3)
Transfer	—	0.1	4.3	—	(4.4)	—
At 31 December 2015	0.2	11.5	20.1	0.8	3.1	35.7
Accumulated depreciation						
At 1 January 2015	0.1	4.0	8.3	0.1	—	12.5
Charged during the year	—	0.6	2.5	0.2	—	3.3
Impairment	—	—	2.2	—	—	2.2
Disposals	—	—	(5.3)	—	—	(5.3)
At 31 December 2015	0.1	4.6	7.7	0.3	—	12.7
Exchange differences	—	0.5	0.3	—	0.2	1.0
Net book amount at 31 December 2015	0.1	7.4	12.7	0.5	3.3	24.0

Notes to the financial statements continued
for the year ended 31 December 2016

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 2015	0.1	0.2	0.3
Accumulated depreciation			
At 1 January and 31 December 2015	0.1	0.1	0.2
Net book amount at 31 December 2015	—	0.1	0.1

14. Investments in subsidiaries

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
At 1 January	**—**	—	**203.7**	203.7
Impairment	**—**	—	**(9.1)**	—
At 31 December	**—**	—	**194.6**	—

A full listing of the Group's subsidiaries, and other related undertakings, is included in note 32.

For the reasons outlined in notes 11, 12 and 13, impairment charges have been recognised in the year, reducing the asset base of the Group. With the Group's assets having a reduced recoverable value, this has resulted in an impairment in the Company's investment in Sportech Holdco 2 Limited. Therefore an impairment loss of £9.1m has been recognised in the Company financial statements.

Impairment reviews have also been performed on the Company's other investments, namely those in Sportech Gaming Limited and Sportech Holdco 1 Limited. The recoverable value of those investments continues to be in excess of their book value and no impairment is therefore required.

15. Net investment in joint ventures/associates

During the year, the Group held the following investments in joint ventures and associates:

Company	Description	Country of incorporation	Year of investment	Joint venture/ associate	% holding
S&S Venues California, LLC ('S&S Venues')	Sports bars with wagering facilities in California	US	2013	Joint venture	50
Sportshub Private Limited ('Sportshub')	Provides a suite of prediction and fantasy games centred on cricket, football and Formula 1	India	2008	Joint venture	50
DraftDay Gaming Group, Inc. ('DraftDay')	Daily fantasy sports business operating in the US	US	2015	Associate	30

(a) Capital commitments
The Group's share of capital commitments owing by the joint ventures amounted to £nil (2015: £nil).

(b) Movements in the Group's net investment in joint ventures and associates
Movements in the Group's net investment in joint ventures and associates in the year are outlined below:

	2016				2015
	S&S Venues £m	DraftDay £m	Sportshub £m	Total £m	Total £m
At 1 January	1.2	0.4	0.5	**2.1**	2.2
Additions	0.2	0.3	—	**0.5**	3.1
Acquisition of controlling interest in Norco	—	—	—	**—**	(0.5)
Disposals	—	—	—	**—**	(1.9)
Impairment	—	(0.5)	(0.4)	**(0.9)**	(0.2)
Share of loss after tax	(0.2)	(0.3)	(0.1)	**(0.6)**	(0.7)
Exchange differences	0.2	0.1	—	**0.3**	0.1
At 31 December	1.4	—	—	**1.4**	2.1

(c) Impairments – DraftDay
The Group's obligation to provide management services to DraftDay came to an end on 4 July 2016, subject to the provision thereafter of transitional services for a 45-day period. In return for negotiating an early exit to the management services agreement, the Group has surrendered an equity stake in the business, reducing its equity stake from 39% to 30%. It also surrendered its Board representation in DraftDay. From that point, the Group no longer exerts significant influence on the business and ceased accounting for it as an associate. Prior to the surrender of this equity, the Group reviewed the recoverable value of its investment in DraftDay and impaired the balance of £0.5m in full, owing to the losses that DraftDay had made from 1 January 2016 to the end of this transition period and is expected to continue to make in the future.

When the 45-day transitional period ended, the Group had a corresponding liability of £0.3m to provide future services to DraftDay which it has been released from. This accrual originally represented the cost of investment to the business in acquiring its original 39% stake in DraftDay. This has been released in full and credited to the income statement, offsetting the impairment of its investment recognised within 'share of loss after tax and impairment of joint ventures and associates'.

(d) Impairments – Sportshub
Indicators of impairment arose during the year with respect to the Group's investment in SportsHub. Accordingly, this investment has been impaired in full and £0.4m has been expensed to the income statement within 'share of loss after tax and impairment of joint ventures and associates'.

