Sportech PLC

THE INTERNATIONAL BETTING TECHNOLOGY BUSINESS

Annual Report and Accounts 2018

WELCOME TO OUR ANNUAL REPORT

Sportech is the international betting technology business delivering services and solutions to gaming companies, sports teams, racetracks, casinos and lottery clients across 37 countries. In addition, the Group owns and operates sports gaming venues in Connecticut, United States.

Highlights

Financial

- Revenues at £63.7 million, 3.9% lower than reported for 2017 (2017: £66.3 million)
- Adjusted EBITDA[1] at £8.0 million, 18.8% higher (prior to sports betting investment) (2017: £6.7 million)
- Statutory loss before tax from continuing operations of £2.4 million (2017: £23.2 million)
- Adjusted profit before tax[2] from continuing operations (prior to sports betting investment) £2.0 million (2017: £1.5 million)
- Cash, net of customer balances at 31 December 2018 of £14.7 million (2017: £15.9 million)

2018 Group Developments

- Appointment of Richard McGuire as Interim Executive Chairman
- Appointment of Thomas Hearne to the position of Chief Financial Officer
- Completed sale of Sportech Racing BV in the Netherlands and closed central London office
- Conducted independent technology review, which led to acquisition of new digital tech business[3]
- Bump 50:50 division added twenty new professional and collegiate sports teams to its customer roster
- Delivered US sports betting presentation to numerous business clients, regulators and legislators
- Commenced campaign to provide sports betting solutions to US clients
- Commenced campaign, seeking to extend current Connecticut licensing to cover sports betting

1. Excludes sports betting investments during the period, amounting to £1,428k. Sports betting investment includes lobbying costs, additional staff costs, travel and consultants, and also includes an allocation of senior management time.
2. Adjusted profit before tax from continuing operations is the aggregate of adjusted EBITDA pre sports betting investment, normalised share option charges, depreciation, amortisation (excluding amortisation of acquired intangibles), and net finance income/(charges).
3. Announced intent in 2018 and completed acquisition of Lot.to Systems Limited in 2019.

What's inside this report

Overview
Sportech at a glance

Sportech Racing and Digital and Bump 50:50

Prominent supplier of technology solutions to the global regulated betting industry and of electronic raffles and lotteries to sports and entertainment-affiliated charitable organisations. Sportech seeks to maintain its global position in tote betting by leveraging its heritage, gaming licences, technology, and client relationships to deliver further solutions to a liberalising US market for sports betting and to charitable foundations seeking innovative digital fundraising platforms, whilst promoting our enhanced Lottery and iLottery solutions.

"The Group enters 2019 with a renewed impetus to drive operational efficiency across all business divisions and deliver an enhanced customer experience. Growth opportunities exist with the launch of new betting products and features and a resolute progress towards a future in US sports betting across both our business and our consumer-facing divisions. The acquisition of the Lot.to Systems platform and talent show a clear focus on developing digital initiatives further, which supports our continued evolution to deliver growth and drive operational efficiency."

Richard McGuire
Interim Executive Chairman

Division Information	Sportech's proprietary betting solutions process $12bn in handle annually for licensed customers in 37 countries. Bump 50:50 systems generated charitable proceeds of $17m for 75 clients in 2018.	
Locations	Atlanta, Athlone, Bristol, Connecticut, New Jersey, Singapore, Toronto	
	2018	2017
Revenue (£m)	**34.0**	35.5
Adjusted EBITDA (£m)	**8.6**	7.7
Racing and Digital Clients	**440**	440
Bump 50:50 Clients	**75**	68
Capital Expenditure (£m)	**4.6**	5.2

Sportech Venues

Operator of legal pari-mutuel betting in the State of Connecticut under an exclusive and in perpetuity licence, the Division offers online, mobile, call centre, and in-venue retail betting across 16 venues in major population centres in Connecticut and is well positioned to offer legal sports betting as a regulated and ready partner to the State, should a licence be acquired.

Division Information	In addition to 16 retail venues, web, mobile and phone betting in Connecticut, Sportech has the capacity to expand to 24 venues in the State and operates a licensed betting bar/restaurant, Striders, in San Diego, Southern California.	
Locations	Connecticut and California	
Revenue (£m)	**2018** **30.4**	2017 31.6
Adjusted EBITDA (£m)	**2018** **1.4**	2017 1.5
Venues Connecticut	**2018** **16**	2017 16
Capital Expenditure (£m)	**2018** **0.4**	2017 5.6

Business Model and Strategy

The Group's strategic aims for 2019 include:

1. **Maintain and develop our position in our core Tote business, providing leading technologies and services to our global client base**
2. **Develop key growth business units including**
    - **Bump 50:50**
    - **Sports betting solutions**
    - **Lottery**
3. **Drive efficiencies across all divisions with an additional focus on digital development**
4. **Deliver an incredible consumer experience across our retail division**
5. **Promote a "challenge" culture with an entrepreneurial emphasis across the Group**

Sportech PLC, the international betting technology business, provides and operates betting technology solutions for some of the world's best-known gaming companies, sports teams, and horse and greyhound racetracks, as well as owning and operating its own gaming venues in Connecticut under exclusive licences.

The Group focuses on regulated markets worldwide and we have over 27,000 betting terminals deployed to over 400 clients across 37 countries. Our global systems process US$12 billion in betting handle annually. In the US, we operate under 35 licences across 37 states.

Sportech seeks to achieve long-term tangible shareholder returns by reinforcing and maintaining its global position in tote betting, leveraging its heritage, gaming licences, technologies, and customer relationships to deliver further solutions to a liberalising US market for sports betting and to charitable foundations seeking innovative digital fundraising platforms, whilst promoting our enhanced Lottery and iLottery solutions.

We have commenced a complete overhaul of our public presence across all business and consumer websites and are focusing attention on enhanced communications across our numerous regional teams, leveraging regional experiences and expertise in order to ultimately deliver a comprehensive solution to our client base.

The Group will leverage IP acquired with Lot.to to build upon and expand the market for Sportech's successful, yet narrowly-deployed, numbers-based lottery product currently offered through our Quantum™ System software.

We are resolute in our intent to leverage the digital development assets from the Lot.to acquisition to significantly expand our slate of digital products, offer new digital experiences through our consumer-facing betting services, and address the growing demand for mobile-first betting solutions.

The Group maintains an international focus with clients in 37 countries and the majority of operations in the US (Connecticut, Georgia, New Jersey), the UK (Bristol, Chester), Ireland (Athlone), and Canada (Toronto). Most of the Group's underlying earnings are now in USD and Euro. The Group does not currently hedge against its USD or Euro earnings, but will report exchange differences.

Racing and Digital

Sportech Racing and Digital is the leading supplier of technology and services to the global betting industry, with systems that process US$12 billion in betting handle annually for clients in 37 countries.

The Division's proprietary Quantum™ System software, which is extensively used by many of the world's tote operators, and its Global Quantum™ Data and Operations Centre, the keystone of a global service delivery network, together form the foundation from which Sportech pursues growth initiatives including international expansion and growth in global commingling.

The Division's digital technology strategy and the extension of competitive digital technologies to support the long-term reduction in capital and operational costs is enhanced with the 2019 expansion of the Group's available digital development assets.

Bump 50:50

Included within Racing and Digital reporting, Bump 50:50 is the rapidly-growing sports raffle business. Bump supplies in-stadia, web, and mobile electronic lotteries to some of North America's best-known major league sports teams, collegiate sports organisations, and entertainment venues. As of 31 December 2018, Bump 50:50 has 75 clients in the US and Canada.

Bump 50:50 strategy calls for continued dedicated customer acquisition activities and the leveraging of web and mobile platforms to drive organic growth and reach new markets, including non-sports clients and expansion into new territories.

Venues

Sportech Venues operates all legal betting on horseracing, greyhound racing and jai alai under an exclusive and in perpetuity licence in the State of Connecticut. It offers omni-channel betting entertainment through 16 existing locations, web, mobile, and phone and holds the right to expand to up to 24 locations.

The Group is actively pursuing a sports betting licence to complement its current exclusive tote wagering platform across the State. Our Venues business is regulated and ready to deliver sports betting capabilities when enabled.

Venues also takes an aggressive stance to protect its exclusive licence to betting in the State, putting forward legislation to enforce the prohibition against out-of-state betting operators accepting internet bets on horseracing from Connecticut residents and ensuring that consumers know that Sportech is Connecticut's exclusive home for legal betting on racing and jai alai.

The Division is also implementing strategies to deliver a return on the significant capital invested in recent years developing venues to appeal to a wider clientele. In July 2018 we added new highly-experienced Food and Beverage and Group Sales Managers. We are looking to both to deliver beneficial progress going forward and especially into 2019, invigorating food and beverage growth and profitability, especially at our Stamford location.

Lottery

By 2022, the global gaming market will exceed $635 billion, with online lottery estimated to reach revenues of more than $10 billion alone and growing at a CAGR of around 8% as legislation develops in emerging markets and new technology improves accessibility.

In early 2019, the Group acquired Lot.to Systems Limited, enabling us to expand our successful lottery product and capitalise on this explosive growth in lottery. The Sportech brand and legacy provides further market credibility and opportunities in the B2B market, whilst Lot.to Systems' range of products and digital expertise enhances the capabilities we offer to Sportech's global client base.

Going forward we shall be reporting here developments with Lot.to as we seek to deliver growth via digital expertise and support, whilst leveraging Sportech's existing distribution channels to create new revenue channels and significant business growth.

Executive Chairman's Statement

Sportech faced many challenges in 2018. Management attention was diverted early in the year due to the Formal Sale Process, a consequence of attracting interest from would-be suitors. In addition, further senior leadership changes were announced towards the end of the period, which will result in numerous changes to the way we will operate the Company going forward.

In addressing these hurdles, we are focused on executing a clear strategy to deliver growth opportunities across all business lines, whilst simultaneously and aggressively managing the cost base. Cost reviews and reforms will continue into 2019 as we look to manage operational efficiencies across all areas of our business.

The year brought some significant changes at the executive and board level. Tom Hearne was appointed as our new Chief Financial Officer and an Executive Board member, and we also welcomed Chris Rigg as a new Non-executive Director to the Board. In November 2018, CEO Andrew Gaughan announced that he would be stepping down in early 2019. 2018 also recorded the departure of Non-executive Director, Richard Cooper. On behalf of the Group and the Board of Directors, I offer thanks to Richard Cooper for his dedicated service and to Andrew Gaughan for his leadership, not only as CEO but also for many years as President of Sportech Racing and Digital.

The Group concluded its strategic review in 2018 and we have commenced implementation of certain tasks to manage the cost base. The results of this initiative were vital to the Group's net performance in 2018 as we offset a marginal decline in revenues with a 18.8% year on year increase in adjusted EBITDA before sports betting costs. Our new management's vigilance in controlling costs will be a critical continued focus, while challenging and changing previous assumptions, behaviours, and processes. We see this as a key component to shifting the Group's market position, and to supporting the development of our entrepreneurial culture to quickly and adeptly explore new opportunities as they arise.

The Racing and Digital division maintained its global position in pari-mutuel betting solutions, recording numerous contract successes and implementing enhancements to our core technology base for future growth. Bump 50:50, our digital sports raffle business, continued its expansion programme, adding new teams and events to its impressive roster while renewing numerous relationships with key clients.

Sportech Venues, burdened with a significant fixed cost base, is seeking emerging opportunities, including the anticipated legalisation of sports betting in Connecticut.

In implementing changes to the Group's culture, focus and prospects, we place significant emphasis on providing a superior service to our clients while demonstrating our team has the appropriate dedication, determination, and skill sets to achieve this goal. One step forward in delivering on this objective was the Group's announcement in December 2018 of our interest in acquiring Lot.to Systems Limited (Lot.to), a UK-regulated iGaming platform, and its team.

This transaction was completed in early 2019. Although Sportech delivers a successful lottery platform within its Racing and Digital division, geographical growth beyond a significant single client has eluded our Company historically. This acquisition will immediately support client growth initiatives and provide the required depth to deliver solutions to a wider range of clientele. The Lot.to team have already engaged with numerous clients to develop solutions to meet their needs under the Sportech banner and we anticipate recording contractual successes through 2019 and beyond.

In addition to the growth opportunities, the acquisition adds a team of digital betting specialists with mobile-first expertise and modular gaming technology capabilities, enabling us to be more dynamic and agile. This will position the business to adapt to different geographical and operator demands more quickly than others, and better serve a mobile-hungry audience in real-time, essential for online gambling operators addressing different markets. We are integrating the businesses to enhance Sportech's current lottery product offering with digital and mobile-first options and to introduce Lot.to's innovative lottery games to Sportech's global customer base of licensed gaming operators.

We are proud of our Bump 50:50 team's continued success and achievements. In adding 20 new clients and renewing 20 standing clients' contracts in 2018, Bump's scope has expanded from a range of professional and collegiate athletic organisations to include coverage for other genres of large-scale entertainment events. To further increase their prospects, we continue to invest in their technology platform and development team to facilitate future geographic and online expansion. The Division continues to deliver mobile and web platforms, where permitted, and to explore other new opportunities in a competitive environment.

In prior years, we had highlighted our planning and positioning for the introduction of sports betting across the US. Following the repeal of the Professional and Amateur Sports Protection Act of 1992 ("PASPA") in May 2018, this potential became a clear ambition for the Company. We held a sports betting conference in Connecticut attended by significant clients, regulators, legislators, and partners from across the US to address issues around the opportunity, and to introduce Sportech's position on sports betting in Connecticut, and Sportech's solutions to the industry. The Racing and Digital division also commenced a B2B sales and marketing campaign to customers considering sports betting, as legal options in their states emerge.

In Connecticut, where sports betting has not yet been legalised by the State Legislature, we commenced a strategic communications campaign in 2018 that expanded significantly into 2019 to drive our position in seeking an appropriate right to deliver legal sports betting across our Connecticut venues and through the intra-state web and mobile betting service. The campaign is extensive and consists of both legislator and consumer-facing messaging, lobbying, and public relations activities. Sports betting licence acquisition in Connecticut remains a critical focus for the Group and includes dedicated senior management engagement to support our local efforts and initiatives in positioning the business appropriately.

This year, the Group developed new branding for the Connecticut MyWinners.com and Winners business to ensure the Winners brand appeals to an anticipated new and dynamic demographic in the Connecticut market.

Management has continued our lobbying and communications efforts for enforcement of protections of Sportech's exclusive Advance Deposit Wagering ("ADW") licence in Connecticut. Currently, unlicensed and untaxed out-of-state ADW operators continue to accept Connecticut wagers, in violation of Sportech's exclusive licence and despite being issued cease and desist letters from the State's Attorney General's office. Whilst the proposed bills were not successful in the 2018 legislative session, we anticipate another opportunity to address this loophole for illegal, out-of-state competitors as the State's attention is focused on a variety of gambling-related and taxation topics.

The Group continues to implement changes designed to streamline and enhance operations, including the consolidation of accounting functions to Sportech's North American headquarters in Connecticut. We have also created a task force led by Sportech Racing and Digital's Global Operations Director to identify, evaluate, and pursue opportunities to optimise the Division's terminal hardware products.

Each year, we face contractual renewal challenges as previous agreements mature in an extremely competitive landscape. We are working on extending contracts across our business lines, and we are engaging with clients to secure long-term extensions on mutually beneficial terms. We shall keep the market and shareholders appraised of our progress.

The Group's risk management strategy considers risks arising from each area of the business and principal risks to the Group are described in detail in the "Risk Management" section of the Annual Report. The Group view the potential risks associated with "Brexit" to be immaterial to the business due to the global, primarily North American, focus of our business operations and our client base.

On behalf of all the shareholders, I extend our thanks to our tireless staff. As a service business, our employees' dedication, commitment and drive to deliver superior products and exceptional service is, and will continue to be, critical to our success. I applaud our colleagues and their efforts as we transition to a more entrepreneurial culture to face and conquer the numerous challenges before us, twenty-four hours a day, seven days a week.

The Group enters 2019 with determination to drive capital efficiencies across every division and to convert significant opportunities for growth in revenues and client base. With the launch of new betting products and features, the acquisition of an impressive iLottery platform, and a clear focus on enhancing digital initiatives, we are well positioned for the continued evolution in our industry.

Richard McGuire
Interim Executive Chairman

20 March 2018

Operating Review

Richard McGuire, Interim Executive Chairman

2018 was a challenging period, resulting in a 0.9% decline in revenue performance on a constant currency basis. Our focus on the operational cost base, however, resulted in a 22.3% improvement on adjusted EBITDA before sports betting costs, on a constant currency basis. In 2017, we invested heavily in our Venues business in anticipation of likely growth from the advent of legalised sports betting. 2018 brought further investment towards developing our sports betting opportunities both in B2B and in our Connecticut consumer business. In Connecticut, the General Assembly legislative session is expected to adjourn on 5 June 2019, so whilst investment will continue in 2019, we anticipate starting to comment on returns during 2019. We remain dedicated to meeting these challenges by providing our clients with a superior product and service delivery, and further enhancing our product range and digital experience to meet our expectations.

In 2018 the Group had two operating divisions, Sportech Racing and Digital (including Bump 50:50) and Sportech Venues.

Sportech Racing and Digital

Sportech Racing and Digital provides pari-mutuel betting technologies and services to 293 racetrack, off-track betting network, casino, lottery, and online operator clients, plus an additional 147 commingling clients, in 37 countries and 37 US states. The total net client count remains unchanged from 2017, with lost/closed clients offset by new contracts. The Division has over 27,000 betting terminals, 26 white-label betting websites, and 24 white-label mobile apps deployed worldwide, and our pari-mutuel systems annually process US$12 billion in betting handle.

£'000	**2018**	Reported 2017
Service revenue	**32,278**	34,080
Sales revenue	**1,726**	1,389
Total revenues	**34,004**	35,469
Contribution	**29,277**	30,380
Contribution margin	**86.1%**	85.7%
Adjusted operating expenses (net)	**(20,634)**	(22,672)
Adjusted EBITDA	**8,643**	7,708
Internal software capitalised	**2,923**	3,026
Purchase of other intangibles	**172**	865
Purchase of PPE	**1,529**	1,281
Total capex in year	**4,624**	5,172

**Table above includes results of Bump 50:50*

Service revenues reflect higher Digital and Bump 50:50 revenues offset by contract losses in Canada and the US in late 2017.

Developments during the year

Sportech Racing and Digital continues to evolve its proprietary Quantum™ System software, the most widely deployed pari-mutuel betting software in the world. In 2018, the Division delivered a significant system upgrade that included popular numbers-based lottery games previously offered only to a single client through a legacy system. The addition of these lottery games to Quantum™ now makes them available to a wider market, which we are focused on developing.

The menu of pools and bet types supported by Quantum™ System was also significantly expanded to include the full range of popular exotics offered by Pari Mutuel Urbain of France, ZeTurf of France, Hong Kong Jockey Club, and Macau Jockey Club. Continually updating and expanding the list of pools and bet types helps maintain interest in high-value global commingling connections between Sportech's clients.

Along with product and feature upgrades to Quantum™ System, the Division's technology team also completed critical regulatory and legal projects to allow our clients to remain compliant with important requirements, including the delivery of an audit solution to Danske Spil of Denmark and a fully-automated IRS aggregation for our US clients.

In digital products and services, the Division rolled out a significant update of the G4 white-label betting website to current G4 clients. We deployed new G4 platforms for Parx Racing, Saratoga Casino Hotel, and Jockey Club del Perú, and delivered new Digital Link® mobile betting solutions to Parx Racing and Saratoga Casino Hotel. The Division also introduced a tablet-based update to its Walk About teller device, using Sportech's proprietary wireless teller software and off-the-shelf hardware to deliver the full range of teller services.

Sportech Racing and Digital's North American footprint widened with the execution of new, long-term contracts and the signing of contract extensions with eighteen clients. This included tote contract extensions with Nassau Regional Off-track Betting Corporation, Monmouth Park, Camarero Racetrack of Puerto Rico, and Saratoga Casino Hotel. It also includes a new digital services agreement with Parx Racing, and a contract with new client, Arizona Downs.

Sportech Racing and Digital's footprint also expanded in Europe, with new commingling client, Norsk Rikstoto, the foundation that supervises pari-mutuel betting on horseracing in Norway. In addition, the Division struck a new contract with Ladbrokes/Coral for centralised tote operation of their four UK greyhound racetracks, and a service contract for terminal maintenance at Ascot Racecourse. These new agreements leverage Sportech's Quantum™ System software, European operations, and Global Quantum™ Data and Operations Centre hosting and operational services.

Looking forward

The Group continues to pursue suitable sports betting platform opportunities and build upon well-established relationships with licensed operators to offer an integrated solution that leverages Sportech's extensive infrastructure, operations, and implementation expertise. With access to additional digital development resources resulting from the Lot.to acquisition, management sees an opportunity to further drive digital innovation and to assertively promote a mobile-first strategy for both pari-mutuel and sports betting.

Sportech's Global Operations Director is spearheading an initiative in conjunction with the terminal hardware engineering, terminal software, and digital software teams, to demand greater efficiency out of our terminal hardware capital, to identify hardware options that will drive more returns from tote contract investments in North America, and to deliver a reliable, easy-to-maintain, appealing device.

In early 2019, the Division entered into a contract to deliver 300 BetJet® Aero teller terminals to our longstanding client, the Turkish Jockey Club. In addition, contract extensions have been signed with five North American customers.

Operating Review continued

Bump 50:50

As of the end of 2018, the number of Bump 50:50 clients has grown to 75, including collegiate sports programmes, entertainment venues and some of the world's largest sports team franchises. In providing the technologies and services that allow charitable foundations to run successful 50:50 raffles at their events, Bump 50:50's electronic raffle technologies and proven marketing strategies help foundations maximise the return on their charitable fundraising programmes, dividing jackpots equally between the foundation and the drawing winner.

Financial performance

Revenues, currently included within the Racing and Digital division, were in 2018, up 26% at £1.5 million (2017: £1.2 million). However, as the business invested in technology enhancements and personnel, added new clients, and positioned for future growth, the Adjusted EBITDA eased marginally to £0.50 million (2017: £0.54 million).