(e) Summarised financial information of joint venture and associate investments held at reporting date
At the reporting date, DraftDay is no longer an associate of the Group, and the Group's investment in Sportshub has been impaired in full. Therefore summarised financial information is not provided for those entities. Summary financial statements of S&S Venues California, LLC at the reporting date are as follows:

	2016 £m	2015 £m
Non-current assets	**2.4**	2.2
Current assets	**0.2**	0.2
Total assets	**2.6**	2.4
Current liabilities	**(0.1)**	(0.1)
Net assets	**2.5**	2.3
Revenue	**0.8**	0.1
Expenses	**(1.2)**	(0.1)
Loss after tax	**(0.4)**	—

Notes to the financial statements continued

for the year ended 31 December 2016

16. Trade and other receivables

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Non-current				
Trade and other receivables	**2.6**	2.0	**–**	–
Non-current trade and other receivables	**2.6**	2.0	**–**	–
Current				
Trade receivables	**9.0**	6.4	**–**	–
Less provision for impairment of receivables	**(1.5)**	(1.2)	**–**	–
Trade receivables – net	**7.5**	5.2	**–**	–
Amounts owed by Group companies	**–**	–	**34.3**	21.6
Other receivables	**4.1**	1.2	**–**	0.1
Accrued income	**0.9**	2.4	**–**	–
Prepayments	**2.1**	2.1	**0.2**	0.2
Current trade and other receivables	**14.6**	10.9	**34.5**	21.9
Total trade and other receivables	**17.2**	12.9	**34.5**	21.9

Non-current trade receivables includes contingent consideration due on the disposal of Sportech-NYX Gaming, LLC of £1.6m, and accrued income due after more than twelve months of £1.0m (2015: £1.1m and £0.9m respectively).

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 2016, £0.8m (2015: £0.4m) of trade receivables were past due and not impaired. Management also considers that these receivables are recoverable in full.

As at 31 December 2016, trade receivables of £1.5m (2015: £1.2m) were impaired and fully provided for. The provision has increased by £0.2m as a result of foreign exchange movements, and a £0.1m provision made for a customer in the Racing and Digital segment.

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

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Sterling	**4.6**	4.0	**0.4**	3.1
US Dollar	**9.0**	6.2	**31.7**	17.5
Euro	**3.1**	1.5	**2.4**	1.3
Other	**0.5**	1.2	**–**	–
Total	**17.2**	12.9	**34.5**	21.9

17. Inventories

	Group	
	2016 £m	2015 £m
Work in progress	**0.2**	0.4
Spare parts	**2.1**	1.4
Finished goods	**0.2**	0.3
Total	**2.5**	2.1

The cost of inventories recognised as an expense and included in cost of sales amounted to £4.4m (2015: £3.8m).

Provisions for obsolescence held against inventories at 31 December 2016 amounted to £0.1m (2015: £0.1m).

18. Deferred tax

The movement on the net deferred tax balance is as follows:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Net deferred tax asset at 1 January	**0.5**	0.8	**0.1**	0.2
Income statement credit/(charge)	**2.1**	(0.2)	**—**	(0.1)
Tax credited directly to other comprehensive income	**—**	(0.1)	**—**	—
Exchange differences	**0.5**	—	**—**	—
Net deferred tax asset at 31 December	**3.1**	0.5	**0.1**	0.1

The tax credited directly to other comprehensive income is the deferred tax on the retirement benefit liabilities.

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 as follows:

Deferred tax assets

Group	Pension £m	Capital allowances £m	Losses and foreign tax credits £m	Other temporary differences £m	Total £m
At 1 January 2015	0.5	(4.8)	5.2	0.5	1.4
Income statement (charge)/credit	—	(0.5)	(0.4)	1.0	0.1
Tax credited directly to other comprehensive income	(0.1)	—	—	—	(0.1)
At 31 December 2015	0.4	(5.3)	4.8	1.5	1.4
Income statement credit/(charge)	0.1	3.5	(0.7)	(1.7)	1.2
Currency translation differences	0.1	—	0.3	0.1	0.5
At 31 December 2016	**0.6**	**(1.8)**	**4.4**	**(0.1)**	**3.1**

Deferred tax of £nil is expected to be recovered within twelve months (2015: £nil) with £3.1m expected to be recovered after more than twelve months (2015: £1.4m).

The deferred tax asset in the Company consists of temporary differences of £0.1m (2015: £0.1m). The losses in the Company have been fully surrendered as Group relief.

Notes to the financial statements continued

for the year ended 31 December 2016

18. Deferred tax continued

In addition to the deferred tax asset which has been recognised, the Group has not recognised further deferred tax assets of £6.7m (2015: £2.9m) 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 profit generation in these particular business units.

Expiry of these losses is as follows:

Gross losses and foreign tax credits carried forward	2016 Provided £m	2016 Unprovided £m	2015 Provided £m	2015 Unprovided £m
In more than four years	**11.9**	**25.2**	14.3	12.9

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

Furthermore, the Group has gross capital losses totalling £23.0m within the UK corporate tax group which are unprovided. Management does not believe that the potential for future taxable capital gains to arise is sufficiently probable to enable the recognition of deferred tax in relation to these losses. The losses have an indefinite life.