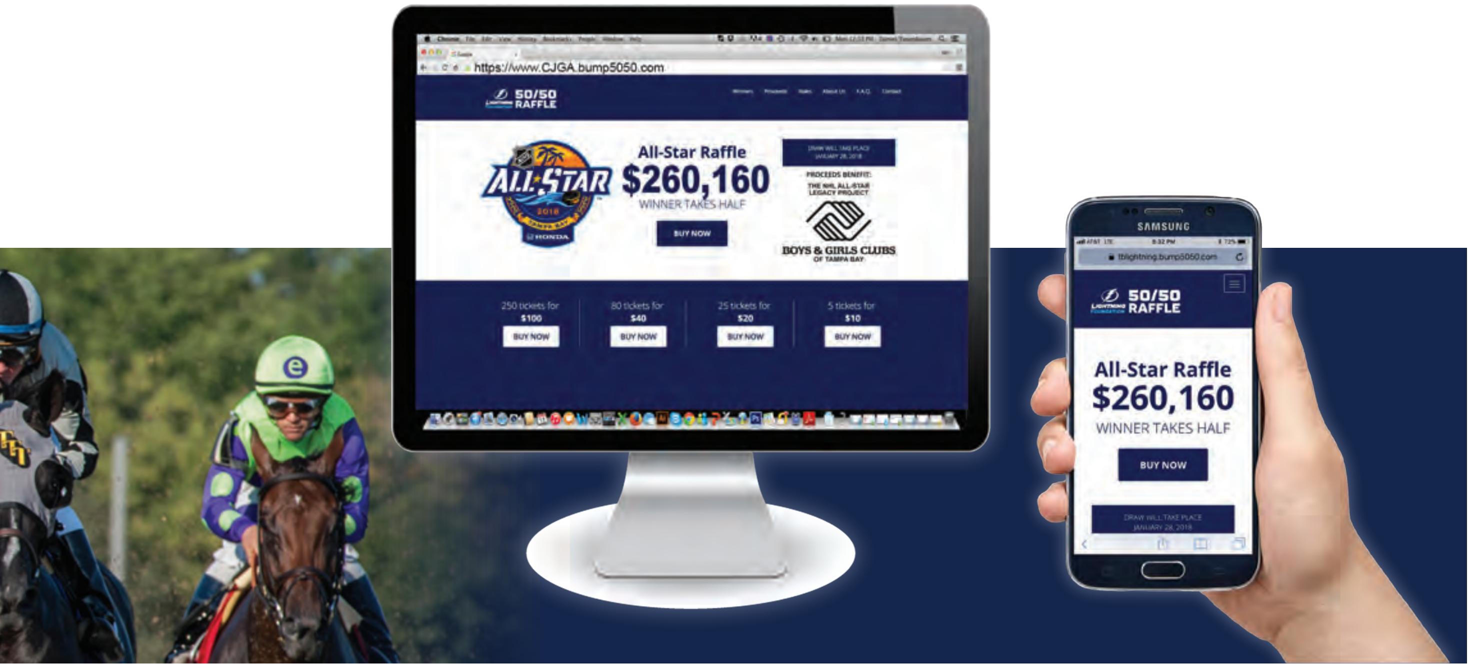
Developments during the year

The Bump 50:50 business produced yet another year of strong client growth in 2018, signing 20 new clients, including the official charitable foundations of the National Basketball Association's Detroit Pistons and San Antonio Spurs, Major League Baseball's Pittsburgh Pirates, and the Ultimate Fighting Championships (UFC). The Division also secured a new contract with Florida State University's Athletics Department and Seminole Boosters, Inc. to provide electronic 50:50 raffle programmes at select Seminole home games and online during their football, men's and women's basketball, baseball, and softball home games. These new contracts bring the total number of Bump 50:50 customers to 75, representing foundations from 18 different professional and collegiate sports leagues. We are proud to say Bump 50:50 helped our clients' foundations raise US$17 million for their charitable missions in 2018.

Bump 50:50 launched a new online and mobile raffle programme to supplement in-stadia play and used this new platform to help the Tampa Bay Lightning Foundation reach a jackpot record of US$260,000 during the NHL® All-Star event. The Division also successfully launched online and mobile platforms for the National Basketball Association's Chicago Bulls. Bump 50:50's developers continue to devise system enhancements that give clients greater control over the management of their raffle programs, reducing overall customer service demands, and helping contain costs. Finally, Bump 50:50 hosted its inaugural Bump Academy event in 2018, sharing proven strategies for effective program execution and sales maximisation with clients from across North America.

Looking Forward

Bump 50:50 has already secured contracts with five additional clients in early 2019, including the charitable foundations of Major League Baseball's LA Dodgers, San Francisco Giants, and San Diego Padres, and the National Football Association's San Francisco 49ers. Together, these charities represent an estimated 60% of California's sports raffle market. In addition, a new contract has been signed with Major League Baseball's Cincinnati Reds and, with the signing of Florida State University, Bump 50:50 increasingly views the US collegiate fundraising market as a key opportunity for growth. We will continue to pursue opportunities and strategies in both US professional and collegiate sports, while looking to expand our global reach in this core Division.



Sportech Venues

Sportech Venues offers legal betting on horseracing, greyhound racing and jai alai across the State of Connecticut under an exclusive and perpetual licence. Digital betting services are offered across multiple channels, including our myWinners.com online platform and a mobile app powered by Sportech's Digital Link® mobile. Bets can also be wagered through our traditional phone betting service featuring personal tellers, and in person at any of our 16 venues. The Venues division employs approximately 400 employees across these 16 locations and our Sports Haven venue in New Haven hosts our North American headquarters. We are proud to have two of our premium venues branded under the Bobby V's Restaurant & Sports Bar brand (bobbyvsrestaurant.com), in association with local entrepreneur, philanthropist, and sports personality Bobby Valentine.

		Reported
£'000	**2018**	2017
F&B – Stamford	**2,272**	1,471
F&B – Other	**2,452**	2,561
F&B – Total	**4,724**	4,032
Wagering revenue	**25,655**	27,574
Total revenues	**30,379**	31,606
Contribution	**14,886**	15,482
Contribution margin	**49.0%**	49.0%
Adjusted operated expenses	**(13,473)**	(13,985)
Adjusted EBITDA	**1,413**	1,497
PPE – Stamford	**–**	5,238
PPE – Other	**398**	370
PPE – Total	**398**	5,608

In our Venues business, the new Bobby V's Restaurant & Sports Bar continues to grow, albeit at a slower pace than we would prefer. In July 2018 we added new highly-experienced Food and Beverage and Group Sales Managers. We are looking to both to deliver beneficial progress going forward and especially into 2019, invigorating food and beverage growth and profitability, especially at our Stamford location. Total food and beverage revenue increased by 17% over the prior year.

Wagering revenues softness versus the prior year is from a combination of lower VIP betting and a reduced number of track racing days in key markets such as New York, Florida and Pennsylvania. This was offset somewhat by our successful Triple Crown where turnover was up 25% over the previous year.

Developments during the year

Venues betting handle declined 7% (3.2% on a constant currency basis) in 2018. This was influenced by a variety of factors, including adverse weather conditions, poor race card quality from certain locations at the end of the year, and the competition from the introduction of sports betting in neighbouring states. Another consequential influence was the unchecked competition from unlicensed and untaxed out-of-state Advanced Deposit Wagering ('ADW') operators, which continued to take its toll. We seek to address this during this legislative session. Management continues to identify cost saving measures across the Division, including renegotiating leasehold property contracts and exploring options around our freehold estates in New Haven and Windsor Locks.

With the passage of a 2018 referendum in Florida to ban greyhound racing effective 1 January 2021, and a growing momentum across the US to do likewise, we have commenced initiatives to seek alternative

Operating Review continued

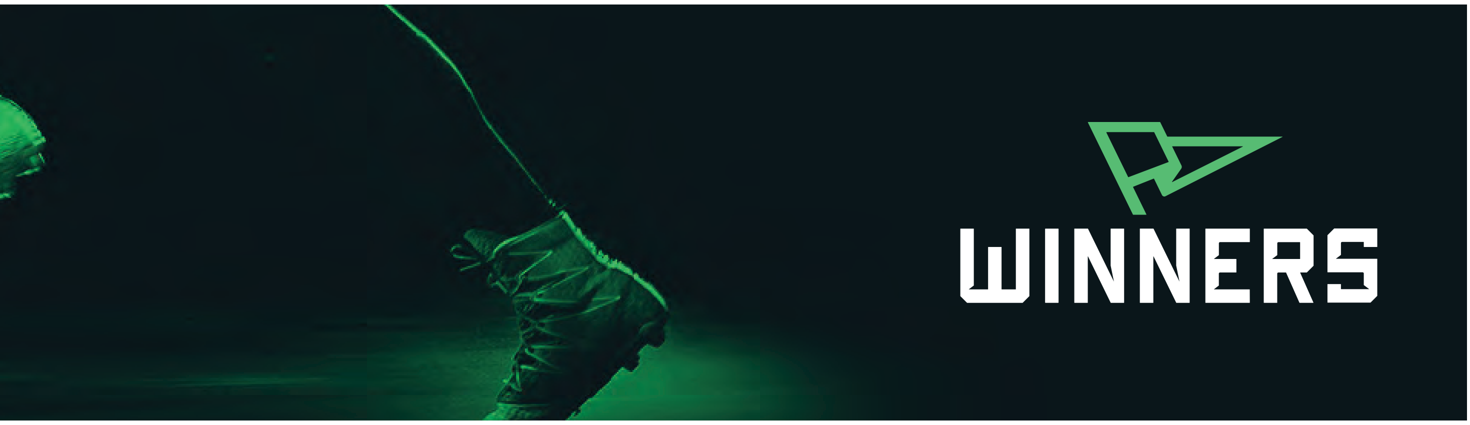
international products to satisfy customer demand for quality greyhound racing at our Connecticut Venues.

In 2017, the Division successfully lobbied the Connecticut legislature for licensing permission to open additional venues, bringing the potential total to 24. Steps were not taken in 2018 to open new venues, however, as the Division focused on a campaign to secure the rights to offer sports betting once PASPA was repealed in May 2018. Management anticipates exploration of the Division's full venue potential once the position on sports betting is known.

Along these lines, Venues appointed new events/group sales management last year and began developing marketing campaigns to focus on mobile betting opportunities across the estate. The team also created and offered direct competitions around major sporting events to develop a strong base of support for sports viewing at the Bobby V's locations, with a focus on providing these customers a full product suite once the State of Connecticut legalises sports betting.

Sportech Venues' digital channels continue to face illegal competition from unlicensed out-of-state internet betting operators who accept wagers from Connecticut residents, despite being issued cease and desist letters by the State's Attorney General's office. Management lobbied heavily for legislation that would address this, but it did not pass in 2018. The Group is once again aggressively pursuing protections during the 2019 legislative session as we are Connecticut's only licensed and taxed operator. Management believes that the increased focus on gambling in general in the State will help Sportech elevate this issue in the legislature.

Efforts to secure an extension of the Sportech licence to include sports betting has been noted in this report and remains a key strategic focus for our management and staff. Lobbying, public relations, and marketing efforts began in 2018 and have been significantly enhanced into the 2019 legislative session. Communications efforts were expanded to our venues, digital channels, and social media with a consumer-focused advocacy campaign drawing attention to the issue and generating consumer support. The positioning of the Bobby V's Restaurant & Sports Bar locations, particularly the location in Stamford, has been helpful in the overall positioning of Sportech as a logical option to deliver regulated sports betting in the State.



The Group has conducted a detailed evaluation of current responsible gaming policies and procedures in its consumer-facing businesses, as well as a comprehensive survey of local and global best practices. Recommendations to strengthen the programme are under evaluation and will be rolled out to the Group in 2019.

The Division makes annual statutory payments to external responsible gaming agencies to support responsible gaming awareness activities and to develop a robust consumer protection program, and in 2018 alone the Division provided almost US$220,000 to these external responsible gambling agencies.

Sportech Venues undertook key projects to reinvigorate its consumer brand, to position the brand for the introduction of sports betting, and to deliver an enhanced user experience to more effectively compete at the digital level. In 2019, the Division launched new Winners branding, developed by a Connecticut-based digital marketing agency. In addition, Sportech harnessed the digital development assets acquired with Lot.to to launch a newly redesigned MyWinners website. The betting module of the MyWinners website received a refresh in 2018 with the upgrade of Sportech's G4 white label platform. The betting pages now offer a fully responsive design, a streamlined modern look and feel, and features designed to make the user interface more intuitive and customisable by the end user.

Corporate Management Structuring and Focus

Sportech held fast to its dominance in the pari-mutuel betting market in 2018, strengthening and enhancing its core Quantum™ System product. In experiencing yet another year of change in 2018, the Group laid the groundwork for the extension of sports betting, both through the Connecticut operations and as a white label solution available in other states. Once the decision on sports betting is made by the State of Connecticut, Sportech Venues is ready to deliver a sports betting solution across the State, complementing its tote offering, and is positioning itself for growth through a refreshed brand, enhanced digital services, and increased responsible gaming initiatives. The Bump 50:50 growth trajectory continues, with opportunities in professional sports as well as in collegiate and non-sporting charities. Finally, the addition of Lot.to to the Sportech Group offers new lottery games and iLottery platforms to Sportech customers and strengthens the Group's digital focus, development, and expertise.

It is an incredibly busy time for our Company. We are fortunate to have a dedicated and experienced management team and workforce, without whom our ambitions and aspirations would be impossible to deliver. Together, we remain committed to enhancing Sportech's capabilities to our clients, expanding our product range, and positioning the Group for efficient sustainable growth. I am proud to be leading Sportech at this exciting transformational time, as we address numerous inherited challenges, however I am inspired by what is possible as we boldly embrace the future of Sportech PLC.

Richard McGuire
Interim Executive Chairman

20 March 2018

Financial Review

Income Statement – Statutory View

£'000	2018	Reported 2017
Revenue	**63,718**	66,271
Gross profits	**46,099**	47,709
Contribution	**44,111**	45,591
Operating costs (net)	**(47,023)**	(67,238)
Operating loss before JV result, interest and taxation	**(2,912)**	(21,647)

Income Statement – Detailed View

£'000	2018	Reported 2017	Constant currency 2017
Service revenue	**61,992**	64,886	62,908
Sales revenue	**1,726**	1,385	1,381
Total revenues	**63,718**	66,271	64,289
Cost of sales	**(17,619)**	(18,562)	(17,885)
Gross profits	**46,099**	47,709	46,404
Marketing and distribution costs	**(1,988)**	(2,118)	(2,040)
Contribution	**44,111**	45,591	44,364
Contribution margin %	***69.2%***	*68.8%*	*69.0%*
Adjusted operating expenses (net)	**(37,571)**	(38,884)	(37,848)
Impact of FX on reported earnings	**—**	—	191
Adjusted EBITDA	**6,540**	6,707	6,707
Spot the Ball ("STB")	**—**	827	
Exceptional items other than STB	**(3,453)**	(5,603)	
Non-cash items:			
Share option charges – normal	**(1,222)**	(666)	
Share option charges – accelerated	**—**	(3,765)	
Depreciation	**(2,860)**	(2,740)	
Amortisation	**(1,917)**	(1,540)	
Amortisation of acquired intangibles	**—**	(350)	
Impairment of PPE	**—**	(874)	
Impairment of intangible assets	**—**	(12,040)	
Impairment of goodwill	**—**	—	
Investments – loss on sale of NYX shares	**—**	(1,603)	
Total – non-cash items	**(5,999)**	(23,578)	
EBIT	**(2,912)**	(21,647)	
Share of losses from JVs	**—**	(300)	
Impairment of investment in JVs	**—**	(1,184)	
Net finance charges	**473**	(19)	
EBT	**(2,439)**	(23,150)	
Taxation	**(2,019)**	230	
Result after taxation – continuing ops	**(4,458)**	(22,920)	
Discontinued – Football Pools	**(32)**	(1,696)	
Discontinued – Holland	**1,854**	174	
Loss for the year	**(2,636)**	(24,442)	
Adjusted profit before tax for the year from continuing operations	**559**	1,549	

Within the Adjusted EBITDA reported above are write-downs of inventory of £nil (2017: £126k) and release of a bad debt provision carried over of £76k, where a previously provided receivable was recovered (2017: write down of £762k).

A summary of the result by division is shown below:

	Revenues		Adjusted EBITDA	
£'000	**2018**	Constant currency 2017	**2018**	Constant currency 2017
Racing and Digital	**34,004**	34,613	**8,643**	7,603
Venues	**30,379**	30,459	**1,413**	1,411
Corporate (and inter-divisional elimination)	**(665)**	(783)	**(2,088)**	(2,498)
Total, before sports betting and with constant currency impact of foreign exchange	**63,718**	64,289	**7,968**	**6,516**
Sports betting	**—**	—	**(1,428)**	—
Total, with constant currency impact of foreign exchange	**63,718**	64,289	**6,540**	**6,516**

Note 1 – Revenues

£'000	**2018**	Reported 2017	Constant currency 2017
Racing and Digital Service revenue	**30,776**	32,890	32,076
Racing and Digital Sales revenue	**1,726**	1,389	1,381
Bump 50:50 revenue	**1,502**	1,190	1,156
Venues wagering revenue	**25,655**	27,574	26,506
Venues F&B revenue	**4,724**	4,032	3,953
Inter-group elimination	**(665)**	(804)	(783)
Total revenues	**63,718**	66,271	64,289

Group revenues at £63,718 were 4% down on reported revenues and down 1% in constant currency. The following comparisons have been done at a constant currency level:

- Service revenues from Racing and Digital (excluding Bump 50:50) were down 4% at £30,776k, although sales revenues from Racing and Digital were higher by 25% at £1,726k.
- Revenues from Bump 50:50 were up 30% at £1,502k and this sub-division continues to grow healthily as more teams are signed up to the Bump shared raffle offering.
- Revenues from Venues continue to be primarily driven by wagering. Revenues from this source were down 3% at £25,655k.
- Food & Beverage ('F&B') revenues were up 20% at £4,724k. The increase in F&B revenues at the Stamford location was the main contributor.

Financial Review continued

Note 2 – Cost of sales

Cost of sales represent those items which are most closely variable with the sales they represent and are shown in both the aggregate and by division below.

£'000	2018	Reported 2017	Constant currency 2017
Tote and track fees	**11,261**	12,166	11,703
Cost of inventory sold	**810**	1,134	1,091
Provision for obsolete inventory	**—**	126	131
Food and Beverage consumables	**1,405**	1,322	1,286
Ticket paper and programmes	**1,386**	1,327	1,287
Betting and gaming duties	**738**	480	464
Repairs of deployed terminals	**335**	402	392
Outsourced service costs	**1,684**	1,605	1,531
Total cost of sales	**17,619**	18,562	17,885

Note 3 – Contribution

Contribution is the Group's measure of gross profits (revenues less costs of sales) less marketing and distribution costs.

£'000	2018	Reported 2017	Constant currency 2017
Racing and Digital	**29,277**	30,380	29,676
Contribution margin %	**86.1%**	85.7%	85.7%
Venues	**14,886**	15,482	14,925
Contribution margin %	**49.0%**	49.0%	49.1%
Total Contribution*	**44,111**	45,591	44,364
Contribution margin %	**69.2%**	68.8%	69.0%

*includes inter-divisional eliminations of £52k (see note 2 of the Financial Statements).

Contribution margins across the Group improved slightly 69.2% (2017: 69.0%). The Racing and Digital business produced a contribution margin of 86.1% (2017: 85.7%) against the contribution margin in Venues of 49.0% (2017: 49.1%).

Note 4 – Adjusted operating expenses

Adjusted operating expenses are those expenses largely of a cash nature which exclude:

- share option charges
- depreciation
- amortisation
- items which by nature or materiality or consistency with 2017 have been regarded by the company as 'exceptional'. These items are discussed in further detail below.

Adjusted operating expenses, net of capitalised software, declined by £104k to £37,744k at constant currency, due to reductions in bad debts.

Note 4a – Group

£'000	2018	Reported 2017	Constant currency 2017
Gross employment costs	**27,532**	28,562	27,788
Less: capitalised	**(2,923)**	(3,026)	(2,911)
Net Employment costs	**24,609**	25,536	24,877
Property costs	**5,314**	5,454	5,226
Professional fees	**4,391**	3,249	3,200
Travel & Entertainment	**1,353**	1,524	1,495
IT & Communications	**1,355**	1,351	1,313
Bad debts from prior periods	**(76)**	762	748
Other costs	**798**	1,008	989
Adjusted operating expenses*	**37,744**	38,884	37,848
Costs, gross of capitalised software	***40,667***	*41,910*	*40,759*

*excludes operating income of £173k (see note 1 of the Financial Statements).

Gross employment costs at £27,532k represented 68% of the aggregate of the adjusted operating expenses and capitalised staff costs (2017: £28,562k, 68%). Gross employment costs increased 1% in the year at constant currency. Gross employment costs include the cost of field service agents whose time and expense is incurred in servicing terminals at customer sites. Net employment costs in this analysis exclude share-based payments which are disclosed in note 7 below.

The North American employees are unionised and are entitled to annual wage rises.

As part of the restructuring exercise undertaken by the Non-executive Directors, the cost base of the corporate function was reduced.

The composition of the costs, gross of capitalised software across the divisions, was as follows:

£'000	2018	Reported 2017	Constant currency 2017
Racing and Digital (note 4b)	**23,731**	25,698	24,951
Venues (note 4c)	**13,473**	13,985	13,507
Sports betting costs	**1,428**	—	—
Corporate (and inter-divisional elimination)	**2,035**	2,227	2,301
Total	**40,667**	41,910	40,759

Note 4b – Racing and Digital

£'000	2018	Constant currency 2017
Gross employment costs	**18,760**	18,868
Less: capitalised	**(2,923)**	(2,911)
Net Employment costs	**15,837**	15,957
Property costs	**919**	898
Professional fees	**1,848**	1,554
Travel & Entertainment	**911**	1,037
IT & Communications	**854**	781
Bad debts from prior periods	**(76)**	685
Other costs	**515**	1,128
Adjusted operating expenses	**20,808**	22,040
Costs, gross of capitalised software	***23,731***	*24,951*

Financial Review continued

Note 4c – Venues

£'000	2018	Constant currency 2017
Gross employment costs	**7,567**	7,584
Less: capitalised	**—**	—
Net Employment costs	**7,567**	7,584
Property costs	**4,263**	4,088
Professional fees	**790**	755
Travel & Entertainment	**71**	162
IT & Communications	**391**	379
Bad debts from prior periods	**—**	104
Other costs	**391**	435
Adjusted operating expenses	**13,473**	13,507

The number of full-time equivalent staff employed (or on contracts) and including the Executive Directors at 31 December 2018 and 2017 is as shown below:

	2018	2017
Racing and Digital (excluding Bump 50:50)	**294**	295
Bump 50:50	**5**	4
Venues	**229**	245
Corporate	**14**	9
Total	**542**	553

Staff numbers in Venues are related to staffing adjustments at particular venues where cost savings were desired.

Note 5 – Adjusted EBITDA

Adjusted EBITDA is calculated as Contribution (note 3) less adjusted operating expenses (note 4).

£000's	2018	Reported 2017	Constant currency 2017
Racing and Digital	**8,643**	7,708	7,603
Venues	**1,413**	1,497	1,411
Central costs	**(2,088)**	(2,498)	(2,498)
Adjusted EBITDA before sports betting costs	**7,968**	6,707	6,516
Sports betting	**(1,428)**	—	—
Adjusted EBITDA	**6,540**	6,707	6,516

Sports betting costs are shown as a separate line item and excluded from the Venues trading numbers as these costs are significant and separate from the Venues underlying trading. Following the announcement of the repeal of PASPA in May 2018, the Group has invested heavily in positioning itself to take advantage of opportunities as US States regulate sports betting, in particular, in Connecticut where we aim to obtain a B2C licence but also in other states where we are targeting B2B arrangements with licence holders.

Note 6 – Exceptional items

An estimation was recorded in prior years of the consideration arising from the disposal terms of the investment in NYX Gaming LLC which was contingent on NYX signing new customers up to their wagering platform. NYX have an obligation to inform Sportech each time a customer is acquired to this platform, with the Group entitled to CAD $1 million for each customer signed up, up to a maximum of CAD $3 million. In discussions with management the Group no longer believes these sales will come to fruition and has accordingly written down the asset to £nil at 31 December 2018 resulting in an exceptional charge of £1,729k.

Other separately reported items are listed below:

£'000	2018	Reported 2017
Restructuring and redundancy costs (note a)	**1,178**	2,291
Costs of exit from California (note b)	**(291)**	2,740
Losses from and impairment in Striders Sports Bar (S&S JV) (note b)	**291**	—
Lobbying and licencing costs (note c)	**—**	264
Costs of implementing new VCP (note d)	**—**	150
Costs in relation to STB VAT refund (note e)	**205**	—
Costs in relation to legacy tax disputes (note e)	**111**	—
Impairment of contingent consideration re NYX Gaming	**1,729**	—
Legal costs re IP infringement	**150**	—
Other exceptional items (net)	**80**	158
	3,453	5,603

Note a: In 2017, the Group announced the departure of the incumbent CEO and CFO. This was accompanied by a strategic review and Formal Sale Process under the Takeover Code following a series of initial approaches made to the Group. The costs of honouring the contracts of those departing executives along with some other staff in senior positions represents the majority of the costs of restructuring and redundancy. £680k of these costs were paid in 2018. In 2018 the Group announced the departure of its CEO effective February 2019, with the Chairman assuming those duties in his role as Interim Executive Chairman.

Note b: The Group had a number of contractual arrangements in the State of California, none of which were profitable and included real estate leases for a considerable duration with no benefit to the Group. As of 2017, these have been provided for in full, with certain other items also written off. The costs incurred in the year relating to these prior year provisions were £291k, as such, the provision has been released to offset these costs. The costs incurred in the JV have been shown here in exceptional costs so as to net with the provision release related to the costs.

Note c: In 2017 the costs of presenting the case for liberalising sports betting and gambling in Connecticut, along with costs incurred in obtaining a licence in New Jersey, have been disclosed separately. In 2018 the costs of lobbying for a Connecticut sports betting licence are in sports betting costs.

Note d: A new incentive plan was introduced in the year, the Value Creation Plan ("VCP"), as approved by shareholders on 24 May 2017. The substantial cost of designing this scheme and implementing it is disclosed as a separate item.

Note e: Following the successful Spot the Ball VAT reclaim, the Group is aware that HMRC are closely examining all the Group's tax affairs. The Board, after taking professional advice, believe that the liabilities recorded in these financial statements are correct, and whilst they are open to challenge, the Group's position will be defended robustly.

The Group has made an 'in escrow' payment to HMRC of £1.3 million in Q1 2018 in order to progress an appeal the Group is making against HMRC for VAT on head office costs going back a number of years. The Board, having taken professional advice on this matter, have provided against this receivable in full.

Financial Review continued

Note 7 – Share based payments

£'000	2018	Reported 2017
Accelerated charge for departing Executives and Directors	–	(3,765)
Normalised charges	(1,222)	(666)
	(1,222)	(4,431)

Under IFRS, charges arise from events at the date of grant, whether the options ultimately lapse or not. There was a charge accelerated by the departure of the former CEO and CFO along with one other non-Board executive.

The 2018 change arises from VCP grants made in 2017 and grants made during 2018 in addition to the final charge on the remaining PSP grant from November 2016.

The modelling of the overall cost of the VCP was done by a 'big-four' accounting firm other than the auditors. The option plan adopted by shareholders earlier in 2017 (the 'VCP') was essentially a 20% capital growth pool over a 8% compound hurdle to the ex-div share price. The starting point was a cum-div price of 97.8 pence. Black Scholes modelling was used.

The departing executives had between them, 52% of that £7 million pool. Together with other outstanding PSP awards an accelerated charge of £3,765k was recognised in 2017. It is non-cash in nature.

Note 8 – Depreciation and amortisation

Tangible and intangible fixed assets are depreciated/amortised over their useful lives as disclosed in the notes to the Consolidated Financial Statements. Both charges have reduced from prior year primarily due to impairment charges made to certain assets in 2017. In 2018 there were no impairments in any of these asset classes.

Note 9 – Asset impairments

£'000	2018	Reported 2017
Impairment of PPE	–	874
Impairment of goodwill	–	–
Impairment of intangible assets	–	12,040

Site preparation and construction costs in the town of Norco, California were incurred by the Group in previous years when a new venue build was anticipated. The Group is currently negotiating the exit of this lease (2017: £874k).

The Group is obligated to conduct an impairment review of its business units each year based on events that existed at the balance sheet date and not on events regarding legislation or liberalisation which might occur after the balance sheet date. There were deemed to be no impairments in intangible assets in 2018. In 2017, the softer level of betting transactions in the Venues business led to a downgrading of its accounting value and an impairment charge was taken of £12,040k.

Note 10 – Joint ventures

In 2017, following the decision to exit from its business interests in California, the Board considers there to be insufficient certainty around the recoverable value of the Group's investment in its joint venture sports bar, "Striders", in San Diego, and a provision was made against the entire investment, £1.2 million.

Note 11 – Taxation

The Group has recognised a net tax charge of £2,019k (2017: credit of £230k) due primarily to changes in tax laws in the US which will impair the ability to offset foreign tax credits carried forward against future profits. Deferred tax assets at 31 December 2018 are £5,979k (2017: £6,406k).

Note 12 – Discontinued activities

The contribution to earnings during 2018 was as below:

£'000	2018	Reported 2017
Football Pools – trading result excluding asset impairments	**(91)**	6,771
Football Pools – net profit/(loss) on disposal	**59**	(8,467)
Net result from Football Pools	**(32)**	(1,696)
Netherlands trading result	**(475)**	174
Netherlands gain on disposal	**2,329**	—
Net result from Venues, Netherlands	**1,854**	174
Net result from discontinued operations	**1,822**	(1,522)

The Group's Football Pools business was sold in June 2017.

In July 2018 the Group completed the sale of its Venues business in the Netherlands. Accordingly, the results from this business have been presented as a discontinued operation. The net gain on this disposal of £2,329k was recognised in the 2018 financial statements.

Note 13 – Balance Sheet

The table below provides a bridge between 31 December 2017 and 31 December 2018.

	£'000
Net assets at 31 December 2017	**51,210**
Loss for the period	**(2,636)**
Offsetting equity items	**1,222**
Foreign exchange movements	**2,411**
Movement in defined benefit pension obligation (net of tax)	**232**
Employer taxes paid on vesting of options	**(67)**
Net assets at 31 December 2018	**52,372**

A summary of the balance sheet is shown below:

£'000	Non-current	Current	Combined
Intangible fixed assets and PPE	39,888	—	**39,888**
Cash, net of customer liabilities	—	14,728	**14,728**
Trade receivables	452	5,312	**5,764**
Other receivables	215	2,857	**3,072**
Inventories	—	2,576	**2,576**
Deferred tax asset	5,979	—	**5,979**
Tax liabilities	—	(6,563)	**(6,563)**
Trade payables	—	(9,759)	**(9,759)**
Retirement benefits	(902)	—	**(902)**
Provisions	(1,434)	(977)	**(2,411)**
	44,198	8,174	**52,372**

Financial Review continued

Note 14 – Trade receivables

Current asset trade receivables of £5,312k (2017: £7,339k) represent 30 days of revenue (2017: 40 days). Certain provisions have been made for debtors significantly overdue, these amounted to £1,569k (2017: £1,606k). In certain circumstances, arrangements have been reached with customers to spread significantly overdue debts over a longer period.

Current and non-current trade receivables are combined in the table below:

£'000	As at 31.12.18	As at 31.12.17
Current trade receivables		
– Racing and Digital	**4,911**	6,469
– Venues	**401**	870
Total current trade receivables	**5,312**	7,339
Total non-current trade receivables	**452**	450
Total trade receivables	**5,764**	7,789
Total debtor days	**33**	43

Current trade receivables within the Racing and Digital division total £4,911k (2017: £6,469k) representing 53 days of revenue (2017: 67 days). Within the Venues division, current trade receivables total £401k (2017: £870k), which equates to 5 days of revenue (2017: 10 days).

Note 15 – Inventories

Inventory held was £2,576k (2017: £2,652k). This consists of work in progress, £103k (2017: £99k); Tote machines, £256k (2017: £240k); and machine parts available for deployment, £2,217k (2017: £2,313k). The Group has a significant number of terminals that are deployed on customer sites, many of which are older models. There is a requirement therefore for the Group to hold a proportional amount of spare parts for the terminals that are being used by customers.

Note 16 – Cash at bank

Cash at bank consists of a number of components, as shown below:

£'000	As at 31.12.18
Group cash, excluding customer cash	**14,728**
Customer cash	**3,187**
	17,915

Of the cash held by the Group, it is estimated that approximately £3 million is required at any one time to facilitate working capital requirements, including holding cash in venue tills and vaults. Those working capital requirements do vary throughout the year dependant on the timing of inflows and outflows, including most notably the timing of terminal builds, major races, and payment by customers for one-off sales.

The prime currencies in which the Group's cash (excluding customer cash) was held at the balance sheet date was:

£'000	As at 31.12.18
GBP	**6,441**
USD	**6,546**
EUR	**1,740**
Other	**1**
	14,728

The cash was held in the following banks:

£'000	As at 31.12.18
Lloyds/Bank of Scotland	**10,449**
Wells Fargo	**1,956**
Ulster Bank	**898**
Bank of America	**420**
Türkiye Garanti Bankası A.Ş.	**495**
BNP Paribas	**342**
Unicredit	**167**
Other banks	**1**
	14,728

This represented cash of 7.9 pence per ordinary share at 31 December 2018.

Note 17 – Cashflow

The Group's cash flow for the year is as follows:

£'000		2018
Adjusted EBITDA		**6,540**
Add:	Sportech Racing BV Sale	**2,411**
Less:	Other Acquisition, disposal, and JV items	**(183)**
	Capitalised software	**(3,106)**
	Property plant and equipment	**(1,927)**
	Exceptional items	**(1,833)**
	Working capital and other	**(1,002)**
	Tax paid and interest, net	**(1,966)**
	FX impact	**(91)**
Net cashflows in year		**(1,157)**
Opening cash		**15,885**
Closing cash, excluding customer balances		**14,728**

Note 18 – Defined benefit pension liabilities

The Group retains the legacy obligation for the Football Pools pension scheme in which all 63 members are retired. There is in an IAS19R surplus of £29k at December 2018 (2017: £9k) for this scheme. The Group is actively trying to secure a buy-out for the scheme, not least as the actuarial, administration and trustee fees each year of running this scheme are in excess of £80k. Payments into the scheme during the year totalled £55k (2017: £305k). A one-off increase in the payments was made in 2017 to fully fund the scheme's liabilities.

In addition, the Group's US employees are enrolled in pension schemes which have a deficit of £931k (2017: £1,546k). The payments made to the US scheme in the year were £637k (2017: £223k). US law requires that any actuarial deficit as measured in any one year is funded to not less than 80% in the subsequent financial year. There was an accelerated cash funding of these schemes in 2018. Funding was just under 80% at 31 December 2018 and so a small catch up is required in 2019 of approximately £15k.

Financial Review continued

Note 19 – Liquidity: current assets (excluding inventories) less current and non-current liabilities

The Group's liquidity can be summarised as follows:

£'000	As at 31.12.18	Reported As at 31.12.17
Current assets	**28,660**	32,529
Current liabilities	**(20,486)**	(24,442)
Net current assets	**8,174**	8,087
Non-current trade and other receivables	**667**	2,443
Non-current liabilities	**(2,336)**	(3,060)
Net non-current liabilities	**(1,669)**	(617)
Net position	**6,505**	7,470
Less: inventories held	**(2,576)**	(2,652)
Implied liquidity (long-term)	**3,929**	4,818
Amount per share	**2.1p**	2.6p

Note 20 – Taxation liabilities and items subject to challenge

Following the successful Spot the Ball VAT reclaim, the Group is aware that HMRC are closely examining all the Group's tax affairs. The Board, after taking professional advice, believe that the liabilities recorded in these financial statements are correct, and whilst they are open to challenge, the Group's position will be defended robustly.

The Group has made an 'in escrow' payment to HMRC of £1.3 million in Q1 2018 in order to progress an appeal the Group is making against HMRC for VAT on head office costs going back a number of years. The Board, having taken professional advice on this matter, have provided against this receivable in full.

Note 21 – Contingent liabilities and litigation

The Group is engaged in certain disputes in the ordinary course of business which could potentially lead to outflows greater than those provided for on the balance sheet. The maximum possible exposure considered to exist, in view of advice received from the Group's professional advisors, is up to £0.5 million. Management are of the view that the risk of those outflows arising is not probable and accordingly they have been disclosed as contingent items rather than recognised as liabilities in the financial statements.

Thomas Hearne
Chief Financial Officer

20 March 2019

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Corporate Governance

US$12bn

global betting handle processed annually.

Directors and Officers

Richard McGuire
Chairman and Interim Executive Director

Nationality and residence
UK

Date appointed to the board
August 2016

Date appointed Chairman
May 2017

Richard has expertise in capital markets and the leisure and gaming industries and has held a number of non-executive directorships. Prior to joining Sportech, Richard was Chairman at Timeweave PLC, the joint owner of TurfTV. He also held the position of Non-Executive Director at Mitchells and Butlers PLC, one of the largest operators of restaurants and bars in the UK.

Tom Hearne
Chief Financial Officer

Nationality and residence
Canada

Date appointed to the board
May 2018

Tom has extensive experience in the fields of digital technology and sports media, with a long track record of driving growth, increasing profitability, and executing successful M&A transactions. Prior to joining Sportech, Tom was CFO for theScore, a sports digital media focused company, and he has held multiple CFO and Director roles within numerous companies.

Giles Vardey
Non-Executive Director and Chairman of the Remuneration Committee and the Nomination Committee

Nationality and residence
UK

Date appointed to the board
December 2017

Giles brings more than 35 years of business and boardroom experience, latterly in non-executive roles at public and private companies, including President and CEO of Fidelity Brokerage Services. He also held senior investment banking positions at firms including Salomon Brothers, County NatWest and Swiss Bank Corporation. His gaming industry experience includes the role of Non-Executive Chairman of Trident Gaming Limited from 2005 to 2008.

Committees: Remuneration Committee, Nomination Committee, Audit Committee

Chris Rigg
Non-Executive Director and Chairman of the Audit Committee

Nationality and residence
UK

Date appointed to the board
January 2019

Chris has considerable business and boardroom experience in executive roles at public and private companies. He has previously held both non-executive and executive directorships at quoted companies including Clinigen Group PLC and Quantum Pharma PLC. During his time at Quantum Pharma, Chris held a number of senior positions including Group Strategic Director, Chief Financial Officer, and Chief Executive Officer.

Committees: Audit Committee, Remuneration Committee, Nomination Committee

Full details of Directors and Management Team is available at **www.sportechplc.com/about-us**

Risk Management

Measuring risk

The Group's risk management strategy is to consider risks arising from each area of the business through a top-down approach. This is changed from prior years where a bottom-up approach was combined with a top-down review. This is considered the most appropriate approach given the Board is now more closely involved with the day-to-day activities of the trading entities and given the reduction in size and geographical spread of the Group.

The Board established and approved a risk appetite statement in 2015, which has been distributed to the management teams of the operating segments. 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 management teams in determining the appropriate balance of risk and return within their businesses.

The Board assesses risk and formally updates the Group risk register annually. 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		

Principal risks to the Group are considered to be those risks identified by the Board as having an overall rating of six or higher or an impact of four despite the low level of mitigated likelihood.

The table overleaf shows the principal risks identified by the Board, an assessment of those risks including 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 Management continued

Risk area	Description	Mitigation	Mitigated rating
Regulatory	The Group holds 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 could result in fines and imprisonment of Group personal as well as impacting the Group's reputation. Data protection Sportech holds personal data of customers. If the Group's security systems and controls were breached the Group would be subject to fines, adverse media and reputational damage.	The Group's General Counsel oversees regulatory and legal compliance worldwide. The Group engages third-party specialist legal counsel as appropriate and specialist local advice is available as may be required. The Group recently renewed its data protection policies and trained staff on data protection procedures. There are robust firewalls, anti-spyware and virus-detection programs, strong encryption, authentication and password controls in place to reduce risk.	4
Product	Horserace wagering as a product has challenges to delivering growth. Following the US Supreme Court's decision in 2018 allowing States to introduce Sports Betting there is an additional competitive risk to discretionary consumer spending on betting opportunities as States roll out Sports Betting choice to consumers.	New products are being innovated and refreshed. The Group has invested further in international simulcasting technology and is pursuing new client opportunities and markets to further diversify revenue opportunities. The Group is launching new sports betting products to open new betting markets.	9
Technology	The Group is dependent on the sale of technology-led products and the effective delivery of services through such products. Group revenue is at risk if the technology products do not remain competitive or experience failures. These failures can include product issues or issues with our data centres, where we service our customers from. Any disaster at our data centres could cause significant outage times. More and more products are being consumed on mobile devices which are in their infancy in the pari-mutuel world.	The Group has developed mobile applications and industry-leading self-service betting terminals. The recent acquisition of digital specialist group Lot.to Systems will enhance our client delivery across each business line. Significant investment is made in technology annually and the Group employs skilled and experienced system developers and operators. The company is in the process of reviewing and updating its disaster recovery plan to mitigate any potential downtime.	6

Risk area	Description	Mitigation	Mitigated rating
Client concentration and industry competition	Whilst the Group has a broad base of business clients and no client accounts for more than 10% of group revenue, there are certain clients within the Group, which if lost, could have a more significant impact on net contributions and Group profits. Competition for gambling revenues is emerging in North America from more casino openings and European operators entering the market. If US states do not enforce their own laws they invite non-regulated Competition. Advance Deposit Wagering has permeated the industry in the US without regulatory challenge. Sportech has the exclusive licence to take pari-mutuel bets in Connecticut and pays state taxes on all revenues. Non-regulated ADW operators do not pay any state taxes leaving Sportech disadvantaged.	We constantly assess our competition and strategy and use our global licence positioning, regulatory status and trading reputation to secure business. The Group, where possible, seeks to enter long-term contracts with customers to secure revenue streams, however, this is not always possible, and a significant proportion of the Group's revenues are variable. The Group continues to lobby the states to enforce their laws in pain of losing taxation revenues. In 2019 the Group will table a Bill in Connecticut seeking to protect its exclusive pari-mutuel licence from external parties.	9
Foreign Exchange	The bulk of the business is generated in North America. Our European business is conducted via an Irish company. The Group's results are reported in GBP.	The Group is evaluating whether it should change its reporting to USD and seeks to create natural hedges wherever possible. The Group considers hedging to mitigate significant fluctuations.	6
Failure to implement sports betting strategy following the repeal of PASPA	If Sportech is not sufficiently geared up to take advantage of the opportunities in sports betting it may fail to gain a foothold in the market and deliver returns on investment.	With the repeal of sports betting prohibition in the United States in 2018, US states now have the option to introduce intra-state Sports Betting and many states are considering legalising sports betting. At the end of 2018, seven states have legalised sports betting and it is anticipated that many more states will in 2019. The Group is investing heavily in repositioning itself to create a growth business in this arena and deliver a competitive product to our consumer business in Connecticut and to our business clients across the US. It is a competitive landscape however and there is risk to successful execution and return on capital investment.	9

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 64. The Board conducted this review for a period up to December 2021, 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 most recent strategic review, (completed 19 March 2019) considered the Group's cash flows, earnings, leverage, and other key financial ratios over the period. The review also considered the renewals of significant customers, many of which have renewals in the window of time being reviewed. These renewals represent a significant element of the Group's EBITDA. 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.

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

Thomas Hearne
Director

20 March 2019

Corporate Social Responsibility Report

The Group endeavours to act responsibly for all its stakeholders, including not only its shareholders, employees, and its customers but the wider public and the environment.

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 (until the sale of our Dutch business in July 2018).

The Group General Counsel ensures 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.

Whilst the Company, and a number of its subsidiaries, are incorporated in the UK, the bulk of the operations are based in North America where standards and regulation are different to the EU. The Group therefore has to balance all its obligations under all the jurisdictions it operates in, which imposes strains on its cost base which we aim to mitigate through efficiencies wherever possible.

In 2018 the company took comprehensive measures, under the direction of its Chief Legal Officer and Compliance Director, to ensure that its various business and operating units in the EU were in compliance with the new GDPR rules protecting user data and further extended the policies and practices to all divisions of the company regardless of geographic location.

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. The Racing and Digital division works to deploy technologies for account wagering, mobile, and tablet-based betting at racetracks and off-track betting locations that eliminate or minimise the use of paper betting slips and tickets. In 2019 the Group is making online voting at Company meetings its default method. Shareholders may still vote by paper proxy if they desire, although this move towards online voting will save printing and posting large numbers of proxy forms which are never used. The Group also continues to advocate to its shareholders the use of electronic communications via its website.

The Company has an obligation under the UK Companies Act 2006 to report on greenhouse gas emissions. The Group has calculated an intensity ratio for 2018 of 102.2 which is 6,510 tonnes of CO_2 divided by the Group's total revenue of £63.7m, compared to a prior year ratio of 85.5, which was calculated as 5,668 CO_2 tonnes divided by revenue of £66.3m. On a constant currency basis the prior year intensity ratio would have been 88.1. Therefore, on a constant currency basis the Group's intensity ratio has increased by 16.0% due to falling revenues on the same base level of operations.