Deferred tax liabilities

Group	Other temporary differences £m
At 1 January 2015	(0.6)
Income statement charge	(0.3)
At 31 December 2015	(0.9)
Income statement credit	0.9
At 31 December 2016	**—**

19. Cash and cash equivalents

	Group 2016 £m	Group Restated 2015 £m	Company 2016 £m	Company 2015 £m
Cash and short-term deposits	**36.5**	5.8	**20.2**	—
Customer funds	**3.1**	1.4	**—**	—
Total	**39.6**	7.2	**20.2**	—

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

Cash balances of £3.1m (2015: £1.4m) are held on behalf of customers in respect of certain online and telephone betting activities and on behalf of registered charities relating to the sale of lotto products. The corresponding liability is included within trade and other payables (see note 20).

20. Trade and other payables

	Group		Company	
	2016 £m	Restated 2015 £m	**2016 £m**	2015 £m
Trade payables	**10.2**	6.1	**3.8**	0.7
Amounts owed to Group companies	**—**	—	**156.6**	59.0
Other taxes and social security costs	**1.8**	1.6	**—**	—
Accruals	**13.1**	9.5	**6.6**	1.7
Deferred income	**3.2**	3.4	**—**	—
Player liability	**3.1**	1.4	**—**	—
Bank overdraft	**—**	1.4	**—**	1.0
Total	**31.4**	23.4	**167.0**	62.4

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

21. Provisions

Group	Onerous contracts £m	Other provisions £m	Total £m
At 1 January 2015	0.3	0.3	0.6
Released during the year	(0.1)	—	(0.1)
At 31 December 2015	0.2	0.3	0.5
Utilised during the year	(0.1)	—	(0.1)
Currency differences	0.1	0.1	0.2
At 31 December 2016	**0.2**	**0.4**	**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, £0.1m is expected to be utilised within twelve months (2015: £0.1m) and £0.5m is expected to be utilised after twelve months (2015: £0.4m).

Notes to the financial statements continued

for the year ended 31 December 2016

22. Financial liabilities

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current				
Deferred and contingent consideration due within one year	**0.2**	—	**—**	—
Non-current				
Drawn revolving credit facility due after one year	**—**	62.1	**—**	62.1
Deferred and contingent consideration due after one year	**0.1**	0.2	**—**	—
Total non-current financial liabilities	**0.1**	62.3	**—**	62.1
Total financial liabilities	**0.3**	62.3	**—**	62.1

Bank loans and revolving credit facility

The Group's 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, and Racing Technology Ireland Limited. In addition, share charges have been entered into in respect of shares in Sportech, Inc., Sportech Venues, Inc., Sportech Racing, LLC, Trackplay, LLC and eBet Technologies, Inc. (all are US companies).

During the year ended 31 December 2016, the Group repaid its debt facility in full (2015: repaid £8.0m). £25.0m of the available facility was also cancelled by the Group on 22 December 2016 as it was deemed surplus to requirements. The remaining £50.0m facility remains available to the Group if required from its existing lenders.

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

Deferred and contingent consideration

Deferred and contingent consideration due totalling £0.3m represents management's best estimate of the consideration to be paid in acquiring Bump. The agreed contingent consideration was subject to amendment during the year, with the amount payable now split between the following two elements:

- an amount equivalent to the 2016 EBITDA earned by Bump; and
- 25% of the 2017 EBITDA earned by Bump.

The maximum amount payable as contingent consideration is £5.1m. 75% of the consideration is payable in July 2017, with the remaining balance payable in July 2018.

The Directors believe that a sum of £0.4m will be payable in respect of these performance targets. This is treated as employment costs under IFRS 3 'Business Combinations' (revised) and is accordingly accrued on a time apportioned basis to 31 December 2017.

23. 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. 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 2018 and at variable interest rates (a debt margin payable of between 200 and 350 basis points per annum) dependent on leverage ratio. Due to the ongoing uncertainty with respect to the appropriate capital structure of the Group, largely due to receipt of the exceptional income in December 2016 from the Spot the Ball VAT reclaim, no interest rate swaps have been entered into following the expiry of legacy swaps in the year. The Board's intention remains to hedge its interest rate risk, and this will be reviewed at the appropriate time during 2017.

At 31 December 2016, if interest rates on borrowings had been 50 basis points higher/lower with all variables held constant, post tax loss for the year would have been £0.2m (2015: £0.3m) 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 weekly basis in the operating entities of the Group and is aggregated by Group Finance. This weekly forecasting recognises committed short-term payables of the Group which are monitored and managed through regular discussions with suppliers. 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. 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. The Group's derivative financial instruments are managed by Group Finance, and the risks of loss on those instruments are mitigated through review and regular discussions with external advisers.

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. 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 Venues division are held in highly secure environments.

Notes to the financial statements continued

for the year ended 31 December 2016

23. Financial instruments continued

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 risks and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level. In doing so, the Group considers whether use of foreign exchange forward contracts would be appropriate in fixing the economic impact of forecasted profitability. As at 31 December 2016, there were no outstanding commitments on foreign exchange forward contracts (2015: none).

The average rate of the US Dollar during the year was 1.36 and the Euro was 1.23, and the rates as at the reporting date were 1.23 for the US Dollar and 1.17 for the Euro. If the average and closing rates for the US Dollar were 1.45 and for the Euro were 1.3, profit after tax would have been £19.6m and net assets would have been £146.1m at 31 December 2016. If the average and closing rates for the US Dollar were 1.2 and for the Euro were 1.15, profit after tax would have been £17.9m and net assets would have been £158.2m at 31 December 2016.

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.

The Group has monitored capital on the basis of its leverage ratio, which is also used for covenant testing purposes. This ratio is calculated as Adjusted EBITDA divided by Adjusted net debt. Adjusted EBITDA is defined as EBITDA before exceptional items, impairment of assets and share option charges, as reflected on the income statement. Adjusted net debt is calculated as bank debt, plus deferred consideration, plus bank overdrafts, less cash and cash equivalents (excluding customer funds). The deferred consideration excludes any consideration treated as employment costs in accordance with IFRS 3 'Business Combinations'.

Following the successful outcome of the Spot the Ball claim during the year, the Group now operates in a cash surplus position and therefore has nil leverage. The Board continue to review the most appropriate capital structure for the Group, in light of its strategic plans.

Financial assets and liabilities

At each reporting date, the Group had the following categories of financial assets and liabilities:

	2016 £m	2015 £m
Loans and receivables	**13.5**	9.7
Available for sale financial assets	**2.9**	4.0
Financial assets and liabilities measured at amortised cost	**28.5**	79.5

Available for sale financial assets

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Non-current assets – Available for sale financial assets				
Contingent consideration receivable from disposal of Sportech-NYX Gaming, LLC	**1.6**	1.1	**–**	–
Current assets – Available for sale financial assets				
Shares held in NYX Gaming Group Limited	**1.3**	2.9	**–**	–

The Group's available for sale financial assets and hedging instruments are carried at fair value. Alternative valuation methods used in applying the relevant fair values are summarised below:

- 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 contingent consideration is included in level 3. Management observe market activity including industry growth and pace of regulatory change in determining the probability that the contingent consideration will be received. It continues to be management's belief that NYX will sign up at least three new customers to the relevant platform and therefore the maximum amount of contingent consideration receivable has been recognised.

The fair value of shares held in NYX are included in level 1, using the quoted share price at the reporting date in determining the amount receivable. Fair value movements on those shares are recognised in the available for sale reserve within equity until the date of their disposal, at which point the gains will be realised in the income statement. During the year the Group disposed of 25% of its equity stake in NYX for total consideration of £0.6m. Losses of £0.7m (2015: £nil) were realised in the income statement in relation to those shares disposed of.

At the reporting date, the fair value of the remaining 1.6m of NYX shares held is £1.3m. Unrealised fair value losses on those shares of £2.5m (2015: £1.6m), representing share price and currency movements between the date the shares were received and the reporting date, are reported in the available for sale reserve.

Fair value of non-current borrowings

The fair value of non-current borrowings reflect the present value of future cash flows to be paid in respect of borrowings at the reporting date, including repayment of the principal amount in August 2018 and associated interest.

At 31 December 2016, there are no borrowings drawn by the Group or the Company and therefore the fair value is nil. The future interest payments are also nil. In 2015, the fair value for both the Group and Company was £55.2m, relative to a book value of £62.1m. At 31 December 2015, future interest payments were £2.6m payable within one year, £2.6m payable between one and two years and £1.7m payable between two and five years, based on the borrowings drawn at that time.

Maturity of financial liabilities

Bank borrowings are repayable as follows:

	Group		Company	
Contractual undiscounted amount	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Between two and five years	**—**	62.1	**—**	62.1

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

	Group		Company	
Liabilities due at the reporting date	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Within one year	**28.4**	17.2	**167.0**	62.4
Between one and two years	**0.1**	0.2	**—**	—
Between two and five years	**—**	62.1	**—**	62.1
Total	**28.5**	79.5	**167.0**	124.5

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for the year ended 31 December 2016

23. Financial instruments continued

	Group		Company	
Contractual undiscounted amount	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Within one year	**28.4**	19.9	**167.0**	63.9
Between one and two years	**0.1**	2.8	**—**	2.6
Between two and five years	**—**	63.8	**—**	63.8
Total	**28.5**	86.5	**167.0**	130.3

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

	2016 £m	2015 £m
Floating rate:		
– expiring beyond one year	**50.0**	12.9

24. Ordinary shares

Authorised, issued and fully paid

	2016		2015	
Ordinary shares of 50p each (2015: 50p)	**'000**	**£m**	'000	£m
At 1 January	**206,238**	**103.1**	205,221	102.6
New shares issued to satisfy PSP vesting	**—**	**—**	1,017	0.5
At 31 December	**206,238**	**103.1**	206,238	103.1

Potential issue of ordinary shares

Sportech share option schemes
Certain senior Executives held options to subscribe for shares in the Company at prices of £1.064 (2015: £1.064) under Sportech share option schemes approved by the shareholders. All such options lapsed during the year. At 31 December 2016, there remain no options outstanding under the scheme, and there is no intention to issue any further shares under this scheme.