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 $17m for sports foundations in the US and Canada in 2018, including those associated with the Dallas Cowboys, Cleveland Cavaliers, and Vegas Golden Knights.

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 launched an

Corporate Social Responsibility Report continued

employee newsletter "Sportech in Focus" and awards programme "Sportech Champions", in 2018 to reflect the progressive transparency, 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 40.

It is the policy of the Group to comply with the requirements of the UK Disability and Equality Act 2010 and the Americans with Disabilities Act 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 it has 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.

Corporate Governance Report

Sportech is committed to a high standard of corporate governance and, throughout the financial year ended 31 December 2018, 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 practicable.

The Board has undergone significant changes in the period under review, largely occasioned by the historical decision to dispose of the Football Pools, and the subsequent decision to undertake a strategic review which involved a Formal Sale Process – an event that terminated on 13 March 2018.

Director	Status
Richard McGuire	NED from 24 August 2016 and became Executive Chair on 13 November 2018. Not independent
Giles Vardey	NED from 17 November 2017. Independent
Chris Rigg	NED from 1 January 2019. Independent
Richard Cooper	NED from 24 May 2017, stepped down from the Board 29 October 2018. Independent
Andrew Gaughan	Executive Director from 27 January 2017, CEO from 14 March 2018, stepped down from the Board 28 February 2019. Not independent
Thomas Hearne	CFO from 24 May 2018. Not independent

Giles Vardey is the Senior Independent Director.

Following the appointment of Chris Rigg on 1 January 2019, the Company now has two Independent Directors. During the period from 29 October 2018 to 31 December 2018, the Company only had one Independent Director following the resignation of Richard Cooper on 28 October 2018. For this short period, the company was not in compliance with the Code in its requirement to have two independent Directors as members of the Remuneration, Audit and Nomination Committees.

On 13 November 2018 it was announced that Andrew Gaughan, Chief Executive Officer, would step down from the Board on 28 February 2019 and that Richard McGuire would assume the role of Interim Executive Chairman. The Board considered this to be a temporary but necessary arrangement in order to ensure the continuity of business. The Code requires the roles of Chairman and Chief Executive to be undertaken by different people. The Board is actively pursuing the appointment of a Chief Executive Officer.

The Company confirms that Richard Cooper had the recent, relevant financial expertise required to effectively challenge and review accounting judgements and reporting. Together with the extensive corporate experience of Richard McGuire and Giles Vardey, the Company is comfortable that the Committees have continued to function to a high standard throughout, and robustly challenged management in the preparation of the financial statements. As of 1 January 2019, Chris Rigg who has recent, relevant financial expertise assumed the chair of the Audit Committee, as a consequence there were two months during which the Company did not comply with the Code in respect of having an Audit Committee chairman with recent and relevant financial expertise.

The search for a further new Independent Non-executive Director is being undertaken and 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. The Chairman is not a member of the Audit, Remuneration or Nominations Committees.

Conflicts of Interest

The Board has a procedure in place to deal with situations 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

Corporate Governance Report continued

affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations requiring authorisation by the Board. Such authorisations are reviewed annually.

Board Effectiveness

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 example, contain specific provisions and restrictions regarding the Company's power to borrow money. A copy of the Articles is available on the Company's website.

Matters reserved for the decision of the Board include:

i) Strategy and management: overall management and oversight of operations, approval of long-term objectives, commercial strategy, annual budgets, major changes in nature and scope of the business of the Group, entry into significant new business areas and the approval of any actions which would require shareholder approval;

ii) Structure and capital: approval of major changes to the Group's capital structure, corporate structure, management structure control structure and changes to the Company's listing or status as a PLC;

iii) Financial reporting and controls: approval of preliminary announcements of interim and annual results, annual report and accounts, dividend policy, declaration of dividends, and significant changes to accounting policies and changes in accounting reference date for any material member of the Group;

iv) Approval to enter into significant contracts;

v) All communications with shareholders; and

vi) Board memberships, appointments and the remuneration of Directors and senior management.

The Board has undergone a series of changes in the year and Richard McGuire assumed the role of Interim Executive Chairman from 12 November 2018 in anticipation of Andrew Gaughan stepping down from the Board on 28 February 2019. Tom Hearne was appointed CFO on 24 May 2018 and has quickly integrated into the Group. The Group had two independent Non-executives for the year up until 29 October 2018 when Richard Cooper stepped down. As at 1 January 2019, following the appointment of Chris Rigg, the Board has two independent Non-executive Directors.

The Company maintains Directors and Officers insurance cover.

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 in respect to their skills, expertise and business acumen. 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 performance of Richard McGuire, the current Chairman, appointed on 24 May 2017 was reviewed as part of the Board Evaluation process, which was supported by the Company Secretary, and concluded in February 2019. The performance of Non-executive Directors was also appraised as part of this evaluation process. The results were analysed and a report was presented to the Board for discussion at a subsequent Board meeting. Following discussions at a subsequent Board meeting, a number of proposed recommendations were made and the Board agreed to take them forward for implementation.

Board Meetings

The Board meets regularly. Certain matters are considered at all Board meetings, including a business update, a financial update, business development opportunities and operational issues. Papers for each scheduled board meeting are usually provided within the week before the meeting and directors unable to attend Board meetings have an opportunity to raise and discuss any issue with the Chairman or any Executive Director. The meetings held in the year were as follows:

		Main Board	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings held during 2018		6	4	2	1
Executive Directors					
Andrew Gaughan		6	–	–	–
Thomas Hearne	Appointed 24 May 2018	5	–	–	–
Non-executive Directors					
Richard McGuire		6	4	1	1
Richard Cooper	Resigned 29 October 2018	5	3	2	–
Giles Vardey		6	4	2	1

Board Committees

The Committees of the Board are:

- Audit Committee
- Remuneration Committee
- Nomination Committee.

Audit Committee

The Audit Committee currently comprises two independent Non-executives, Chris Rigg, as the Chairman, and Giles Vardey. Richard Cooper chaired the Committee during the year and up until his resignation on 29 October 2018.

The Committee is scheduled to meet at least three times a year. The December meeting in 2018 was deferred to January 2019 given the appointment of Chris Rigg on 1 January 2019. The Committee's main responsibilities include reviewing the Annual Report and Accounts and the Interim Report. This includes considering significant financial reporting issues and judgements as contained within. 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 authority from the Board to review 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 systems and procedures.

The Group acknowledges that DTR 7.1.1A (2) was breached during the period 1 November 2018 to 31 December 2018, in relation to the requirement of having a member of the Audit Committee with competence in accounting or auditing or both. Following the appointment of Chris Rigg that breach was rectified, however no Committee meetings were held during that period. Members of the senior finance team are regularly invited to attend Committee meetings.

Financial reporting

The primary role of the Committee in relation to financial reporting is the review of (in conjunction with both management and the external Auditor) 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 financial reporting.

The Committee considered internal reports from the senior finance staff together with the external Auditors' report in their half-year review and annual audit of the Group's financial reporting function.

Corporate Governance Report continued

The primary areas of judgement considered by the Committee in relation to the 2018 financial statements were:

- the assumptions underlying impairment testing of the Group's intangible assets;
- the exposure to tax liabilities; and
- the assumptions underlying impairment testing of the Company's investment in Sportech Group Holdings Limited.

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.

In testing assets for impairment, the key assumptions underpinning their value-in-use were 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 not recognising an impairment in the current year. In addition, the Committee considers the findings of the work carried out by the Auditors in these areas.

In reviewing the exposure to potential tax liabilities, the Audit Committee reviews the key assumptions and liaises with its external advisors to understand the range of possible outcomes given change in particular judgements. Correspondence from tax authorities, if any, is also reviewed. The reasonableness of management's judgement is also considered with respect to the work of the Auditors.

In assessing the carrying value of the Company's investment in Sportech Group Holdings Limited, the Committee reviewed financial projections for all divisions. These projections are inherently judgemental and the Committee robustly challenged management on the assumptions included in the models.

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 maintain objectivity and have access to applicable technical expertise to obtain value for money. In order to 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 complies 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 Board must approve spend on discrete projects in excess of £10k. 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 7 in the Notes to the financial statements. There were no non-audit fees paid to the auditors in 2018 (2017: £248k).

Effectiveness

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle the Company receives from PricewaterhouseCoopers LLP a detailed audit plan ('Audit Strategy Memorandum'), identifying their assessment of these key risks. For 2018 the significant and elevated risks identified were in relation to:

- intangible asset impairment;
- uncertain tax positions; and
- Investment impairment (Company only).

The Committee meets 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 2018. 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 for the reappointment of PricewaterhouseCoopers LLP as external Auditors for the year ending 31 December 2019 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 would be put to shareholders at the upcoming 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. Regular reforecasts are undertaken and 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 30 and 31 of the Strategic report.

To manage lower-level risks, a risk management programme was put in place and 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

Corporate Governance Report continued

risk appraisal process is regularly reviewed by the Board and complies 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 2018 and up to the date of approval of the Annual Report and Accounts. This review covers 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 was no such requirement. 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 (the '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. An appropriate policy which encourages and enables staff to raise any such concerns has been in place throughout the year. No instances of serious wrongdoing were reported to the Audit Committee during the period.

Remuneration Committee

The Remuneration Committee of the Board currently comprises the Non-executive Directors. It is Chaired by Giles Vardey. The purpose of the Committee is to ensure that the remuneration together with the terms and conditions of employment of Executive Directors and senior Executives, 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 42 to 62.

Nominations Committee

The Nomination Committee currently comprises the Non-executive Directors. Giles Vardey replaced Richard McGuire as Chair in November 2018.

Objectives

The Committee's main objectives are to lead the process for any new appointments to the Board, whether Executive or Non-executive, 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.

Activities

The Nomination Committee's activities are underpinned by the principle that all appointments 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 Tom Hearne as CFO with effect from 24 May 2018; and
- the appointment of Chris Rigg as an Independent Non-executive Director and Chairman of the Audit Committee with effect from 1 January 2019.

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 754 employees, 40% are female and out of 13 members of senior management 31% 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, the Board seeks to appoint new Directors who fit the skills criteria and gender balance that is in line with the Company's policy.

The Board continues to focus on encouraging diversity of business skills and experience, and also recognises that Directors with diverse skill sets, capabilities and experience gained from different geographic and cultural backgrounds enhances the Board.

Investors

There is regular dialogue with shareholders through a planned programme of investor relations which includes formal presentations of the Group's results by members of the Board. Meetings also take place with institutional investors and analysts on a regular basis and there is regular communications with shareholders through the Annual and Interim Reports and Sportech's corporate website (www.sportechplc.com). There are also other opportunities outside of close periods to enter into dialogue with 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 major shareholders' views of the Company through face-to-face contact, analyst and broker briefings.

All resolutions at the 2018 AGM held on 24 May 2018 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' was not a vote in law and would not be counted in the calculation of the proportion of the votes for or against the resolution.

The Board recognised the high level of votes against in relation to the Directors' Remuneration Report (resolution 2) and the reappointment of Richard McGuire (resolution 3) at the 2018 AGM. The Board also recognised the high level of withheld votes and abstentions in relation to the Directors' Report, Auditors' report and financial statements (resolution 1) and reappointment of the Auditors (resolution 7) at the 2018 AGM. In response. the Board identified shareholders' comments and clarified certain issues in relation to values attributed to departing senior executives. The Board, Nomination Committee and Remuneration Committee continue to value shareholder engagement and welcome the opportunity to debate, with shareholders, any points within this Annual Report.

The Board endeavours to ensure the Annual Report and accounts present a fair, accurate and balanced view and welcomes feedback from shareholders on its content.

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

Ben Harber
Company Secretary
SGH Company Secretaries Limited

20 March 2019

Report of the Remuneration Committee

Letter from the Remuneration Committee Chairman

Dear Shareholder,

As Chairman of Sportech's Remuneration Committee, I am pleased to present the Directors' Remuneration Report.

This report comprises an annual report on remuneration which describes how the shareholder approved Directors' remuneration policy was implemented for the year ended 31 December 2018 and how we intend for the policy to apply for the year ending 31 December 2019. This report, together with this annual statement, will be put to an advisory shareholder vote at the 2019 AGM.

Our approach to remuneration is governed by our directors' remuneration policy which, along with a long-term incentive arrangement, the Value Creation Plan ("VCP"), received binding shareholder approval at the General Meeting on 24 May 2017 and came into formal effect from that date. The current intention is for the policy to operate over the three-year period to 2020 and shareholders will not therefore be asked to approve any revisions at the 2019 AGM. However, to ensure clarity and transparency we have republished our Directors' Remuneration Policy report herewith (pages 44 to 53).

The Board and the Remuneration Committee value shareholder interaction and met with many of our key shareholders during 2018. The Board noted the votes recorded against the Remuneration Policy at the previous AGM, identified shareholders' comments and clarified certain issues around values attributed to departing senior executives. The Board and Remuneration Committee continue to value shareholder engagement and welcome the opportunity to debate any points within this Annual Report.

Changes to the Board

We announced on 13 November 2018 that our Chief Executive, Andrew Gaughan, would leave Sportech. He stepped down from the Board and left the Company on 28 February 2019. The Remuneration Committee determined that as part of the terms of his settlement agreement he would be treated as a Good Leaver for the purpose of the PSP and VCP. He remained eligible for a discretionary annual bonus for the year ended 2018. His outstanding 2016 PSP awards were not prorated. For the VCP, his leave date was agreed to be 31 December 2019 and accordingly will reduce pro-rata to maturity.

Tom Hearne was appointed to the Board as Chief Financial Officer in May 2018 on a salary of CAD$340,000.

Christian Rigg was appointed to the Board as an Independent Non-executive Director on 1 January 2019 and Richard Cooper stepped down from the Board as a Non-executive Director on 29 October 2018. Richard Cooper voluntarily waived his three-month severance payment entitlement.

Richard McGuire returned to his position of Non-executive Chairman on 14 March 2018 having temporarily been appointed to Executive Chairman during the strategic review period from 4 December 2017. He was again appointed temporarily to the position of Interim Executive Chairman on 13 November 2018, following the announcement that Andrew Gaughan would be leaving the Group in February 2019. Richard's fixed remuneration arrangements have remained the same throughout the year, i.e. an annual fee of £120,000.

Performance and remuneration for 2018

Annual bonus

Our FY2018 performance-related bonus was subject to adjusted Group EBITDA targets alongside several strategic objectives aligned with the KPIs of the business. The threshold level of EBITDA was not met, and no bonus was therefore payable for this element. The Strategic measures set by the Remuneration Committee were not achieved by Andrew Gaughan and although for some measures, were achieved by Tom Hearne, the Committee determined that due to the poor financial performance no bonus would be payable to either Andrew Gaughan or Tom Hearne.

Long term incentives

Following his appointment as Chief Financial Officer, Tom Hearne received a one-off award in June 2018 of 1,250 shares under the VCP. This represents 6.25% of the pool and, subject to meeting the stretching performance targets, will vest on 31 December 2021.

The FY2016 Performance Share Plan ("PSP") awards were granted on 3 November 2016, subject to a relative total shareholder return (100% of the award) target measured over a three-year performance period from 3 March 2016 as described in the 2016 Annual Report. Total shareholder return did not exceed the median performance of the benchmark

FTSE Small Cap Index (excluding investment trusts) over the performance period and therefore the awards lapsed in March 2019.

Implementation of remuneration policy for 2019

The remuneration package for our Executive Directors will continue to be made up of base salary, plus pension contributions and benefits, and, subject to stretching performance conditions, an annual bonus paid in cash. Following his VCP award in 2018, it is not currently intended that any further long-term incentive plan awards will be made to Tom Hearne in 2019. Within this framework we will be taking the following approach to the implementation of the remuneration policy for the year ending 31 December 2019:

– **Salary** – Andrew Gaughan left the Company on 28 February 2019. He was paid his 2018 level of basic annual salary until this date of CAD$500,000. Tom Hearne was paid CAD$340,000 from the date of his appointment in May 2018. His basic annual salary will rise by 5% to CAD$357,000 (approximately £200,000) from 1 January 2019.

– **Bonus** – The maximum annual bonus will remain at 100% of salary for the Chief Executive Officer and 75% of salary for other executive directors. The majority of the bonus will be based on financial performance measures and the minority on strategic objectives aligned with the KPIs of the business.

– **Long-term incentives** – The VCP was introduced in 2017 to replace the PSP. Awards under the VCP were first made in 2017. The Committee retains the right to make further awards, from the shareholder approved pool and limits, to personnel identified as key to delivering incremental value or executing a strategy to deliver tangible returns to shareholders. The VCP is an uncapped arrangement and the Board is aware that, potentially therefore, the plan could pay out at significant levels; however, significant value will only accrue to participants in the event of truly exceptional sustained long-term performance.

– **Enhancing shareholder alignment** – In addition to ensuring that the short and long-term performance measures and targets we set are closely linked to the achievement of the Company's key strategic and business objectives, pay is subject to recovery and withholding provision. The VCP is measured over a five-year period and significant share ownership guidelines apply – all features intended to enhance the alignment of interest between executive directors and shareholders and to contribute to an appropriate level of risk mitigation.

The Board is satisfied that the policy continues to provide a good balance between potential rewards to Executive Directors on the one hand, and, on the other, measures and targets which are appropriately stretching and that are aligned with the delivery of the overall long-term success of the Company.

The Committee has taken steps to ensure compliance with the new Corporate Governance Code effective from 1 January 2019. In particular, with regards to enhanced Remuneration Committee remit and post-employment shareholdings amongst other changes. Compliance is under review through 2019 and will be reported on in the Directors' Remuneration Report next year, in addition to the Remuneration Policy being updated and put to shareholders for approval at the 2020 AGM.

On behalf of the Committee, I thank shareholders for their support last year and hope you will be able to support the advisory vote on our Directors' Remuneration Report at the 2019 AGM.

Giles Vardey
Independent Non-executive Director and Chair of the Remuneration Committee

20 March 2019

Report of the Remuneration Committee continued

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 2016 issued by the Financial Reporting Council (the "Code"). PricewaterhouseCoopers LLP has audited the contents of the Report to the extent required by the Regulations.

Directors' Remuneration Policy

This part of the Directors' Remuneration report sets out the key parts of the Directors' Remuneration Policy which was approved by shareholders in a binding vote at the General Meeting held on 24 May 2017. The policy took formal effect from the date of approval and is currently intended to apply until the 2020 AGM.

A full version of the original shareholder approved policy can be found in the notice of General Meeting at http://www.sportechplc.com/investors/shareholder-information/meetings-and-voting.

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.

Remuneration for Executive Directors

The main component parts of the remuneration packages for Executive Directors are detailed in the table on pages 54 to 55, which should be read in conjunction with the recruitment/promotion policy on page 52, and the "Detailed remuneration policy for 2018" section of the Annual report on remuneration, which starts on page 53.

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 53. – 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.

Report of the Remuneration Committee continued

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Benefits To provide cost-effective, yet market competitive, benefits.	Benefits may include a combination of the following: – Car or car allowance for travel. – 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.

Report of the Remuneration Committee continued

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Value Creation Plan To motivate Executive Directors and incentivise delivery of performance over the long term. To encourage greater shareholder alignment and to facilitate share ownership.	– The Value Creation Plan will provide participants with a share in a pool of shares with a value equal to 20% of any cumulative shareholder value created above an annual hurdle.	– Ian Penrose as CEO was awarded 25% of the pool. – Mickey Kalifa and Andrew Gaughan; the CFO and President Sportech Racing and Digital in 2017, were awarded 12.5% of the pool each. Additional information applicable to the Policy: – Tom Hearne was awarded 6.25% of the pool following his appointment to the Board in 2018. – Assuming the Plan runs to maturity December 2021. Messrs. Penrose, Kalifa and Gaughan's entitlements will reduce to 10%, 5% and 7.5% respectively. – The remainder of the pool will be distributed between other participants and reserved for allocation to new joiners. – To the extent that the element of the pool that is reserved for new joiners is not allocated, this may be shared amongst current participants as determined by the Committee.	– Performance will be measured once at the end of a five-year period, unless there has been a change of control before the end of the performance period or at the Committee's discretion where an Executive Director is deemed a "Good Leaver" (as defined in the Rules of the Value Creation Plan). – Performance will be measured from a base share price of 95 pence, being the base level of the 2017 LTIP award, as at the start of the performance period. Awards are subject to a TSR performance condition. – No award will vest for TSR performance below the compound hurdle rate of 8% per annum. However, in the event of a change of control that results in accelerated vesting in 2017 or 2018, or in the case of an Executive Director being deemed a "Good Leaver" (as defined in the Rules of the Value Creation Plan) in 2017 or 2018, the compound hurdle rates for vesting will be 12% and 10% respectively. – 20% of any cumulative shareholder value created above the hurdle rate will be distributed between participants.

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Executive share ownership To align Executive Directors' and shareholders' interests.	– The Chief Executive is expected to hold an investment of at least 200% of base salary in the Company, other Executive Directors are expected to hold 150% of base salary in the Company, using 50% of net awards under the Company's long-term incentive plans to achieve the shareholding, if required.	– 200% of salary for the Chief Executive and 150% 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. The Group is a highly regulated and licensed entity in various jurisdictions and Non-executive Directors are subject to personal licensing assessments and if appropriate consents by numerous US authorities.	– 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 54. – 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.

Report of the Remuneration Committee continued

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 that 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 condition applicable to the VCP award has been selected by the Committee on the basis that share price is the best indicator of how the market values the efficiency with which the management team uses the available capital, so it implicitly recognises only those activities that are value-enhancing. In addition, the Committee considers the Plan provides:

- stronger alignment between Executives and shareholders, since the participants will share directly in the growth of the Company, albeit only for meeting stretching targets;
- a simple and transparent incentive focused on the achievement of high levels of growth in shareholder value; and
- a genuinely long term (five-year performance period) single measurement which ensures performance is sustained.

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 Policy Table), 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 other than the awards granted in March 2017 which lapsed as a condition of participation in the VCP during 2017, on the terms applicable at the time each such commitment was made.

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 CEO contract remains consistent with prior terms, requiring twelve months' notice in writing.

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.

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, the VCP and participation levels in the all-employee plans.

Report of the Remuneration Committee continued

Policy on Executive Director recruitments/promotions

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

Element of remuneration	Policy
Base salary	Salary levels will be set based on: – 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	A new Executive Director may be entitled to participate in the VCP, albeit potentially with different performance awards and depending on the timing of the appointment. 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.
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 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 2019

Basic annual salary

The Committee has reviewed base salaries for 2019 taking into account the role, responsibilities, performance and experience of the individual, the overall employee salary budget and wider inflationary indicators.

The base salaries for 2019 are as follows:

Director	2019	2018	% change
Chief Executive Officer[1]	**CAD$500,000**[2]	CAD$500,000	–
Chief Financial Officer	**CAD$357,000**	CAD$340,000	5%

[1]Andrew Gaughan was promoted to the position of Chief Executive Officer on 14 March 2018 from his previous position as President - Sportech Racing//Digital. Andrew's salary on appointment to the Board on 25 January 2017 in his position as President – Sportech Racing//Digital was set at CAD$400,000 (approximately £240,000 at an exchange rate of 1.67 CAD:GBP) and his salary was increased from this level on his promotion to Chief Executive to CAD$500,000 (approximately £300,000 at an exchange rate of 1.67 CAD:GBP).

[2]Andrew Gaughan's base salary remains unchanged from 2018 and is paid until his leaving date of 28 February 2019.

Performance related bonus

The maximum bonus potential for Tom Hearne for 2019 is 75% of basic salary. Andrew Gaughan is not due a bonus for his time of employment with the Group during 2019.

Tom Hearne's performance related bonus will be based on Group financial performance, delivering on Group strategic objectives and meeting personal targets. The sustainable financial based proportion of the potential bonus, which represents a majority of Tom's bonus entitlement, is operated with a range set around an agreed budgeted objective. Strategic and personal objectives are designed to protect and enhance the Company's position across key geographical regions and enhance shareholder value. The objectives themselves are considered commercially sensitive and will therefore be disclosed on a retrospective basis 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 matches to a limit of 50% of the first 6% of Canadian Directors' contributions up to a maximum of CAD$8,000. The Company paid in the maximum for Andrew Gaughan during the year but as Tom Hearne made no contributions, the Company did not make any contributions for him.

Other benefits

Tom Hearne is entitled to the following other main benefits; private health and disability insurance for himself, his spouse and children and life insurance for himself.

Long Term Incentive Plan and Value Creation Plan ("LTIP" and "VCP")

The VCP was introduced in 2017 to replace the Performance Share Plan ("PSP"). Awards under the VCP were first made in 2017 and it was intended that these awards would be one-off in nature to cover the five-year vesting period of the plan. The Committee retains the right to make further awards, from the shareholder approved pool and limits, to personnel identified as key to delivering incremental value or executing a strategy to deliver tangible returns. However, the previous VCP awards made to current Executive Directors will not increase. Tom Hearne was awarded 1,250 units under the scheme in June 2018 and it is not intended that he will receive any further awards under this plan in 2019.

Report of the Remuneration Committee continued

Non-executive Directors' fees

The Non-executive Director fee for 2019 is £60,000 which is unchanged since May 2017. This is intended to cover all Board duties and no separate Committee fees are payable.

Richard McGuire was appointed temporarily to the position of Executive Chairman on 4 December 2017 from his previous position as Non-executive Chairman. His salary on appointment to the position of Executive Chairman was set at £120,000 per annum (the same level as his fee as Non-executive Chairman had been). Richard reverted to his Non-executive Chairman role on 14 March 2018. Richard was appointed again to Executive Chairman on 13 November 2018 and his fee has remained at £120,000 throughout.

The fees of the Non-executive Directors are set to take account of the time commitment and complexity of the role reflecting, in particular, the onerous international regulatory environment for Sportech and that Board meetings will be held in both the US and the UK, necessitating additional travel and time commitments.

Details of each Director's remuneration for the year ended 31 December 2018 are given in the table below.

Directors' remuneration for 2018 (audited)

	Year of appointment	Fees/ salary £000	Taxable benefits £000	Pension £000	2018 Total £000
Executive Directors					
Richard McGuire (stepped down to Non-executive Chairman 14 March 2018, appointed to Interim Executive Chairman on 13 November 2018)	2017 & 2018	140	—	—	140
Andrew Gaughan	2017	266	2	5	273
Tom Hearne (appointed 14 May 2018)	2018	115	1	—	116
Non-executive Directors					
Richard McGuire (14 March 2018 to 13 November 2018)	2016	80	—	—	80
Richard Cooper (Stepped down from the Board 30 October 2018)	2017	50	—	—	50
Giles Vardey	2017	60	—	—	60
Aggregate emoluments		711	3	5	719

- Richard McGuire was paid a basic annual salary of £120,000 per annum with effect from 4 December 2017 on becoming Executive Chairman, the same as the fee he was paid in his previous role as Non-executive Chairman (a role to which he was appointed on 24 May 2017). He also received £100,000 in additional fees in the period 1 January 2018 to 14 March 2018 and 13 November 2018 to 31 December 2018 in relation to significant additional work undertaken following the previous Chief Executive and the Chief Financial Officer resignation announcements and leading the Strategic Review and Formal Sale Process and the transition required during Andrew Gaughan's notice period. Richard returned to his role as Non-executive Chairman between 14 March 2018 and 13 November 2018 following the appointment of Andrew Gaughan as Chief Executive Officer and his subsequent resignation. Richard was asked to re-engage full time in the business, since November 2018 and to support US growth initiatives he relocated to the Group's US business in Connecticut. There was no entitlement to any additional typical employment benefits or bonus consideration for efforts during 2018.
- Andrew Gaughan, in his position as President - Sportech Racing // Digital, was paid a basic annual salary of CAD$400,000 per annum with effect from 1 January 2017 which was not subsequently increased on his appointment to the Board on 25 January 2017. His basic annual salary was increased to CAD$500,000 on his appointment to Chief Executive Officer on 14 March 2018.
- Tom Hearne was paid a basic annual salary of CAD$340,000 from his appointment on 14 May 2018.
- Richard Cooper and Giles Vardey, Non-executive Directors, were paid a basic annual fee of £60,000 per annum. In addition to the figures in the table Richard Cooper also received £75,000 in the period 1 January 2018 to 11 May 2018 in relation to additional work undertaken following the previous Chief Executive and the Chief Financial Officer announced resignations and fulfilling the role of senior financial officer in the Group until the appointment of Tom Hearne.

Directors' remuneration for 2017 (audited)

	Year of appointment	Fees/ salary £000	Taxable benefits £000	Pension £000	Bonuses £000	Long-term incentive £000	Other (pay in lieu of notice) £000	2017 Total £000
Executive Directors								
Richard McGuire (appointed to an executive role 4 December 2017)	2017	10	—	—	—	—	—	10
Ian Penrose (stepped down from the Board 31 December 2017)	2005	399	18	32	160	223	520	1,352
Mickey Kalifa (stepped down from the Board 18 September 2017)	2016	180	1	14	82	47	309	633
Andrew Gaughan (appointed 25 January 2017)	2017	219	1	5	7	50	—	282
Non-executive Directors								
Roger Withers (stepped down from the Board 24 May 2017)	2011	60	—	—	—	—	30	90
Richard McGuire (appointed Non-executive Chairman 24 May 2017)	2016	79	—	—	—	—	—	79
Richard Cooper (appointed 24 May 2017)	2017	40	—	—	—	—	—	40
Giles Vardey (appointed 4 December 2017)	2017	5	—	—	—	—	—	5
Aggregate emoluments		992	20	51	249	320	859	2,491

- Richard McGuire was paid a basic annual salary of £120,000 per annum with effect from 4 December 2017 on becoming Executive Chairman, the same as the fee he was paid in his previous role as Non-executive Chairman (a role to which he was appointed on 24 May 2017). Prior to becoming Non-executive Chairman he was a Non-executive Director for which he received fees of £19,000 for the period from 1 January 2017. In addition to the figures in the table he also received £60,000 in consultancy fees in the period to 4 December 2017 and £20,000 during the period 4 December 2017 to 31 December 2017 in relation to significant additional work undertaken following the previous Chief Executive and the Chief Financial Officer resignation announcements and leading the Strategic Review and Formal Sale Process. Richard returned to his role as Non-executive Chairman on 14 March 2018 following the appointment of Andrew Gaughan as Chief Executive Officer.
- Ian Penrose, Chief Executive, was paid a basic annual salary of £399,000 per annum, with effect from 1 January 2017. He received £520,000 in relation to his leaving arrangements, full details of which are provided in last year's Annual Report.
- Mickey Kalifa, Chief Financial Officer, was paid a basic annual salary of £254,000 per annum with effect from 1 January 2017. He received £309,000 in relation to his leaving arrangements full details of which are provided in last year's Annual Report.
- Andrew Gaughan, in his position as President - Sportech Racing // Digital, was paid a basic annual salary of CAD$400,000 per annum with effect from 1 January 2017 which was not subsequently increased on his appointment to the Board on 25 January 2017. He earned a bonus of £1,000 in relation to performance for the period prior to his Board appointment. This is in addition to the figures set out above. Figures have been converted from CAD$ to GBP at an exchange rate of 1.67 (the weighted average rate for the period).
- Roger Withers stepped down from the Board on 24 May 2017 and received £30,000 for payment in lieu of contracted notice.
- Richard Cooper and Giles Vardey, Non-executive Directors, were paid a basic annual fee of £60,000 per annum each with effect from 1 May 2017 and 4 December 2017 respectively. In addition to the figures in the table Richard Cooper also received £66,000 in relation to additional work undertaken following the previous Chief Executive and the Chief Financial Officer announced resignations and fulfilling the role of senior financial officer in the Group.

Report of the Remuneration Committee continued

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 was 75% of basic salary. For each Executive Director, their performance related bonus was based on (i) the adjusted EBITDA less capitalised software and debtors over 3 months old and (ii) strategic objectives aligned with Group strategic goals. Following his agreed departure the Remuneration Committee agreed that Andrew Gaughan would be eligible to receive a bonus award in respect of 2018.

Adjusted EBITDA performance

The Committee considered the Group's adjusted EBITDA performance for these purposes and in this respect, achievement was determined to be nil out of a maximum of 70% of overall potential bonus as the threshold was not met. The targets set were to achieve adjusted EBITDA of between threshold £8.5m (20% of this element of bonus achievement) and £10.0m (100% of this element of bonus achievement), with target set at £9.5m (50% of this element of bonus achievement).

Strategic objectives

With regards to Andrew Gaughan, his personal 2018 targets related to: Reducing Capital Expenditure within Racing and Digital Business (from the budgeted capex in this division), achieving a specific EBITDA contribution from Bump 50:50 during the year, delivering and executing a plan for growth from Venues in H2, reducing the size of exposures in the 2017 accounts for items such as Norco and San Diego amongst others, and subject to the repeal of PASPA, securing a competitive sports wagering licence in Connecticut and acquiring two B2B clients to our Sports Betting Platform. Achievement against each of these targets was assessed by the Committee, resulting in an award of zero% out of a maximum target of 30% of potential bonus.

The 2018 strategic targets relating to Tom Hearne were in relation to: setting up a B2B and B2C model for the remainder of 2018 and for 2019, improving the EPICOR system, fixing connection issues and completing the business process improvements required, effecting the successful transition of the UK office from London to Bristol, improving business unit review processes on a monthly or quarterly basis and producing a well-documented tax plan to utilise best the US tax losses and initiate an amalgamation process to consolidate the company's corporate entities. Although some of these targets were achieved, the Committee determined that due to the poor financial performance no bonus for strategic targets should be paid either, resulting in an award of zero% out of a maximum target of 30% of potential bonus.

The table below summarises the overall bonus result.

Individual	Total bonus: % Maximum (% salary payable)
Chief Executive (Andrew Gaughan)	zero% out of the maximum entitlement (zero% of salary payable) on pro-rated salary
Chief Financial Officer (Tom Hearne)	zero% out of the maximum entitlement (zero% of salary payable), pro-rated per date of appointment to 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.

Pension arrangements

The Company paid CAD$8,000 into a defined contribution scheme for Andrew Gaughan and CAD $nil for Tom Hearne (Tom did not make employee contributions).

Long-Term Incentive Plans ("LTIPs")

Awards vested in relation to performance ending 2018

The performance period of awards granted in November 2016 were substantially complete in the year under review, with 100% of awards subject to relative TSR (performance period measured to 3 March 2019). The vesting period for these awards ends on 3 November 2019. Summary details of the full conditions applying to the 2016 awards are included as a footnote to the PSP table on page 58. It was determined that Andrew Gaughan will be treated as a Good Leaver and his 2016 award would not be pro-rated.

The assessment of the TSR measure was made independently by Aon who advised that TSR over the three-year performance period to 3 March 2019 was (12.9)% which resulted in the Company being ranked below the median position on a relative basis. As a result, none of this award will be eligible to vest.

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

Performance Share Plan – 2018 vesting

Measure	Condition	Threshold	Maximum	Actual	Vesting
Relative TSR	TSR measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over the three years from 3 March 2016	Median rank 64	Upper quartile rank 32.25	Actual rank 91	0%

Executive	Award	Number of awards granted	Dividend adjust-ment[1]	Leaver pro-rating	Adjusted number of awards	Vesting	Number of shares vesting	Value of awards vesting (£)
Ian Penrose	2016	607,636	203,558	(270,398)	540,796	0%	—	—
Mickey Kalifa	2016	290,135	97,195	(153,163)	234,167	0%	—	—
Andrew Gaughan	2016	239,679	80,292	—	319,971	0%	—	—

[1]The number of shares comprised in each award have been adjusted to take account of the impact of the special dividend using a theoretical ex-price rights adjustment factor of 1.335.

[2]It was agreed in Ian Penrose and Mickey Kalifa's settlement agreements that pro rating of the 2016 PSP would be from 9 March 2016 rather than the award date of 2 November 2016, given the award date was delayed from March to November due to protracted close periods.

LTIP awards granted during 2018

Value Creation Plan ("VCP")

The Committee has granted during the year awards giving participants a future right to acquire ordinary shares in Sportech PLC under the VCP as detailed below.

Executive	Type of award	Number of units awarded	% of overall VCP pool
Tom Hearne	Restricted share award	1,250	6.25%

The performance period for the 2018 Award comprises the five years commencing on 1 January 2017. The award size was determined taking due account of fact that he would be joining the scheme part way through its five year life. The VCP provides Participants, including the Executive Directors, with a pool of ordinary shares with a value equal to 20% of any cumulative shareholder value created above a compound hurdle rate of 8% per annum. However, in the event of a change of control that results in accelerated vesting in 2017 or 2018, or in the case of an Executive Director being deemed a "Good Leaver" (as defined in the VCP rules) in 2017 or 2018, the compound hurdle rates for vesting will be 12% and 10% respectively. The Chief Executive, Chief Financial Officer and President Sportech Racing and Digital share 50% of this pool. This will be measured from a base ordinary share price of 95 pence, being the base level of the 2017 LTIP award, as at the start of the Performance Period.

The Committee will have the discretion to settle, up to 50% of Awards in cash.

A clawback provision is in place whereby the Committee may require a Participant to transfer to the Company all or some of the ordinary shares acquired, or pay certain amounts to the Company, in the period of two years following the vesting of an Award, where the Committee determines that one or more of the following trigger events have occurred:

(a) the discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company or the audited accounts of any Group company; and/or

(b) action or conduct of a Participant which, in the reasonable opinion of the Committee, amounts to fraud or gross misconduct.

Report of the Remuneration Committee continued

Directors' share-based incentives

The share-based incentives held by the Directors are as follows:

PSP

The following table shows PSP 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 2018 Number	Dividend Adjustment[3]	Awarded during the year Number	Exer-cised during the year Number	Lapsed during the year Number	**As at 31 December 2018 Number**	Market price on date of grant Pence	Date from which exerci-sable	Award expiry date	Share Price at date of exercise (pence)
Andrew Gaughan	09.03.15[1]	131,895	44,185	—	(88,040)	(88,040)	**—**	66.50	24.04.18	09.03.19	n/a
	03.11.16[2]	239,679	80,292	—	—	—	**319,971**	64.625	03.11.19	03.11.20	n/a
Total PSP awards		371,574	124,477	—	(88,040)	(88,040)	**319,971**				

[1]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 outlined in full in the 2015 Annual Report.

[2]2016 awards were deferred until November, because of certain ongoing anticipated corporate activity which delayed their grant and were subject to a relative TSR performance target subject to a financial underpin which was outlined in full in 2016 Annual Report.

[3]Adjustment of 0.335 made to awards to compensate for dividend paid in December 2017.

The market price of the ordinary shares at 31 December 2018 was 39.75p and the range during the year was 32.45p to 86.30p.

VCP

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

	Date of grant	As at 1 January 2018 Number	Awarded during the year Number	**As at 31 December 2018 Number**	% of bonus pool
Ian Penrose	24.07.17	5,000	—	**5,000**	25%
Mickey Kalifa	24.07.17	2,500	—	**2,500**	12.5%
Andrew Gaughan	24.07.17	2,500	—	**2,500**	12.5%
Tom Hearne	29.06.18	—	1,250	**1,250**	6.25%
Total		10,000	1,250	**11,250**	56.25%

Ian Penrose and Mickey Kalifa's entitlement to the VCP shares will reduce pro rata to maturity, following their departure from the Company as set out in the 2017 report. Andrew Gaughan's entitlement to the VCP will reduce pro-rata to maturity as noted below.

Payments to departing directors including payments for loss of office

Andrew Gaughan stepped down from the Board and left the employment of the Company on 28 February 2019. As part of his settlement agreement Andrew received CAD$500,000 by way of payment in lieu of notice (which equates to 12 months' salary and benefits under his contract of employment), and he remained eligible for a discretionary 2018 annual bonus (CAD zero). He was determined to be a Good Leaver for the purpose of outstanding PSP and VCP awards and his 2016 PSP awards were not prorated. For the purpose of the VCP his leave date was agreed to be 31 December 2019 and will reduce pro-rata to maturity. He continued to accrue his usual employment benefits until 28 February 2019.

Payments to past directors

Steve Cunliffe, a past director, was paid £245,000 in May 2018 in relation to an employment litigation claim, relating to the Spot the ball VAT repayment claim success. There were no other payments to past directors in the year other than those fully outlined in last year's report in relation to Ian Penrose (amounts of which were paid in January 2018 payroll).

A company related to Mickey Kalifa, a past director, was paid £121,000 in July 2018 and £78,000 in January 2019 in relation to a consultancy contract entered into with the Company to progress the completion of the sale of Sportech Racing BV, which was successfully closed in July 2018. Mr Kalifa delivered consulting services on a success only fee basis.

Director interests and shareholding guidelines

The following table shows Directors' interests in the Company along with the percentage of the shareholding guideline that is currently met:

Director	Total shareholding at 31 December 2017	**Total shareholding at 31 December 2018 (or on stepping down from the Board if earlier)**	PSP award held unvested	Share ownership guideline	% of guideline met by 31 December 2018
Andrew Gaughan	545,111	**588,954**	319,971	200%	70.4%
Tom Hearne	—	**25,000**	—	150%	5.4%
Richard McGuire	270,000	**770,000**	—	N/A	N/A
Richard Cooper*	—	**125,000**	—	N/A	N/A
Giles Vardey	—	—	—	N/A	N/A

*Interests frozen at the Director's leaving date.

The Chief Executive is expected to hold an investment of at least 200% of base salary in Company shares and any other Executive Directors of at least 150% of salary. Until this requirement is met 50% of shares vesting from the LTIP must be held (on a net of tax basis).

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.

External directorships

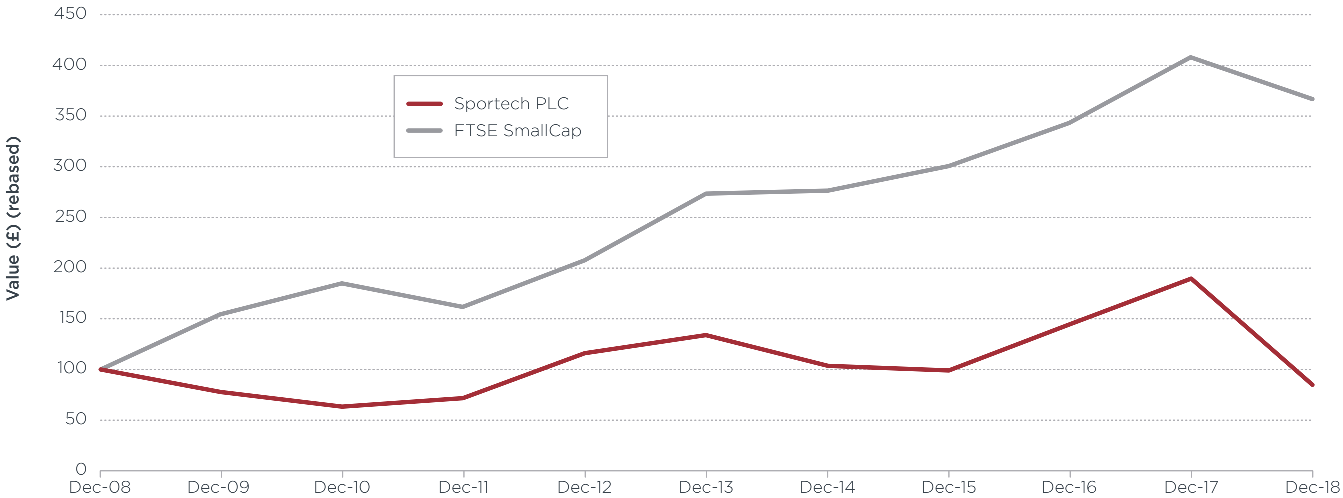
Andrew Gaughan and Tom Hearne do not hold any external directorships.

Report of the Remuneration Committee continued

Performance graph and Chief Executive pay chart

This graph shows the value, by 31 December 2018, 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:

Total shareholder return
Source: Datastream (Thomson Reuters)



This graph shows the value, by 31 December 2018, of £100 invested in Sportech PLC on 31 December 2008, compared with the value of £100 invested in the FTSE SmallCap Index on the same date.
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 nine years:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Remuneration before LTIPS (£000)	416	542	502	542	575	515	517	1,233[1]	609[3]	**268[4]**
LTIPS (£000)	—	—	—	233	836	158	—	—	223	**—**
Total remunerations (£000)	416	542	502	775	1,411	673	517	1,233	832	**268**
Annual bonus	33%	74%	50%	25%	40%	21.25%	20.5%	39.2%[2]	40.0%	**—**
LTIP vesting	—	—	—	62.0%	82.7%	29.7%	—	—	50.0%	**—**

[1]Including exceptional bonus of £637,000

[2]Excluding exceptional bonus

[3]Excluding loss of office and pay in lieu of notice payments of £520,000

[4]Relates to Andrew Gaughan, all prior years related to Ian Penrose.