Year of grant	Exercise price	Exercise period	**Outstanding at 31 December 2016 Number**	Outstanding at 31 December 2015 Number
2006 (March)	£1.064	2009-2016	**—**	202,020

The options were exercisable at any time during the seven-year period commencing three years from the date of the grant.

The Performance Share Plan
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 2016, 2,328,000 shares have been awarded (2015: 2,400,000), 1,718,000 awards lapsed due to failure to meet the performance conditions (2015: 2,231,000), and 376,000 awards lapsed due to employees ceasing to be employed by the Group (2015: 1,003,000). 6,058,000 (2015: 5,826,000) share awards remained outstanding (unvested) at 31 December 2016.

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 Committee, the new targets are not materially less challenging in the circumstances than those described below. The 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 Committee to consider that it would be appropriate to amend the performance conditions, provided that the 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.

2016 grant

The vesting of all of the award will be dependant on the Company's TSR over a fixed three-year period commencing 3 March 2016 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.

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
Equal to the index	25%
Between equal to the index and upper quartile	Pro rata between 25% and 100%
Upper quartile or better	100%

In addition to the primary performance condition, the award is also subject to a financial underpin condition.

2015, 2014 and 2013 grants

The vesting of one-half of the award ('Part A') will be dependent on the Company's 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 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 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%

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24. Ordinary shares continued

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	**Nov 2016**	Mar 2015	Sep 2014	Mar 2014	May 2013
Exercise price	**£nil**	£nil	£nil	£nil	£nil
Number of employees issued awards	**19**	25	1	23	1
Share price at award date	**£0.653**	£0.667	£0.780	£0.888	£0.900
Expected term (fixed)	**3 years**	3 years	3 years	3 years	3 years
Expected volatility	**43.0%**	35.2%	28.2%	28.2%	29.6%
Dividend yield	**0%**	0%	0%	0%	0%
Fair value of award	**£0.433**	£0.544	£0.704	£0.704	£0.844

The weighted average remaining contractual life of outstanding awards under the PSP at 31 December 2016 was one year and six months (2015: one year and three months). The weighted average exercise price of awards granted during the period was £nil (2015: £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 reinvested) 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 notes 6 and 7 for the total expense recognised in the income statement for share options granted and PSP awards made to Directors and employees respectively.

25. Cash generated from operations

Reconciliation of profit/(loss) before taxation to cash generated from operations, before exceptional items:

		Group		Company	
	Note	**2016 £m**	Restated 2015 £m	**2016 £m**	2015 £m
Profit/(loss) before taxation		**30.7**	9.7	**(33.5)**	(7.2)
Adjustments for:					
Net exceptional (income)/costs	2	**(81.3)**	(5.7)	**10.2**	1.0
Share of loss after tax and impairment of joint ventures and associates	15	**1.2**	0.9	**—**	—
Depreciation	13	**3.5**	3.3	**—**	—
Amortisation of acquired intangibles	12	**0.6**	1.2	**—**	—
Amortisation of other intangibles	12	**4.9**	4.3	**1.4**	1.0
Impairment of assets	11, 12, 13	**63.7**	6.1	**21.8**	—
Finance costs	4	**1.7**	3.2	**5.0**	4.2
Other finance income, excluding exceptional finance items	4	**(1.1)**	(0.4)	**(4.3)**	(0.6)
Share option (credit)/expense	6	**(0.1)**	0.5	**(0.1)**	0.5
Gift of shares to Employee Benefit Trust		**—**	—	**—**	0.5
Changes in working capital:					
Increase in trade and other receivables		**0.9**	(0.1)	**(12.6)**	(1.2)
Increase in inventories		**—**	(0.6)	**—**	—
(Decrease)/increase in trade and other payables		**(1.3)**	(2.2)	**101.2**	15.0
Increase/(decrease) in customer funds		**1.7**	(0.9)	**—**	—
Cash generated from operating activities, before exceptional items		**25.1**	19.3	**89.1**	13.2

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26. Contingent assets and liabilities

Spot the Ball

In December 2016, the Supreme Court denied HMRC's request to appeal the judgment in the Group's favour on the £96.9m VAT repayment claim. As a result the litigation came to a conclusion and the £96.9m became a Group asset unconditionally (see note 2).

In addition to £93.9m received by the Group by July 2016, the Group is due to receive approximately £3.0m further, which is in relation to VAT of £1.8m and approximately £1.2m in interest. The amount of interest may vary from that estimated in the accounts.

The Group has also lodged a claim for overpaid VAT for the period 2009 to 2012 for £0.5m and will also be claiming for overpaid VAT in the period 2013 to 2016 of £0.3m. It is uncertain as to whether these amounts will be repaid and hence the amounts have not been accrued for in the financial statements. There could be interest applied to these amounts also but with interest rates of between 0% and 0.5% during this period, this is likely to be immaterial.

There is likely to be an impact on the partial exemption recovery that the Group has made during the period from 2009 to 2016, and it is possible that a different tax could be applied to the Spot the Ball revenues for this time period. The Group is unable to accurately estimate the quantum of these items and is uncertain of the potential liability.