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

	2018	2017	% change
Chief Executive (£000)			
- Salary	**266**	399	(33.3)%
- Bonus (excluding exceptional bonus)	**—**	160	(100.0)%
- Benefits	**2**	18	(88.8)%
Average of Group full-time employee (£000)			
- Salary	**62**	64	(3.1)%
- Bonus	**2**	5	(60.0)%
- Benefits	**12**	11	9.1%

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)

	2018 £000	2017 £000	% change
Staff costs	**25,576**	26,162	(2.2)%
Distributions to shareholders	**—**	74,761	N/A

Dates of appointment of Directors

Details of the service contracts and letters of appointment in place as at 31 December 2018 for Directors are as follows:

	Date of Appointment	Notice period
Richard McGuire	24.08.16	3 months
Andrew Gaughan	25.01.17	12 months
Tom Hearne	14.05.18	12 months
Richard Cooper	24.05.17	3 months
Giles Vardey	04.12.17	3 months
Christian Rigg	01.01.19	3 months

Shareholders' vote on remuneration

At the last Annual General Meeting on 24 May 2018, votes on the Directors' Remuneration Report were cast as follows:

	In favour	Against	Withheld
To approve the Directors' Remuneration Report for the year ended 31 December 2017	87,435,243 (75.11%)	28,967,979 (24.89%)	1,649

Votes on the Directors' Remuneration Policy and VCP were cast at the General Meeting held on 24 May 2017 as follows:

	In favour	Against	Withheld
To approve the Directors' Remuneration Policy	113,839,245 (84.03%)	21,634,427 (15.97%)	nil
To approve the rules of the Sportech PLC Value Creation Plan	113,839,245 (84.03%)	21,634,427 (15.97%)	nil

The Board noted the votes recorded against the Remuneration Policy at the previous AGM, identified shareholders' comments and clarified certain issues around values attributed to departing senior executives. The Board and Remuneration Committee continue to value shareholder engagement and welcome the opportunity to debate, with shareholders, any points within this Annual Report.

Report of the Remuneration Committee continued

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 three times during the year and the following key activities have been undertaken:

- review of best practice;
- approval and grant of awards under the VCP in the year under review;
- approval of bonus awards for achievement of FY2017 targets, and approval of bonus measures and targets for 2018;
- review of base salaries for the Executive team;
- approval of vesting determination for the 2015 PSP awards; and
- approval of remuneration terms for Tom Hearne.

The Committee's recommendations in 2018 and early 2019 were all accepted and implemented by the Board.

The Committee has taken steps to ensure compliance with the new Corporate Governance Code effective from 1 January 2019, in particular, with regards to enhanced Remuneration Committee remit and post-employment shareholdings amongst other changes. Compliance is under review through 2019 and will be reported on in the Directors' Remuneration Report next year, in addition to the Remuneration Policy being updated and put to shareholders for approval at the 2020 AGM.

Composition of the Remuneration Committee

During the year, the Committee consisted of (i) Giles Vardey (Chairman from March 2018), (ii) Richard McGuire, (Chairman until Giles Vardey was appointed Chairman in March 2018); and (iii) Richard Cooper (until he stepped down from the Board on 30 October 2018). Each of Richard Cooper and Giles Vardey are Independent Non-executive Directors. Richard McGuire remained a member of the Committee given his executive role was temporary and for a short period of time. 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. Chris Rigg, Independent Non-executive Director was appointed to the Committee on 1 January 2019.

The Chief Executive is invited to attend meetings although he is not present when matters affecting his own remuneration are discussed. The Company Secretary or their nominee acts as secretary to the Committee.

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of Aon PLC who in the year under review advised on the drafting of the DRR and provided TSR performance monitoring and IFRS2 accounting calculations. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Aon has no connection with Sportech. The terms of engagement with Aon 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 £22,000 (excluding VAT).

The Committee also received advice from KPMG for the 2018 grant under the VCP, various completion activities for the 2017 grant and ongoing activities for the scheme. Fees paid for this independent advice were £58,000.

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:

Giles Vardey
Independent Non-executive Director and Chairman of the Remuneration Committee

20 March 2019

Directors' Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2018. General information of the Company can be found in the Accounting Policies on page 86.

The Strategic Report and Corporate Governance Report are set out on pages 1 to 77. This Directors' Report does not include information on trading in the year or principal risks. As set out under section 414C(11) of the Companies Act 2006, this information is included on pages 1 to 31.

Directors and their interests in the shares of the Company

The Directors who held office at 31 December 2018 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.

	At 20 March 2019 Number	At 31 December 2018 Number	31 December 2017 Number
Andrew Gaughan*	**588,954**	588,954	545,111
Thomas Hearne (appointed 24 May 2018)	**25,000**	25,000	–
Richard McGuire	**870,000**	770,000	270,000
Giles Vardey	**–**	–	–
Richard Cooper (resigned 29 October 2018)*	**125,000**	125,000	–
Christian Rigg (appointed 1 January 2019)	**–**	–	–

*At date of resignation.

Details of Value Creation Plan and Performance Share Plan ("PSP") awards granted during the year ended 31 December 2018 are set out in the Remuneration Report on pages 42 to 62.

Directors' third-party indemnity provisions

During the year, qualifying indemnity insurance was provided to the Directors. Such insurance remained in force throughout the year and 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 employee involvement are set out in the 'Employees' section of the Corporate Social Responsibility Report on page 34.

Substantial shareholdings

	13 March 2019 Ordinary shares of 20p	13 March 2019 % of issued share capital	31 December 2018 Ordinary shares of 20p	31 December 2018 % of issued share capital
Lombard Odier Asset Mgt	34,314,924	18.37	32,662,050	17.49
Harwood Capital	26,750,000	14.32	25,750,000	13.79
Artemis Investment Mgt	15,065,705	8.07	15,065,705	8.07
AXA Investment Mgrs	11,441,177	6.13	11,441,177	6.13
Schroder Investment Mgt	10,887,671	5.83	10,887,671	5.83
Mr Richard I Griffiths	10,189,128	5.46	10,189,128	5.46
Aviva Investors	9,864,700	5.28	9,882,046	5.29
Canaccord Genuity Wealth Mgt	9,715,308	5.20	9,715,308	5.20
HSBC Securities	8,314,641	4.45	8,314,641	4.45
Bank of America Merrill Lynch	8,282,294	4.43	8,319,120	4.45
Deutsche Bank	6,255,226	3.35	6,255,226	3.35
Total of substantial shareholdings	**151,080,774**	**80.90**	**148,482,072**	**79.51**
All other shareholdings	**37,670,483**	**19.10**	**38,269,185**	**20.49**
Total shares in issue	**188,751,257**	**100.00**	**186,751,257**	**100.00**

Dividend

No dividend is proposed for 2018 (2017: £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 33. Greenhouse gas emissions are monitored closely by management, and disclosure of those emissions can be found in the Strategic Report on page 33.

Corporate governance

The Group's statement on corporate governance is set out on pages 35 to 41 and forms part of this Directors' Report.

Respect for human rights

Sportech are committed to respecting human rights as embodied in the *Universal Declaration of Human Rights* and its two corresponding covenants, *The International Covenant on Civil and Political Rights* and *The International Covenant on Economic, Social, and Cultural Rights*. We endeavour to ensure that we do not infringe on human rights, avoid complicity in the human rights abuses of others, and comply with the laws of the countries in which we do business.

Directors' Report continued

Anti-corruption and anti-bribery matters

Sportech is committed to conducting business in an ethical and honest manner, and is committed to implementing and enforcing systems that ensure bribery is prevented. Sportech has zero-tolerance for bribery and corrupt activities. We are committed to acting professionally, fairly, and with integrity in all business dealings and relationships, wherever in the country we operate.

Sportech will constantly uphold all laws relating to anti-bribery and corruption in all the jurisdictions in which we operate. We are bound by the laws of the UK, including the Bribery Act 2010, in regards to our conduct both at home and abroad.

Sportech recognises that bribery and corruption are punishable by up to ten years of imprisonment and a fine. If our company is discovered to have taken part in corrupt activities, we may be subjected to an unlimited fine, be excluded from tendering for public contracts, and face serious damage to our reputation. It is with this in mind that we commit to preventing bribery and corruption in our business, and take our legal responsibilities seriously.

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, however, 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 preapprove 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. The nature of the holdings of the Company's individual Directors and individually significant shareholders are disclosed on page 63. There are no restrictions on the transfer of shares.

As part of the resolutions approved at the 2018 AGM, shareholders' authority was given to the Directors to:

(i) allot shares in the Company and grant rights to subscribe for or convert any security into shares in the Company ("Rights") up to an aggregate nominal value of £12,583,417. This represents approximately one-third of the share capital of the Company in issue at the date of this document.

And in line with the Share Capital Management Guidelines issued by the Investment Association:

(ii) allot shares in the Company and grant Rights up to a further aggregate nominal value of £12,583,417 in connection with a rights issue. This amount represents approximately one-third of the share capital of the Company in issue at the date of this document.

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 32 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 2020. Accordingly, it is deemed appropriate to prepare the financial statements on a going concern basis for the financial year ended 31 December 2018.

Financial risk management

The Group's activities expose it to a variety of financial risks:

- liquidity risk;
- credit risk; and
- foreign exchange risk.

Where appropriate the Group uses derivative financial instruments to hedge certain risk exposures. Details of the policy for each of the above risks can be found in note 25 of the consolidated financial statements.

Disclosure of information to Auditors

So far as each Director is aware, at the date of the approval of the financial statements there is no relevant audit information of which the Company's Auditors are unaware. Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's Auditors are aware of that information.

The Auditors, PricewaterhouseCoopers LLP, indicated their willingness to continue in office, and a resolution for their reappointed would be proposed at the Annual General Meeting.

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with 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 company and of the profit or loss of the group and company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section on page 28 confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Strategic report and other reports contained in the Annual Report includes 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 it faces.

Directors' Report continued

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 28 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 ("AGM")

The Notice convening the AGM of the Company on 22 May 2019 will be sent to shareholders by 15 April 2019. In accordance with good corporate governance practice, this year, each of the Directors will voluntarily stand for re-election in line with the provisions of the UK Corporate Governance Code, save for Thomas Hearne and Christian Rigg who were appointed to the Board since the last AGM, and are required to retire and offer themselves for reappointment. The profiles of those Directors appear on page 28. Resolutions will also be proposed at the AGM to receive the Accounts and the Directors' and Independent Auditors' Reports, to approve the Remuneration Report set out on pages 53 to 62, to reappoint the Auditors and to authorise the Directors to determine their remuneration.

On behalf of the Board,

Ben Harber
Company Secretary
SGH Company Secretaries Limited

20 March 2019

Independent auditors' report to the members of Sportech PLC

Report on the audit of the financial statements

Opinion

In our opinion, Sportech PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the group and company Balance Sheet as at 31 December 2018; the Income Statement and Statement of Comprehensive Income, the group and company Statement of Cash Flows, and the group and company Statement of Changes in Equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Independent Auditors' Report to the Members of Sportech PLC continued

Our audit approach

Overview

- Overall group materiality: £160,000 (2017: £230,000), based on 2.5% of Adjusted EBITDA.
- Overall company materiality: £440,000 (2017: £430,000), based on 0.5% of Net Assets.

- Our audit focused on the reporting packs for full scope entities being: Sportech PLC (the parent company), Sportech Racing LLC, Sportech Venues Inc and Racing Technology Ireland Limited.
- We have performed limited procedures and desktop reviews over other entities within the Group.
- The components where we performed audit procedures accounted for 90% of Group revenue and 97% of Group adjusted EBITDA.

- Intangible asset impairment (Group)
- Uncertain tax provisions (Group)
- Investment impairment (Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, Pensions legislation, US Gaming regulations and UK and US tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to overstate the financial performance of the Company and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team included, but were not limited to: review of the financial statement disclosures to underlying supporting documentation, review of correspondence with regulators, review of correspondence with legal and tax advisors and enquiries of management.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Intangible asset impairment Refer to page 38 (Audit Committee Report), page 86 (Significant Accounting Policies) and pages 106 to 108 (notes). Intangible assets associated with the perpetual gaming licence held by Sportech Venues Inc. ('Venues') have a carrying value of £6.0m and require an annual impairment assessment. The assessment performed by the Directors concluded that no impairment is required. In assessing the carrying value, the directors have also taken into account other Venues assets of £15.1m. In their discounted cash flow forecast the directors have made three key assumptions. They 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, although only declining by 1% per year on average from 2018 onwards. Further, they have assumed the level of net handle in respect of internet gambling in Connecticut will grow by 40% in 2020 and 10% in 2021 following an expectation that illegal operators will be forced out of the State of Connecticut. The directors have also made assumptions in respect of the growth in profitability of the newly opened Stamford venue, both in respect of the level of handle generated and the food and beverage sales. We focused on these areas due to the judgments and estimates involved.	We evaluated and challenged the Directors' future cash flow forecasts, together with the process by which they were drawn up and the key assumptions made, and tested the underlying value-in-use calculation. 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 evaluated the key assumptions over the net handle generated by the land based Venues in 2019 and beyond by reference to the trend in total handle in recent years, after removing the impact of one off events. We have evaluated the growth assumptions adopted by the directors in respect of online handle, with reference to historic growth rates and considering the likelihood that the company's rights held under the exclusive perpetual gaming license will be enforced. We have also assessed the reasonableness of the directors' forecasts for the profitability of the Stamford venue, with reference to the current performance of the venue and to operational plans to increase the profitability of that venue. The directors' assumptions are considered to be reasonable estimates, supported by information currently available. In addition, we have evaluated the post-tax discount rate used within the impairment model (9.1%) to assess whether it is appropriate. This was done primarily by comparison to the weighted average cost of capital of other comparable companies within the same industry or with a similar business model. The discount rate was found to be supportable. Whilst inherent uncertainty exists around many of the key assumptions used by the directors in the impairment review, our procedures indicated that the key assumptions were supportable and reasonable within the context of the evidence we obtained. We did not identify any material inconsistencies in the directors' estimation techniques and forecasting in these areas.

Independent Auditors' Report to the Members of Sportech PLC continued

Key audit matter	How our audit addressed the key audit matter
	Furthermore, we performed sensitivity analysis to assess whether reasonably possible changes to key assumptions could result in an impairment. 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. We have determined that the directors' disclosure (see note 13) appropriately reflects this fact and is consistent with the requirements of accounting standards.
Uncertain tax provisions Refer to page 38 (Audit Committee Report), page 87 (Significant Accounting Policies) and page 103, 122 and 123 (notes). Over recent years the Group has experienced a number of one off transactions that have significant tax implications. These include the disposal of the Football Pools division and the gain arising from the successful Spot the Ball claim. **Football Pools disposal** The disposal of the Football Pools division was structured as a share sale of three companies and sales of the core business trade and assets of other companies, which remain in the Group. Where certain intangible assets are disposed of by the Group the quantum of the tax liability, which crystallises, is subject to management judgement both in respect of the consideration, which relates to the assets disposed of, the value of those assets and the periods in which those assets arose. **Spot the ball income** The tax in respect of the net Spot the Ball exceptional income recognised in the prior year was provided at 20%, being the UK tax rate enacted for the year ended 31 December 2016. It is possible that capital losses can be offset against the gain to reduce the tax on this gain. A judgement therefore exists as to whether a provision is required for the £4.6m, which could be reduced to nil should the conclusion be reached that it is appropriate to treat the gain as a capital gain. The directors' have acknowledged exposure to additional liabilities and have provided for this matter in full.	We have evaluated the directors' conclusions surrounding whether a provision is required in respect of these uncertain tax provisions and where applicable the judgements adopted in determining the quantum of the provision and related disclosures. **Football Pools disposal** In respect of the calculation of tax on disposal of the Football Pools division we obtained management's intangible asset valuation model and assessed the appropriateness of the methodology and assumptions adopted in determining the valuation to be assigned to each of the intangibles disposed of. We also evaluated the judgements adopted by the directors in determining the period in which those intangibles arose, in the context of our understanding of the Group. We performed sensitivity analysis to assess the potential incremental tax liability should different assumptions be adopted. We determined that, while the directors' assumptions are not inappropriate, there were alterative judgements which could result in a materially different tax liability, and hence agree that the directors' disclosures (see note 26) adequately reflect this. **Spot the ball income** In respect of the taxation of the Spot the Ball income we have understood the relevant tax legislation, recalculated the tax payable based on the assumptions adopted by management, reviewed correspondence with HMRC and consulted with tax specialists to assess the appropriateness of the position taken by management. On balance we consider the judgement taken to be supportable.

Key audit matter	How our audit addressed the key audit matter
HMRC VAT challenge During 2017, Sportech PLC has received a challenge from HMRC in respect of the value of economic activities that they provide to their trading subsidiaries, including the exempt Football Pools business. Assessments have been received totalling £3.5m for the period ended 30 June 2017. Management have provided £1.7m in relation to this matter and on the basis of legal and tax advice have taken the judgement that no further provision is required in respect of this assessment or for any subsequent periods. Together these create a number of material tax judgements and we have therefore focussed on the assumptions adopted by management in determining the appropriate provisions required as at the 31 December 2018.	**HMRC VAT challenge** In respect of the VAT claim we have reviewed the advice that the directors have received from their external tax and legal advisors and evaluated the supporting calculations, which have been prepared by management in reaching their conclusion that no provision is required. Whilst the future outcome of the appeal against HMRC is uncertain we determined that the directors' judgement in respect of this item is reasonable. Further, we have confirmed that the contingent liability in respect of this item is appropriately disclosed (see note 26).
Company only key audit matter Investment impairment Refer to page 38 (Audit Committee Report) and page 134 (notes to the Company Financial Statements). During the year management have identified impairment indicators within the investment balance held by Sportech PLC (PLC) in its direct subsidiary Sportech Group Holdings Limited (SGHL), an entity which ultimately holds the trading entities within the Sportech Group and which was previously carried at £235.4m. This impairment arose primarily from the payment of a dividend from SGHL to PLC of £150m during the year. Management have performed an impairment review as required by IAS36 and have concluded that the fair value of the investment is £92.7m and have therefore recognised an impairment of £142.7m. The valuation is based on the expected future performance of the trading entities in the US and Europe and as such is judgemental due to the estimation involved in predicting future cash flows. We have focused on entities that contribute a significant proportion of the value and considered the main assumptions and estimates involved.	We evaluated and challenged the Directors' future cash flow forecasts, together with the process by which they were drawn up and the key assumptions made, and tested the underlying value-in-use calculation. 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 evaluated the key assumptions, such as the continued growth of the Dominican Republic, Ireland and Bump businesses. We have checked management's key assumptions against available evidence and consider this to corroborate the view taken by management. We do note that management has reducing the forecast level of international sales and services to be more in line with historical trends, given the forecasts are based on opportunities that remain uncertain at this stage. We have also checked that the expected cash flows of the Venues business are consistent with those included in the Venues impairment model. The directors' assumptions are considered to be reasonable estimates, supported by information currently available.

Independent Auditors' Report to the Members of Sportech PLC continued

Key audit matter	How our audit addressed the key audit matter
	In addition, we have evaluated the discount rate used within the impairment review to assess whether it is appropriate. This was done primarily by comparison to the weighted average cost of capital of other comparable companies within the same industry or with a similar business model, with adjustments to reflect the different regions in which the underlying trading entities operate. The discount rate was found to be supportable. Whilst inherent uncertainty exists around many of the key assumptions used by the directors in the impairment review, our procedures indicated that the key assumptions were supportable and reasonable within the context of the evidence we obtained. We did not identify any material inconsistencies in the directors' estimation techniques and forecasting in these areas. We note that given an impairment charge has been recognised and there remains a material residual carrying value of the investment balance, it is highly sensitive to future adverse variances against forecast. Overall we have concluded that management have determined their valuation on a reasonable basis, driven by management's reasonable estimates of the present value of future cash flows of the business.

How we tailored the audit scope

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

The Group is managed divisionally, with the two operating divisions being Racing and Digital and Venues, with the head office function incurring certain central costs on behalf of the Group.

The directors operate the Group divisionally and so we have scoped our audit at a reporting level. The Group comprises 19 reporting units. We performed full scope audits over four reporting units, being Sportech PLC (the Parent Company), Sportech Racing LLC, Sportech Venues Inc and Racing Technology Ireland Limited, which we regarded as being financially significant components of the Group given their contribution to the Group's revenue and adjusted EBITDA.

The components where we performed full scope audit procedures accounted for 90% of Group revenue and 97% of Group adjusted EBITDA.

Additionally we performed work in another five reporting units 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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£160,000 (2017: £230,000).	£440,000 (2017: £430,000).
How we determined it	2.5% of Adjusted EBITDA.	0.5% of Net Assets.
Rationale for benchmark applied	Based on the benchmarks disclosed within the Annual Report, adjusted EBITDA is the primary measure used by the shareholders in assessing the performance of the group. Management's view is that adjusted EBITDA is the closest proxy to cash generation for underlying performance, and adding back share option charges, depreciation, amortisation and exceptional items to operating profit is appropriate.	Net Assets is considered to be appropriate as it is not a profit oriented company. The main source of income is dividend income provided by other group companies. The company holds all investments in subsidiaries and therefore Net Assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £60,000 and £152,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £8,500 (Group audit) (2017: £10,000) and £22,000 (Company audit) (2017: £21,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Independent Auditors' Report to the Members of Sportech PLC continued

Reporting obligation	Outcome
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and the Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (*CA06*)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (*CA06*)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 35 to 41) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (*CA06*)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (*CA06*)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 35 to 41) with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (*CA06*)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. (*CA06*)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 32 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 32 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. *(Listing Rules)*

Independent Auditors' Report to the Members of Sportech PLC continued

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 37 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 65, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

Appointment

The predecessor audit firm of PricewaterhouseCoopers LLP, Deloitte Haskins & Sells were appointed to audit the financial statements prior to 1984. The period of total uninterrupted engagement is over 20 years.

Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 March 2019

Financial Statements

3. FINANCIAL STATEMENTS

US$17m

generated in 2018 for team foundations.