The Group is entitled to claim costs from HMRC in relation to the litigation which was ultimately found in the Group's favour. No claim has yet been made and it is uncertain as to the level of costs which are recoverable.

The Group has lodged a claim for compound interest as opposed to simple interest already received. The claim is stayed behind the lead case of Littlewoods Retail Limited and Others which is due to be heard at the Supreme Court in July 2017. A result would be expected around six months following this hearing.

Accordingly none of the above items have been recognised in the Group's financial statements.

Other

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 Bump on 12 June 2014, additional consideration is payable under certain circumstances. The maximum amount payable is outlined in note 22.

27. Commitments

Capital commitments

The Group had no contracts placed for capital expenditure that were not provided for in the financial statements at the current or prior year end dates.

Operating lease commitments

The Group leases various off-track betting 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 £2.8m (2015: £2.2m).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
No later than one year	**2.7**	2.3	**0.1**	0.1
Later than one year and no later than five years	**7.7**	6.3	**–**	0.5
Later than five years	**8.5**	7.5	**–**	–
Total	**18.9**	16.1	**0.1**	0.6

28. Other financial commitments

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 $180,000 at 31 December 2016, in relation to a contract to provide and maintain pari-mutuel betting terminals to a customer in Turkey.

29. 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:

	2016 £m	2015 £m
Management charges received	**1.3**	1.3
Royalty income received	**1.9**	1.6
Management charges paid	**—**	—
Interest received on inter-company loan balances	**0.1**	0.6
Interest paid on inter-company loan balances	**3.5**	1.4

The amount outstanding in relation to management charges at the balance sheet date was £0.1m (2015: £nil). All inter-company transactions are on an arm's-length basis.

c. The Group also invested cash into its joint ventures during the year as outlined in note 15. There were no trading transactions between the Group and any of its joint ventures or associates and no amounts outstanding at the reporting date (2015: £nil and £nil).

30. Pension schemes

The Group operates four pension schemes in the UK: for employees other than those employed by Datatote, a defined contribution scheme, a funded defined benefit scheme and an auto-enrolment scheme for qualifying employees who are not members of the first two schemes. Datatote operates a defined contribution scheme. The Group operates a further funded defined benefit scheme in the US, two defined contribution schemes in the US, a defined contribution scheme in The Netherlands and a defined contribution scheme in Ireland.

Summary of pension contributions paid

	2016 £m	2015 £m
Defined contribution scheme contributions	**0.6**	0.7
Defined benefit scheme contributions	**0.2**	0.2
Total pension contributions	**0.8**	0.9

Defined contribution schemes

In the UK, 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 PLC (apart from Datatote – see below) can join either a stakeholder pension scheme established on 6 April 2001 or alternate defined contribution arrangements, or the auto-enrolment scheme. Group contributions are made at a maximum rate of 8% of pensionable salaries. Datatote contributions are made at a maximum rate of 6% of pensionable salaries.

A defined contribution scheme for non-unionised employees, including eBet, is operated in the US, 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.

Notes to the financial statements continued
for the year ended 31 December 2016

30. Pension schemes continued

A Registered Retirement Savings Plan ('RRSP') exists for employees in Canada. The Group matches to a limit of 50% of the first 6% of participant contributions. The Group also contributes 3% of gross salary into the RRSP for full time Canadian Union employees.

The pension scheme in The Netherlands provides benefits to employees on a percentage of salary basis.

For employees in Ireland, the Group contributes between 7.5% and 12.5% of salary, dependent on length of service, into a defined contribution scheme.

For employees in France and Turkey, all pensions cover is provided through employer and employee social security contributions.

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 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 US defined benefit scheme is administered by an insurance company in the US 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 actuarial method for calculating the liabilities of the scheme is the projected unit method.

The amounts recognised in the balance sheet were as follows:

	2016 £m	2015 £m
Fair value of plan assets:		
– UK	**2.1**	1.9
– US	**3.3**	3.0
Total fair value of assets	**5.4**	4.9
Present value of the schemes' liabilities	**(7.1)**	(6.3)
Deficit in the schemes	**(1.7)**	(1.4)
Included in:		
– non-current liabilities	**(1.7)**	(1.4)

The figures below have been determined by qualified actuaries at the balance sheet date using the following assumptions:

	US 2016	UK 2016	US 2015	UK 2015
Discount rate	**4.0%**	**2.6%**	4.0%	3.6%
Rate of increase in salaries	**N/A**	**0%**	N/A	0%
Rate of increase in pensions in payment:				
– 5% LPI	**N/A**	**3.5%**	N/A	3.0%
– rate of inflation	**N/A**	**3.5%**	N/A	3.0%
– mortality table	**RP -2014 Total Dataset Mortality with scale MP -2016**	**S2NxA CMI 2015 projections 1.5% per annum long-term rate of improvement**	RP -2014 Total Dataset Mortality with scale MP -2016	S1NxA CMI 2012 projections 1.5% per annum long term rate of improvement

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 2016	6.3	(4.9)	1.4
Income statement expense/(income):			
– Current service cost	0.1	—	0.1
– Interest expense/(income)	0.3	(0.2)	0.1
– Administrative expenses	—	0.1	0.1
	0.4	(0.1)	0.3
Remeasurements:			
– Currency exchange movements	0.9	(0.7)	0.2
– Gain from change in actuarial assumptions	0.2	(0.2)	—
	1.1	(0.9)	0.2
Contributions:			
– Employer's	—	(0.2)	(0.2)
Payments from plans:			
– Benefit payments	(0.7)	0.7	—
At 31 December 2016	**7.1**	**(5.4)**	**1.7**

Notes to the financial statements continued
for the year ended 31 December 2016

30. Pension schemes continued

	Present value of obligation £m	Fair value of plan asset £m	Total £m
At 1 January 2015	6.4	(4.8)	1.6
Income statement expense/(income):			
– Current service cost	0.1	—	0.1
– Interest expense/(income)	0.2	(0.2)	—
	0.3	(0.2)	0.1
Remeasurements:			
– Currency exchange movements	0.2	(0.1)	0.1
– Gain from change in actuarial assumptions	(0.2)	—	(0.2)
	—	(0.1)	(0.1)
Contributions:			
– Employer's	—	(0.2)	(0.2)
Payments from plans:			
– Benefit payments	(0.4)	0.4	—
At 31 December 2015	6.3	(4.9)	1.4

Effect of change of assumptions on liability values

For the US scheme, under the adopted mortality tables, if the future life expectancy were to be plus/minus one year the liabilities would increase/decrease by £14,000.

For the UK, under the adopted mortality tables, if the long-term rate of mortality improvement were to be 1.25%, the liabilities would decrease by £35,000.

For the UK, if the rate of inflation were to be reduced by 0.25% the liabilities would decrease by £80,000.

For the UK, if the discount rate were to be increased to 2.85% the liabilities would decrease by £80,000. For the US, if the discount rate were to be increased to 4.50% the liabilities would decrease by £116,000.

Future commitments

The expected employer annual contributions to the schemes for the financial year ending 31 December 2016 amount to £0.4m (year ended 31 December 2016: £0.2m).

Estimated future benefit payments for the next ten fiscal years for the US scheme are:

At 31 December 2016	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	0.5	0.3	1.1	8.2	10.1

The weighted average duration of the US scheme obligation is approximately ten years.

Estimated future benefit payments for the next ten fiscal years for the UK scheme are:

At 31 December 2016	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	0.1	0.1	0.3	0.5	1.0

The weighted average duration of the UK scheme obligation is approximately 13 years.

Pension risks
Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the pension schemes hold a low proportion of equities, which reduces volatility and risk.

As the plans mature, the Group intends to continue to reduce the level of investment risk by investing more in assets that better match the liabilities.

Changes in bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risks
Some of the Group's pension obligations are linked to salary inflation, and higher inflation will lead to higher liabilities. The majority of the plans' assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy
The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

31. Post balance sheet events
The Board announced on 2 March 2017, the disposal of its Football Pools division to Op Capita for cash consideration of £83.0m. The disposal is anticipated to complete by the end of May 2017, which is conditional upon the purchaser receiving a licence from the Gambling Commission and Sportech shareholder approval. It is estimated that the disposal will result in no material pre-tax gain or loss to the Group in the 2017 financial statements. A corporation tax charge will also arise on disposal which is estimated to be £6.0m.

At the reporting date there was insufficient evidence to suggest that a plan was in place to sell the business that would be unlikely to significantly change. The transaction has conditionally completed subsequent to the year end date, and prior to the finalisation of these financial statements, due largely to work that has been performed post year end by both the Group and the buyer. As a result the assets are not considered to be held for sale as at 31 December 2016.

The viability statement disclosed on page 15 was prepared by the Board with the view that the Football Pools division remains a trading asset. The Board note that the pro forma net cash position of the Group, were the transaction to have completed at the reporting date, would be £122.6m. Although EBITDA of the Group is reduced in future periods from that forecast in the viability assessment, the Group's cash position and ability to meet its working capital requirements will strengthen. Accordingly the Group is still considered to be able to continue in operation and meet its liabilities as they fall due in the period to December 2019, and the assessment of viability is unchanged subsequent to this disposal.