Consolidated Financial Statements

Income Statement

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	2	**63,718**	66,271
Cost of sales	3	**(17,619)**	(18,562)
Gross profit		**46,099**	47,709
Marketing and distribution costs	3	**(1,988)**	(2,118)
Contribution		**44,111**	45,591
Operating costs	3	**(47,196)**	(68,065)
Other income	4	**173**	827
Operating loss		**(2,912)**	(21,647)
Finance costs	8	**(67)**	(212)
Finance income	8	**85**	—
Other financial income	8	**455**	193
Share of loss after tax and impairments of joint ventures and associates	15	**—**	(1,484)
Loss before tax from continuing operations		**(2,439)**	(23,150)
Tax – continuing operations	9	**(2,019)**	230
Loss for the year – continuing operations		**(4,458)**	(22,920)
Net profit/(loss) from discontinued operations	10	**1,822**	(1,522)
Loss for the year		**(2,636)**	(24,442)
Attributable to:			
Owners of the Company		**(2,636)**	(24,300)
Non-controlling interests	14	**—**	(142)
		(2,636)	(24,442)
Earnings per share attributable to owners of the Company from continuing operations			
Basic	11	**(2.4)p**	(12.0)p
Diluted	11	**(2.4)p**	(12.0)p
Earnings per share attributable to owners of the Company from discontinued operations			
Basic	11	**1.0p**	(0.8)p
Diluted	11	**1.0p**	(0.8)p
Adjusted earnings per share attributable to owners of the Company			
Basic	11	**0.3p**	2.9p
Diluted	11	**0.3p**	2.9p

See note 1 for a reconciliation of the above statutory income statement to the adjusted performance measures used by the Board of Directors to assess divisional performance.

Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Loss for the year		**(2,636)**	(24,442)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit and loss			
Actuarial gain/(loss) on retirement benefit liability	24	**315**	(171)
Deferred tax on movement on retirement benefit liability	17	**(83)**	55
		232	(116)
Items that have been reclassified to profit and loss			
Realised fair value loss on available-for-sale financial assets		**—**	2,500
Items that may be subsequently reclassified to profit and loss			
Currency translation differences		**2,411**	(4,935)
Total other comprehensive income/(expense) for the year, net of tax		**2,643**	(2,551)
Total comprehensive income/(expense) for the year		**7**	(26,993)
Attributable to:			
Owners of the Company		**7**	(26,862)
Non-controlling interests		**—**	(131)
		7	(26,993)

Consolidated Financial Statements continued

Balance Sheet

As at 31 December 2018

	Note	2018 £000	2017 £000
ASSETS			
Non-current assets			
Intangible fixed assets	13	**13,551**	11,629
Property, plant and equipment	14	**26,337**	25,705
Trade and other receivables	16	**667**	2,443
Deferred tax assets	17	**5,979**	6,406
		46,534	46,183
Current assets			
Trade and other receivables	16	**8,169**	10,342
Inventories	18	**2,576**	2,652
Assets held for sale	19	**—**	778
Cash and cash equivalents	20	**17,915**	18,757
		28,660	32,529
TOTAL ASSETS		**75,194**	78,712
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(12,946)**	(16,058)
Provisions	22	**(977)**	(1,103)
Financial liabilities	23	**—**	(175)
Current tax liabilities	9	**(6,563)**	(7,106)
		(20,486)	(24,442)
Net current assets		**8,174**	8,087
Non-current liabilities			
Retirement benefit liability	24	**(902)**	(1,537)
Provisions	22	**(1,434)**	(1,523)
		(2,336)	(3,060)
TOTAL LIABILITIES		**(22,822)**	(27,502)
NET ASSETS		**52,372**	51,210
EQUITY			
Ordinary shares	27	**37,350**	37,123
Other reserves		**25,971**	22,400
Retained earnings		**(10,949)**	(8,313)
TOTAL EQUITY		**52,372**	51,210

The financial statements on pages 80 to 128 were approved and authorised for issue by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Richard McGuire
Director

Thomas Hearne
Director

Company Registration Number: SC069140

Statement of Changes in Equity

for the year ended 31 December 2018

	Ordinary shares £000	Other reserves: Capital redemption reserve £000	Other reserves: Share option reserve £000	Other reserves: Pension reserve £000	Other reserves: FX** reserve £000	Retained earnings £000	Total £000
At 1 January 2018	37,123	10,312	6,608	(646)	6,126	(8,313)	51,210
Comprehensive income/(expense)							
Loss for the year	—	—	—	—	—	(2,636)	(2,636)
Other comprehensive items							
Actuarial gain on defined benefit pension liability*	—	—	—	232	—	—	232
Currency translation differences	—	—	—	—	2,411	—	2,411
Total other comprehensive items	—	—	—	232	2,411	—	2,643
Total comprehensive items	—	—	—	232	2,411	(2,636)	7
Transactions with owners							
Share option charge	—	—	1,222	—	—	—	1,222
Employer taxes paid on vesting of options	—	—	(67)	—	—	—	(67)
Shares issued in relation to the PSP (note 27)	227	—	(227)	—	—	—	—
Total transactions with owners	227	—	928	—	—	—	1,155
Total changes in equity	227	—	928	232	2,411	(2,636)	1,162
At 31 December 2018	**37,350**	**10,312**	**7,536**	**(414)**	**8,537**	**(10,949)**	**52,372**

*Net of deferred tax

**Foreign exchange reserve

Consolidated Financial Statements continued

Statement of Changes in Equity (continued)

for the year ended 31 December 2017

		Other reserves							
	Ordinary shares £000	Capital redemption reserve £000	Share option reserve £000	Pension reserve £000	FX** reserve £000	Available-for-sale reserve £000	Retained earnings £000	NCI*** £000	Total £000
At 1 January 2017	103,119	—	2,198	(530)	11,072	(2,500)	35,323	131	148,813
Comprehensive income									
Loss for the year	—	—	—	—	—	—	(24,300)	(142)	(24,442)
Other comprehensive items									
Actuarial loss on defined benefit pension liability*	—	—	—	(116)	—	—	—	—	(116)
Realised fair value losses on available for sale	—	—	—	—	—	2,500	—	—	2,500
Currency translation differences	—	—	—	—	(4,946)	—	—	11	(4,935)
Total other comprehensive items	—	—	—	(116)	(4,946)	2,500	—	11	(2,551)
Total comprehensive items	—	—	—	(116)	(4,946)	2,500	(24,300)	(131)	(26,993)
Transactions with owners									
Share option charge, excluding accelerated IFRS 2 charge	—	—	666	—	—	—	—	—	666
Acceleration of IFRS 2 charge for departing management	—	—	3,765	—	—	—	—	—	3,765
Employer taxes paid on vesting of options	—	—	(21)	—	—	—	—	—	(21)
Share buyback (note 27)	—	—	—	—	—	—	(21,192)	—	(21,192)
Cancellation of share capital (note 27)	(10,312)	10,312	—	—	—	—	—	—	—
Capital reduction (note 27)	(55,684)	—	—	—	—	—	55,684	—	—
Special dividend (note 27)	—	—	—	—	—	—	(53,828)	—	(53,828)
Total transactions with owners	(65,996)	10,312	4,410	—	—	—	(19,336)	—	(70,610)
Total changes in equity	(65,996)	10,312	4,410	(116)	(4,946)	2,500	(43,636)	(131)	(97,603)
At 31 December 2017	37,123	10,312	6,608	(646)	6,126	—	(8,313)	—	51,210

*Net of deferred tax.

**Foreign exchange reserve

***Non-controlling interests, representing stakes not held in Norco, California by the Sportech Group

Statement of cash flows

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Cash generated from operations, before exceptional items	28	**5,890**	6,418
Interest received		**85**	—
Interest paid		**(22)**	(235)
Tax paid		**(2,029)**	(15,859)
Net cash generated from/(used in) operating activities before exceptional items		**3,924**	(9,676)
Exceptional cash inflows		**487**	3,685
Exceptional cash outflows		**(2,320)**	(8,391)
Cash generated from/(used in) operations – continuing operations		**2,091**	(14,382)
Cash used in operations – discontinued operations		**(37)**	(7,114)
Net cash generated from/(used in) operating activities		**2,054**	(21,496)
Cash flows from investing activities			
Investment in joint ventures and associates	15	**(291)**	(173)
Disposal of shares in NYX Gaming Group		**—**	2,333
Disposal of Football Pools division	10	**275**	86,200
Disposal of Sportech Racing BV (net of transaction costs)	10	**2,411**	—
Contingent consideration paid for Bump (Worldwide) Inc	23	**(167)**	—
Investment in intangible fixed assets	13	**(3,106)**	(3,948)
Purchase of property, plant and equipment	14	**(1,927)**	(6,905)
Cash (used in)/from investing activities – continuing operations		**(2,805)**	77,507
Cash used in investing activities – discontinued operations		**—**	(1,104)
Net cash (used in)/generated from investing activities		**(2,805)**	76,403
Cash flows from financing activities			
Distributions to shareholders	27	**—**	(75,020)
Net cash used in financing activities		**—**	(75,020)
Net decrease in cash and cash equivalents		**(751)**	(20,113)
Effect of foreign exchange on cash and cash equivalents		**(91)**	(357)
Net cash and cash equivalents at the beginning of the year		**18,757**	39,640
Net cash and cash equivalents at the end of the year		**17,915**	19,170
Less cash held by asset held for sale	19	**—**	(413)
Group cash and cash equivalents at the end of the year	20	**17,915**	18,757
Represented by:			
Cash and cash equivalents	20	**17,915**	18,757
Less customer funds	20	**(3,187)**	(2,872)
Adjusted net cash at the end of the year	20	**14,728**	15,885

Consolidated Financial Statements continued

Notes to the financial statements

for the year ended 31 December 2018

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 2018 comprise the Company, its subsidiaries, joint ventures and associates (together referred to as the 'Group'). The principal activities of the Group are the provision of pari-mutuel betting (B2C) and the supply of wagering technology solutions (B2B).

Going concern

As discussed in the Directors' report on page 64, 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 2020. 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 Standards Interpretation Committee ('IFRS IC') 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.

Amounts presented in the financial statements have been rounded to the nearest £1,000.

Critical judgements and estimates

Critical judgements and estimates have been made in the following areas:

Carrying value of Sportech Venues intangible assets

To determine whether an impairment of the intangible assets held by the Sportech Venues division has occurred, the key assumptions the Group uses in estimating future cash flows for value-in-use measures are:

- success of a recently-built large venue in growing both its handle and F&B earnings;
- the enforcement by the State of Connecticut of the Company's exclusive rights to operate online wagering;
- rates of industry handle growth/decline impacting the retail and online product; and
- 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 assumption and discount rates applied, which are reviewed annually. Further details are disclosed within note 13 of the Annual Report.

Tax

The Group's activities in recent periods have resulted in material tax liabilities crystallising. The ultimate tax liability due, in all instances, is subject to a degree of judgment. The judgments which are made are done so in good faith, with the aim of always paying the correct amount of tax at the appropriate time. Management work diligently with the Group's external financial advisors in quantifying the anticipated accurate and fair tax liability which arises from material one-off events such as the Spot the Ball legal case and the disposal of the Football Pools (see notes 9 and 26).

Critical judgments include the valuation of assets disposed of in the Football Pools deal and the period in which those assets arose. The use of capital losses to offset the Spot the Ball gain is also a critical judgment, and the uncertainty of this results in a provision of £4.6m for corporation tax. There is a further £2.0m of provisions for uncertain tax positions including the Football Pools disposal, transfer pricing and judgements made in the US tax filings. Both provisions are included in the current tax liability.

The Group has modelled its tax projections to support the recoverability of its deferred tax assets in the US (net operating losses in particular). Those projections require judgement and if the forecasts are not achieved, the recoverability of the deferred tax assets may be in doubt.

In addition, the Irish revenue have assessed the Group for €106k for income tax allegedly underpaid in relation to subsistence claims of Irish field crew. Management believe that this assessment is incorrect and that all subsistence claims paid were made without tax deduction in accordance with relevant regulations. An appeal is being pursued and no provision has been recorded in these financial statements.

Finally, the Group has been assessed for VAT amounting to £3.5m in relation to the fully taxable status of Sportech PLC as a holding company which makes management charges to its subsidiaries for services provided by the Executives and Group management team. The Group is appealing the assessments and has serviced evidence to the First-tier Tax Tribunal supporting its position. We will update shareholders on the progress of the appeal during 2019. A liability of £1.7m has been recorded in the financial statements representing management's best estimate of the probable liability. £1.3m has already been paid to HMRC in order to progress the appeal. This is recorded as a receivable in the financial statements and is offset against the £1.7m liability, therefore the net payable in accruals is £0.4m.

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

Consolidated Financial Statements continued

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

The Group recongnises revenue when it transfers control over a product or service to a customer. The following is a description of principal activities (separated by reportable segment), from which the Group generates its revenues.

Sportech Venues:
This division operates betting venues in the state of Connecticut, USA and a website for online wagering from Connecticut residents under an exclusive and perpetual licence. Its revenues are derived from handle (betting stakes) net of winnings paid for wagering on horse and greyhound racing and jai alai, and is recognised on the day the event takes place. It also generates revenue from:

Other revenue type	Recognition policy
Providing a full turn-key service for the operation of racebooks at casinos	Revenue is a percentage of handle processed through the racebooks and services included are settlement, negotiating fee structure with tracks and audio visual and other equipment provision in some cases. Revenue is recognised on the day the event occurs.
Food and beverage sales in venue	Revenue is recorded as the price charged for the goods on the date the food/beverage is consumed.
Programme sales	Revenue is recorded as the goods are transferred to the customer.
Rental of space in venues for parties/events	Revenue is recorded on the date of the event.
Sale of lottery tickets on behalf of the state lottery	Sportech retains a percentage of the ticket sales, revenue is recorded at the time the ticket is sold.
ATM transaction fees	We receive a fee per transaction, recorded as the transaction occurs.
Parking lot rental for events e.g. carnival, rodeo	Revenue recorded as each event occurs.

Sportech Racing and Digital:
This division provides pari-mutuel wagering services and systems worldwide, principally to the horseracing industry. It derives its revenues from various contractual models as follows:

North America
Contracts with tote customers are structured based on the supply of a turn-key service where both hardware and services are provided throughout the period of the contract. Revenue is generated over the contract term from; the provision of our tote software, operation of the tote for the customer and maintenance of the hardware and software in use. If there is a sale of hardware or software upfront, which is rare and generally not material to the contract as a whole, then this is recognised when the risks and rewards transfer to the customer, generally following the receipt of an acceptance form or confirmation of delivery. The service fees are either fixed monthly fees, percentages of handle through the tote software or a combination of both and most contracts have fixed monthly "minimums". Revenue is recognised as the service is delivered.

Europe and rest of world
In Europe and the rest of the world, the sales model is different in that most sales are for an upfront system and hardware and revenue is recognised when performance obligations have been satisfied. Sales which involve significant customisation are recognised on a percentage of completion basis. Where contracts are long-term development projects for bespoke software delivery to a customer, revenue is recognised over time using the inputs method (labour hours expended) for progress towards complete satisfaction calculations.

Following initial delivery of hardware and software, we then generate revenue from maintenance services (of the hardware and software) and in some cases operation of the tote. The value of revenue delivered under service contracts is generally based on either a percentage of amounts wagered or on a predetermined fixed amount depending on contract terms. Revenue is recognised as the service is delivered to the customer.

Under multiple performance condition 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.

Bump 50:50
Bump 50:50 contracts are principally service contracts where revenue is recognised over the contract term in line with the supply of services, revenue is generally a percentage of the total raffle takings.

(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 Board which makes strategic and operational decisions.

The Group has identified its business segments as follows:

- 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 overall management 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.

Consolidated Financial Statements continued

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 as following period:

Long leasehold and owned land	Not depreciated
Long leasehold and owned buildings	Over 25 years
Short leasehold land and buildings	Over the period of the lease
Plant, equipment and other fixtures and fittings	Between 3 and 12 years

Assets in the course of construction are not depreciated until they are ready for use.

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

(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.

Consolidated Financial Statements continued

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 12 years.

Licences

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.

(p) Share-based payments

The fair value of employee options awarded under the Value Creation Plan 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.

Consolidated Financial Statements continued

(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, 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. Provisions payable over a period greater than 12 months are discounted using an appropriate market risk-free discount rate.

(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

A number of amendments to Standards have become effective for financial periods beginning on (or after) 1 January 2018, and are therefore applicable for the 31 December 2018 financial statements. The amendments listed below have been included in these consolidated financial statements (where applicable) as if they had been applied for the first time as at 1 January 2018.

New standards and amendments effective for periods beginning on or after 1 January 2018 and therefore relevant to these financial statements:

IFRS	Effective date
IFRS 9 (2014) Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 2 Share Based Payments (Amendment – Classification and Measurement of Share Based Payment Transactions)	1 January 2018
IFRS 4 Insurance Contracts (Amendment – Applying IFRS 9 Financial Instruments)	1 January 2018
Annual Improvements to IFRSs 2014 – 2016 Cycle (IFRS 1 First-time Adoption of IFRS and IAS 28 Investments in Associates and Joint Ventures)	1 January 2018
IAS 40 Investment Property (Amendment – Transfers of Investment Property)	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

Of the pronouncements above, the amendment to IFRS 4 and IAS 40 are not relevant to the Group. All of the other pronouncements are relevant, but only the application of IFRS 9 and IFRS 15 results in the accounting applied by the Group changing. The impact of these standards on the recognition and measurement of items in the financial statements is not material and no adjustments have been made to the Group's financials for the current or prior periods.

IFRS 15 requires the Group to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. The Group carried out a thorough review of all customer relationships to determine the timing and value of revenue to be recognised and has determined that no adjustments to the reported revenue in 2017 is required. The Group applied the modified retrospective approach to its application of IFRS 15.

(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	Applicable
IFRS 16 Leases	1 January 2019
IFRS 9 (2014) Financial Instruments (Amendment – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities)	1 January 2019
IAS 28 – Investments in Associates and Joint Ventures (Amendment – Long-term Interests in Associates and Joint Ventures)	1 January 2019
Annual Improvements to IFRSs 2015 – 2017 Cycle (IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs)	1 January 2019
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendment to IAS 19 Employee Benefits	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021

Of the pronouncements above, the IFRS 9 and IFRS 17 are not relevant to the Group. All of the other pronouncements are relevant, but only the application of IFRS 16 is expected to result in the accounting applied by the Group changing.

IFRS 16 "Leases" will replace IAS 17 "Leases" and sets out the principles for the recognition, measurement, presentation and disclosure of leases and will be effective for the Group from 1 January 2019. The Directors have reviewed all of the lease contracts in the year. The Company holds only leases classified as operating leases under the current standard, and acts only as a lessee, not a lessor. Under IFRS 16 the main difference for the Group will be that all leases that the Group holds as a lessee will be recognised as an asset on the balance sheet, with a corresponding lease liability.

On the income statement the Company will recognise a depreciation charge and an interest charge instead of a straight-line operating cost. This changes the timing of cost recognition on the lease, resulting in extra cost in early years of the lease, and reduced cost towards the end of the lease. Had the Company adopted IFRS 16 on 31 December 2018 the cumulative impact to net assets would have been a reduction of £1.2m. A right-to-use asset with a net book value of approximately £8.6m will be recorded at the date of transition together with a lease liability of approximately £9.8m. The Company will use the modified retrospective approach in adopting IFRS 16. Estimated income statement impacts are that Adjusted EBITDA will increase by £1.5m, depreciation will increase by £1.2m and finance costs will increase by £0.4m, meaning profit before tax will be approximately £0.1m lower than under IAS 17 principles.

Consolidated Financial Statements continued

1. Adjusted Performance Measures

The Board of Directors 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. This measure provides the most reliable indicator of underlying performance of each of the trading divisions. This is considered the most reliable indicator as it is the closest approximation to cash generated by underlying trade, excluding the impact of one-off items of a material nature and working capital movements.

Adjusted EBITDA is not an IFRS measure, nevertheless it is widely used by both the analyst community to compare with other gaming companies and by management to assess underlying performance.

A reconciliation of the adjusted operating expenses used for statutory reporting and the adjusted performance measures is shown below:

	Note	**2018 £000**	2017 £000
Operating costs per income statement		**(47,196)**	(68,065)
Add back:			
Depreciation	14	**2,860**	2,740
Amortisation, excluding acquired intangible assets	13	**1,917**	1,540
Amortisation of acquired intangible assets	13	**—**	350
Impairment of intangible assets	13	**—**	12,040
Impairment of property, plant and equipment	14	**—**	874
Share option charge, excluding acceleration of charge for departing management	27	**1,222**	666
Accelerated IFRS 2 charge for departing management	27	**—**	3,765
Fair value losses realised on shares held in NYX Gaming Group	25	**—**	1,603
Exceptional items	4	**3,453**	5,603
Adjusted operating costs		**(37,744)**	(38,884)
Other operating income*	4	**173**	—
Total adjusted net operating costs		**(37,571)**	(38,884)

*Note prior year other operating income is included in exceptionals and therefore is not included in adjusted net operating cost. Other operating income of £173k in 2018 was an insurance payout for business interruption following hurricane Maria and is considered to be non-exceptional operating income and is included in adjusted net operating costs.

Adjusted EBITDA is calculated as below.

	2018 £000	2017 £000
Revenue	**63,718**	66,271
Cost of sales	**(17,619)**	(18,562)
Gross profit	**46,099**	47,709
Marketing and distribution costs	**(1,988)**	(2,118)
Contribution	**44,111**	45,591
Adjusted operating income and costs (pre sports betting investment)	**(36,143)**	(38,884)
Adjusted EBITDA pre sports betting investment	**7,968**	6,707
Sports betting investment	**(1,428)**	—
Adjusted EBITDA	**6,540**	6,707

Sports betting investment includes lobbying costs, additional staff costs, travel and consultants, and also includes an allocation of senior management time. Of these costs, £508k were external costs and £920k were internal.

Contribution is also an adjusted performance measure disclosed in the financial statements, being the revenue less directly variable costs of trade. This is presented to explain the underlying profit margins earned by the Group from its trade.

Adjusted profit is also an adjusted performance measure used by the Group. This uses adjusted EBITDA, as defined above as management's view of the closest proxy to cash generation for underlying divisional performance, and deducting share option charges, depreciation, amortisation of intangible assets (other than those which arise in the acquisition of businesses) and finance charges. This provides an adjusted profit before tax measure, which is then taxed by applying an estimated adjusted tax measure. The adjusted tax charge excludes the tax impact of income statement items not included in adjusted profit before tax.