Notes to the financial statements continued
for the year ended 31 December 2016

32. Related undertakings

During the year, the Group held investments in related undertakings as follows:

Subsidiaries, excluding dormant companies	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportech Gaming Limited	England & Wales	1	Ordinary	100%
The Football Pools Limited	England & Wales	1	Ordinary	100%
Football Pools 1923 Limited	England & Wales	1	Ordinary	100%
TFPL Financial Services Limited	England & Wales	1	Ordinary	100%
Football Pools Games Limited	England & Wales	1	Ordinary	100%
UK Lottery Management Limited	England & Wales	1	Ordinary	100%
Datatote (England) Limited	England & Wales	2	Ordinary	100%
Sportech Holdco 1 Limited	England & Wales	3	Ordinary	100%
Sportech Holdco 2 Limited	England & Wales	3	Ordinary	100%
Sportech Mauritius Limited	Mauritius	4	Ordinary	100%
Sportech, Inc.	United States	5	Ordinary	100%
Sportech Venues, Inc.	United States	5	Ordinary	100%
eBet Technologies, Inc.	United States	5	Ordinary	100%
Sportech Venues California, LLC	United States	5	Ordinary	100%
Sportech Venues CA Holdco, LLC	United States	5	Ordinary	100%
Sportech Games Holdco, LLC	United States	5	Ordinary	100%
Sportech Racing, LLC	United States	6	Ordinary	100%
Trackplay, LLC	United States	6	Ordinary	100%
Bump Worldwide, Inc.	Canada	7	Ordinary	100%
Sportech Racing Canada, Inc.	Canada	7	Ordinary	100%
1891323 Ontario, Inc.	Canada	7	Ordinary	100%
Sportech Racing Panama, Inc.	Panama	8	Ordinary	100%
Sportech Racing Limited	British Virgin Islands	9	Ordinary	100%
Racing Technology Ireland Limited	Ireland	10	Ordinary	100%
Sportech Racing BV	Netherlands	11	Ordinary	100%
Sportech Racing Banen BV	Netherlands	11	Ordinary	100%
Autotote Europe GmbH	Germany	12	Ordinary	100%
Sportech Racing GmbH	Germany	13	Ordinary	100%
Sportech Racing Turkey	Turkey	14	Ordinary	100%
Sportech Racing SAS	France	15	Ordinary	100%

Joint ventures and associates	Country of incorporation	Registered Address	Class of shares held	Shareholding
Sportshub Private Limited	India	16	Ordinary	50%
S&S Venues California, LLC	United States	5	Ordinary	50%
DraftDay Gaming Group, Inc	United States	17	Ordinary	30%

* The Group's equity stake in DraftDay reduced from 39% to 30% in the year. See note 15.

Dormant companies	Country of incorporation	Registered Address	Class of shares held	Shareholding
Sportech Trustees Limited	England & Wales	1	Ordinary	100%
Footballpools.com Limited	England & Wales	1	Ordinary	100%
C&P Promotions Limited	England & Wales	1	Ordinary	100%
Pools Promotions Limited	England & Wales	1	Ordinary	100%
UKCL Limited	England & Wales	1	Ordinary	100%
Football Pools Competitions Company Limited	England & Wales	1	Ordinary	100%
Bet 247 Limited	England & Wales	1	Ordinary	100%
Pools Company Limited	England & Wales	1	Ordinary	100%
The New Football Pools Limited	Scotland	18	Ordinary	100%
Football Pools Trustee Company Limited	Scotland	18	Ordinary	100%
Sportech BV	The Netherlands	11	Ordinary	100%

Other undertakings	Country of incorporation	Class of shares held	Shareholding
NYX Gaming Group Limited	United States	Ordinary	1%
E-Tote Limited	England & Wales	Ordinary	6.49%

Registered addresses

Number	Country	Address
1	England & Wales	Walton House, 55 Charnock Road, Liverpool, Merseyside, L67 1AA
2	England & Wales	Icarus House, Hawkfield Close, Hawkfield Business Park, Bristol, BS14 0BN
3	England & Wales	101 Wigmore Street, London, W1U 1QU
4	Mauritius	Intercontinental Trust Limited, Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius
5	United States	600 Long Wharf Drive, New Haven, CT 06511
6	United States	1095 Windward Ridge Parkway, Suite 170, Alpharetta, GA 30005
7	Canada	CSC North America Inc., 45 O'Connor Street, Suite 1600, Otawa, Ontario K1P 1A4
8	Panama	Arias, Fabrega & Fabrega, Plaza 2000 Building, 50th Street, Panama
9	British Virgin Islands	Trident Chambers, POB 146, Road Town, Tortola, British Virgin Islands
10	Ireland	Unit 3, IDA Technology Park, Garrycastle, Athlone, Co. Westmeath, Ireland
11	Netherlands	Polakweg 23, 2288 GG Rijswijk (ZH), Netherlands
12	Germany	Nienhausenstrasse 42, 45883 Gelsenkirchen, Germany
13	Germany	Katernbergerstrasse 107, 45327 Essen, Germany
14	Turkey	AksuKosuyolu Cad. KalaycioglużSitesi No: 19/1 Bakirkoy Istanbul
15	France	8 Rue des Freres Caudron, 78140 Velizy, Villacoublay, France
16	India	Tower 2, 4th Floor, International Infotech Park, Vashi Railway Station, New Mumbai
17	United States	Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, DE 19808
18	Scotland	Collins House, Rutland Square, Edinburgh, Midlothian, EH1 2AA

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The Group operates a website which can be found at www.sportechplc.com. This site is regularly updated to provide information about the Group. In particular, all of the Group's press releases and announcements can be found on the site.

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: 0371 664 0300

E-mail: ssd@capitaregistrars.com

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