	2018			2017		
	Continuing £000	**Discontinued £000**	**Total £000**	Continuing £000	Discontinued £000	Total £000
Adjusted EBITDA	**6,540**	**175**	**6,715**	6,707	6,172	12,879
Share option charge	**(1,222)**	**—**	**(1,222)**	(666)	—	(666)
Depreciation	**(2,860)**	**(93)**	**(2,953)**	(2,740)	(179)	(2,919)
Amortisation (excluding amortisation of acquired intangibles)	**(1,917)**	**—**	**(1,917)**	(1,540)	(561)	(2,101)
Net finance income/(charges)	**18**	**(18)**	**—**	(212)	—	(212)
Adjusted profit before tax	**559**	**64**	**623**	1,549	5,432	6,981
Tax at 22.7% (2017: 21.6%)			**(139)**			(1,508)
Adjusted profit after tax			**484**			5,473

Profit before tax from continuing operations prior to sports betting investment of £1,428k is £1,987k.

2. Segmental reporting

2018	**Sportech Racing and Digital £000**	**Sportech Venues £000**	**Corporate costs £000**	**Inter-segment elimination £000**	**Group £000**
Revenue from sale of goods	1,770	—	—	(44)	1,726
Revenue from rendering of services	32,234	30,379	—	(621)	61,992
Total revenue	34,004	30,379	—	(665)	63,718
Cost of sales	(3,991)	(14,241)	—	613	(17,619)
Gross profit	30,013	16,138	—	(52)	46,099
Marketing and distribution costs	(736)	(1,252)	—	—	(1,988)
Contribution	29,277	14,886	—	(52)	44,111
Adjusted net operating costs (note 1)	(20,634)	(13,473)	(2,088)	52	(36,143)
Adjusted EBITDA (pre sports betting investment)	**8,643**	**1,413**	**(2,088)**	**—**	**7,968**
Sports betting investment	—	(1,428)	—	—	(1,428)
Adjusted EBITDA	**8,643**	**(15)**	**(2,088)**	**—**	**6,540**
Share option charge	—	—	(1,222)	—	(1,222)
Depreciation	(1,715)	(1,115)	(30)	—	(2,860)
Amortisation	(1,743)	—	(174)	—	(1,917)
Segment result	5,185	(1,130)	(3,514)	—	541
Exceptional costs	(2,214)	(65)	(1,174)	—	(3,453)
Operating profit/(loss)	2,971	(1,195)	(4,688)	—	(2,912)
Net finance income					473
Share of loss after tax and impairment of joint ventures					—
Loss before taxation					(2,439)
Taxation					(2,019)
Loss for the year – continuing operations					(4,458)
Net profit from discontinued operations					1,822
Loss for the year					(2,636)
Segment assets	102,967	28,815	16,196	(72,784)	75,194
Segment liabilities	(37,007)	(12,901)	(45,698)	72,784	(22,822)
Other segment items					
Capital expenditure – Intangible assets	3,095	—	11	—	3,106
Capital expenditure – Property, plant and equipment	1,529	398	—	—	1,927

Consolidated Financial Statements continued

2017	Sportech Racing and Digital £000	Sportech Venues £000	Corporate costs £000	Inter-segment elimination £000	Group £000
Revenue from sale of goods	1,389	—	—	(4)	1,385
Revenue from rendering of services	34,080	31,606	—	(800)	64,886
Total revenue	35,469	31,606	—	(804)	66,271
Cost of sales	(4,335)	(14,760)	—	533	(18,562)
Gross profit	31,134	16,846	—	(271)	47,709
Marketing and distribution costs	(754)	(1,364)	—	—	(2,118)
Contribution	30,380	15,482	—	(271)	45,591
Adjusted operating costs (note 1)	(22,672)	(13,985)	(2,498)	271	(38,884)
Adjusted EBITDA	**7,708**	**1,497**	**(2,498)**	**—**	**6,707**
Share option charge, excluding acceleration of charge for departing management	—	—	(666)	—	(666)
Depreciation	(1,738)	(928)	(74)	—	(2,740)
Amortisation (excluding amortisation of acquired intangible assets)	(1,400)	—	(140)	—	(1,540)
Segment result before amortisation of acquired intangibles and impairment of assets	4,570	569	(3,378)	—	1,761
Amortisation of acquired intangibles	(350)	—	—	—	(350)
Impairment of assets	—	(12,914)	—	—	(12,914)
Acceleration of IFRS 2 charge for departing management	—	—	(3,765)	—	(3,765)
Fair value losses realised on sale of shares held in NYX Gaming Group	—	(1,603)	—	—	(1,603)
Exceptional income	—	—	827	—	827
Exceptional costs	(1,701)	(1,634)	(2,268)	—	(5,603)
Operating profit/(loss)	2,519	(15,582)	(8,584)	—	(21,647)
Net finance costs					(19)
Share of loss after tax and impairment of joint ventures					(1,484)
Loss before taxation					(23,150)
Taxation					230
Loss for the year – continuing operations					(22,920)
Net loss from discontinued operations					(1,522)
Loss for the year					(24,442)
Segment assets	98,316	28,200	16,138	(63,942)	78,712
Segment liabilities	(68,265)	(12,357)	(10,822)	63,942	(27,502)
Other segment items					
Capital expenditure – Intangible assets	3,891	—	57	—	3,948
Capital expenditure – Property, plant and equipment	1,281	5,608	16	—	6,905

Information by geographical area

	Revenues from external customers		Non-current assets	
	2018 £000	2017 £000	**2018 £000**	2017 £000
United Kingdom	**4,271**	3,889	**1,038**	1,497
North and South America	**53,806**	56,750	**44,953**	43,852
Europe	**4,890**	4,706	**543**	834
Other	**751**	926	**—**	—
Total	**63,718**	66,271	**46,534**	46,183

3. Expenses by nature

	Note	2018 £000	2017 £000
Cost of sales			
Tote and track fees		**11,261**	12,166
F&B consumables		**1,405**	1,322
Betting and gaming duties		**738**	480
Repairs and maintenance cost of sales		**335**	402
Ticket paper		**888**	855
Programs		**498**	472
Outsourced service costs		**1,684**	1,605
Cost of inventories sold, including provision for obsolete inventory		**810**	1,260
Total cost of sales		**17,619**	18,562
Marketing and distribution costs			
Marketing		**1,517**	1,664
Vehicle costs		**232**	234
Freight		**239**	220
Total marketing and distribution costs		**1,988**	2,118
Operating costs			
Staff costs – gross, excluding share option charges		**27,532**	28,562
Less amounts capitalised		**(2,923)**	(3,026)
Staff costs – net		**24,609**	25,536
Property costs		**5,314**	5,454
IT & Communications		**1,355**	1,351
Professional fees		**4,391**	3,249
Travel and entertaining		**1,353**	1,524
Banking transaction costs and FX		**310**	271
Provision for doubtful debts	16	**(76)**	762
Other costs		**488**	737
Adjusted operating costs		**37,744**	38,884
Share option charge, excluding exceptional accelerated charges		**1,222**	666
Acceleration of IFRS 2 charge for departing management		**—**	3,765
Realised loss on sale of shares held in NYX Gaming Group		**—**	1,603
Depreciation	14	**2,860**	2,740
Amortisation, excluding amortisation on acquired intangibles	13	**1,917**	1,540
Amortisation of acquired intangibles	13	**—**	350
Impairment of property, plant and equipment	14	**—**	874
Impairment of intangible assets	13	**—**	12,040
Exceptional costs	4	**3,453**	5,603
Total operating costs		**47,196**	68,065

Consolidated Financial Statements continued

4. Exceptional items

	Note	2018 £000	2017 £000
Included in operating costs:			
Redundancy and restructuring costs in respect of the rationalisation and modernisation of the business	4(a)	**1,178**	2,291
Onerous contract provisions and other losses resulting from exit from Californian operations	4(b)	**(291)**	2,740
Losses from and impairment in Striders Sports Bar (S&S JV)	15	**291**	—
Compensation received in relation to 2017 New Jersey data outage		**—**	(45)
Costs in relation to the Spot the Ball VAT refund	4(c)	**205**	—
Costs in relation to legacy tax disputes	4(d)	**111**	—
Licensing costs in New Jersey in respect of the acquisition of Sportech Racing		**—**	110
One off start up costs of new ventures, including new venue builds and joint ventures		**29**	390
Costs in relation to exiting the Group's interests in India		**51**	—
Impairment of contingent consideration in relation to NYX Gaming	4(e)	**1,729**	—
Legal costs in relation to intellectual property infringement law suit	4(f)	**150**	—
Earn out and similar costs required to be recognised as an expense		**—**	74
Release of provisions which did not arise during period of Sportech ownership		**—**	(261)
Professional fees associated with new remuneration arrangements approved by shareholders		**—**	150
Costs of lobbying the state of Connecticut for expanded gaming and enforcement of exclusive licence		**—**	154
		3,453	5,603
Included in other operating income:			
Net gain on successful outcome of Supreme Court Spot the Ball ruling		**—**	(827)
Net exceptional costs		**3,453**	4,776

*Note: £173k of other operating income in 2018 is not exceptional and therefore excluded from the above table.

(a) Redundancy and restructuring costs in respect of the rationalisation and modernisation of the business

Costs of completing the strategic review including further severance costs, office closure costs and continuing costs of Non-executive Directors performing executive duties during periods of transition.

(b) Onerous contract provision and other losses resulting from exit from California operations

The Group recoded a provision in 2017 against its contractual arrangements in the State of California, including a loss making joint venture and real estate leases. The provision has been released in the year to the value of the losses incurred in the joint venture company (see note 15). The losses of the joint venture company and the impairment of the additional capital injected during the year, has been included in exceptional costs rather than within the share of joint venture losses line on the income statement, so as to match the provision release with the costs it was provided to cover.

(c) Costs in relation to Spot the Ball ("STB") VAT refund

The Group settled a claim from a former director during the year and paid costs. Further costs were incurred in claiming costs from HMRC and tax advice has been sought in relation to treatment of the refund for corporation tax purposes.

(d) Costs in relation to legacy tax disputes

The Group has received assessments for underpaid VAT in the holding Company, Sportech PLC, the Group is robustly defending its position but incurring advisor fees in doing so.

(e) Impairment of contingent consideration in relation to NYX Gaming

The Group has received confirmation from the current owners of NYX Gaming that there are no sales in the pipeline for 2019 which would result in contingent consideration being payable to Sportech PLC. The contingent consideration period ends in May 2020 and as such it is management's expectation that no consideration will be received in relation to the asset, which has therefore been impaired in full.

(f) Legal costs in relation to intellectual property ("IP") infringement law suit

The Group believes its IP in Datatote (England) Limited has been infringed and is seeking to prevent further infringement and damages for lost revenues and costs incurred. The costs of defending this position are being expensed as incurred and no expected income has been accrued due to the uncertainty given the case is in early stages.

5. Employment costs

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

	2018 Number	2017 Number
Sales and marketing	**12**	13
Operations and distribution	**462**	470
Administration	**68**	73
Total employees	**542**	556

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and Salaries	**21,538**	21,872
Social security costs	**3,764**	3,878
Pension costs – defined contribution scheme (note 24)	**177**	323
Pension costs – defined benefit scheme (note 24)	**97**	89
Employee remuneration, excluding share option charges	**25,576**	26,162
Share option expense, including acceleration of IFRS 2 charge for departing management	**1,222**	4,431
Total remuneration	**26,798**	30,593

6. Directors and key management remuneration

	Directors		Key management	
	2018 £000	2017 £000	2018 £000	2017 £000
Short-term employee benefits	**714**	1,261	**752**	1,438
Consultancy fees	**76**	146	**76**	146
Share-based payments	**388**	373	**388**	373
Accelerated IFRS 2 charge for departing management	**—**	3,567	**—**	3,567
Pay in lieu of notice	**—**	859	**—**	964
Post-employment benefits	**5**	51	**5**	51
Total remuneration	**1,183**	6,257	**1,221**	6,539

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration report on pages 42 to 62. This information forms part of the financial statements. Retirement benefits are accruing under defined benefit pension schemes for nil Directors (2017: nil). One Director exercised share options in the year (2017: nil).

Key management is considered to be the Directors of the Company (Executive and Non-executive). Consultancy fees are amounts payable to Richard Cooper in providing additional services to Group companies in his capacity as Non-executive Director following the resignation of Mickey Kalifa, as detailed in the Remuneration report on pages 54 to 62. Consultancy fees of £100k in 2018, paid to Richard McGuire are included in short-term employee benefits.

Consolidated Financial Statements continued

7. Auditor remuneration

Fees paid to the Auditors of the consolidated financial statements during the period comprise:

	2018 £000	2017 £000
Audit fees	294	306
Other assurance services	—	248
Total fees	294	554

8. Net finance costs

	2018 £000	2017 £000
Finance costs:		
Interest payable on bank loans, derivative financial instruments and overdrafts	(22)	(159)
Interest on defined benefit pension obligation (net)	(45)	(53)
Total finance costs	(67)	(212)
Finance income	85	—
Other financial income:		
Foreign exchange gain on financial assets and liabilities denominated in foreign currency	363	97
Unwinding of interest on discounted non-current balances	92	96
Total other financial income	455	193
Net finance costs	473	(19)

9. Taxation

Below is disclosure in respect of the Group's tax charge from continuing operations.

	2018 £000	2017 £000
Current tax:		
Current tax on profit for the year	1,977	1,245
Adjustments in respect of prior years	(570)	2,381
Total current tax	1,407	3,626
Deferred tax:		
Origination and reversal of temporary differences	(1,089)	(7,114)
Effect of changes in tax rates	53	3,245
Adjustments in respect of prior years	(13)	13
Derecognition of previously recognised deferred tax assets	1,661	—
Total deferred tax	612	(3,856)
Total tax charge/(credit)	2,019	(230)

The taxation on the Group's loss 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:

	2018 £000	2017 £000
Loss before tax	**(2,439)**	(23,150)
Tax calculated at domestic tax rates applicable to (losses)/profits in the respective countries	**(527)**	(7,635)
Tax effects of:		
– permanent differences	**1,519**	1,480
– effect of changes in tax rates	**53**	3,245
– adjustments in respect of prior years – current tax	**(570)**	2,381
– adjustments in respect of prior years – deferred tax	**(13)**	13
– deferred tax not previously provided	**(104)**	(97)
– deferred tax not recognised	**—**	383
– derecognition of previously recognised deferred tax assets	**1,661**	—
Total tax charge/(credit)	**2,019**	(230)

Included within permanent differences are the foreign taxes taken as a deduction rather than a carried forward credit (prior to the subsequent downward revaluation of the deferred tax asset) and the share option charges expensed in the period as well as certain other non-deductible expenses.

US deferred tax assets have been revalued downwards by £1,661k following a review of the recoverability of credits for foreign taxes paid (predominantly in the Dominican Republic).

As the Group's year end is after the substantive enactment date (15 September 2017) of the Finance Act 2017, these financial statements account for the change in the UK Corporation Tax rate from 19% to 17% for financial years beginning 1 April 2020. Deferred tax in the UK is provided at a blended rate, depending on when the deferred tax is expected to unwind. There are no changes expected in the US federal income tax rate from the current rate of 21%.

Included within the Group's current tax liabilities are provisions for uncertain tax positions in relation to; the treatment of the gain included in the 2016 financial statements for the Spot the Ball VAT refund; the treatment of the disposal of the trade and assets of the Football Pools division in 2017, and; other positions taken (in "open years") within tax returns across the jurisdictions in which the Group files.

10. Discontinued operations

Results from discontinued operations includes the Football Pools division, disposed of in June 2017, and also the Venues business in The Netherlands, Sportech Racing BV and its subsidiaries ("Sportech Holland"). Sportech Holland was disposed of in full on 26 July 2018. The sale of this business to RBP Luxembourg SA was structured as a locked box, with an effective date of 1 January 2018. The risks and benefits of its cash generation are therefore transferred to the purchaser from that date. Control of the entity did not however transfer until completion of the deal on 26 July 2018, and accordingly its results have been included in the financial statements for the year ended 31 December 2018 as those of a discontinued operation.

The Board considered its Venues business in the Netherlands, Sportech Racing BV and subsidiaries, to be an asset held for sale as at 31 December 2017, with a sale being considered probable within 12 months from the reporting date.

Consolidated Financial Statements continued

A reconciliation of the net profit/(loss) on discontinued operations is shown below.

	2018 FP £000	2018 Holland* £000	2018 Total £000	2017 FP* £000	2017 Holland £000	2017 Total £000
Revenue	—	3,065	3,065	13,971	6,038	20,009
Cost of sales, marketing and distribution and adjusted operating expenses	78	(2,968)	(2,890)	(8,226)	(5,611)	(13,837)
Adjusted EBITDA	78	97	175	5,745	427	6,172
Depreciation and amortisation	—	(93)	(93)	(523)	(216)	(739)
Exceptional items	—	(461)	(461)	917	(37)	880
Finance costs	—	(18)	(18)	—	—	—
Profit/(loss) before tax	78	(475)	(397)	6,139	174	6,313
Tax, excluding tax arising on disposal	(169)	—	(169)	632	—	632
(Loss)/profit after tax	(91)	(475)	(566)	6,771	174	6,945
Gain/(loss) on disposal (note 10a)	59	2,329	2,388	(8,467)	—	(8,467)
Net result from discontinued operations	(32)	1,854	1,822	(1,696)	174	(1,522)

*Holland results for 2018 are to the date of disposal of 26 July 2018. Football Pools results for 2017 are to the date of disposal of 26 June 2017.

Exceptional costs incurred in the period by Sportech Holland are redundancy and restructuring costs in respect of a rationalisation of this business.

For Football Pools: £78k of income in the period relates to a £115k release of a provision no longer required, net of £37k of costs incurred in the year. No further costs are expected going forward within this legacy division. The tax charge related to tax on the income in the year plus a prior year adjustment to write off a deferred tax asset which is no longer recoverable.

10a) Net gain/(loss) on disposal

	Note	FP 2018 £000	Holland 2018 £000	Total 2018 £000	FP 2017 £000
Consideration, net of working capital adjustments		73	3,007	3,080	86,149
Net assets disposed of	19	—	(318)	(318)	(3,124)
Goodwill relating to the Football Pools division		—	—	—	(81,849)
Transaction costs incurred in the year		—	(360)	(360)	(3,248)
Pre-tax gain/(loss) on disposal		73	2,329	2,402	(2,072)
Tax arising on disposal		(14)	—	(14)	(6,395)
Gain/(loss) on disposal		59	2,329	2,388	(8,467)

At 31 December 2017, £202k was accrued as a receivable from Op Capita, the acquirers of The Football Pools. During the year, an amount of £275k was agreed as payable (and was paid in December 2018), and therefore further consideration of £73k has been credited to the income statement as gain on disposal. The additional proceeds are taxed at 19%.

Of the consideration receivable for Sportech Racing BV, £2,692k was received in cash during the year and £314k was recorded as contingent consideration receivable and was paid in January 2019. Transaction costs of £79k were also paid in January 2019, the rest having been settled in cash in 2018. No tax is payable on the disposal of Sportech Racing BV as Substantial Shareholder Relief is being applied.

11. Earnings per share

(a) Basic

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

	2018 Continuing £000	2018 Discontinued £000	2018 Total £000	2017 Continuing £000	2017 Discontinued £000	2017 Total £000
(Loss)/profit attributable to the owners of the Company	**(4,458)**	**1,822**	**(2,636)**	(22,778)	(1,522)	(24,300)
Weighted average number of ordinary shares in issue ('000)	**186,393**	**186,393**	**186,393**	190,135	190,135	190,135
Basic (loss)/earnings per share	**(2.4)p**	**1.0p**	**(1.4)p**	(12.0)p	(0.8)p	(12.8)p

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Where there is a loss attributable to owners of the Company, the earnings per share is not diluted.

	2018 Continuing £000	2018 Discontinued £000	2018 Total £000	2017 Continuing £000	2017 Discontinued £000	2017 Total £000
(Loss)/profit attributable to the owners of the Company	**(4,458)**	**1,822**	**(2,636)**	(22,778)	(1,522)	(24,300)
Weighted average number of ordinary shares in issue ('000)	**186,393**	**186,393**	**186,393**	190,135	190,135	190,135
Dilutive potential ordinary shares	**N/A**	**—**	**N/A**	N/A	N/A	N/A
Total potential ordinary shares	**186,393**	**186,393**	**186,393**	190,078	190,078	190,078
Diluted (loss)/earnings per share	**(2.4)p**	**1.0p**	**(1.4)p**	(12.0)p	(0.8)p	(12.8)p

(c) Adjusted

Adjusted EPS is calculated by dividing the adjusted profit after tax (as defined in note 1) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018 Adjusted Profit after tax £000	2018 Weighted average number of shares £000	2018 Per share amount Pence	2017 Adjusted Profit after tax £000	2017 Weighted average number of shares £000	2017 Per share amount Pence
Basic adjusted EPS	**484**	**186,393**	**0.3p**	5,473	190,135	2.9p
Diluted adjusted EPS	**484**	**186,393**	**0.3p**	5,473	190,988	2.9p

Consolidated Financial Statements continued

12. Goodwill

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. The goodwill which arose on the acquisition of Littlewoods Leisure and Vernons Football Pools are together considered as the goodwill relating to Sportech's Football Pools division.

Movements in the Group's goodwill are shown below:

	2018		2017		
	eBet Online £'000	**Total £'000**	Football Pools £'000	eBet Online £'000	Total £'000
Cost					
At 1 January	**5,548**	**5,548**	165,499	5,548	171,047
Disposal	**—**	**—**	(165,499)	—	(165,499)
At 31 December	**5,548**	**5,548**	—	5,548	5,548
Accumulated impairment charges					
At 1 January	**(5,548)**	**(5,548)**	(83,650)	(5,548)	(89,198)
Disposal	**—**	**—**	83,650	—	83,650
At 31 December	**(5,548)**	**(5,548)**	—	(5,548)	(5,548)
Closing net book value	**—**	**—**	—	—	—

Goodwill disposed of during the prior year relates to the Football Pools division. A net loss on disposal was recognised in respect of this (see note 10).

13. Intangible fixed assets

2018	**Customer contracts and relationships £000**	**Software £000**	**Licences £000**	**Other £000**	**Total £000**
Cost					
At 1 January 2018	862	29,893	16,874	2,663	50,292
Additions	—	2,977	—	129	3,106
At 31 December 2018	862	32,870	16,874	2,792	53,398
Accumulated amortisation					
At 1 January 2018	862	25,142	13,133	3,542	42,679
Charge for year	—	1,850	—	67	1,917
At 31 December 2018	862	26,992	13,133	3,609	44,596
Exchange differences	—	1,447	2,225	1,077	4,749
Net book amount at 31 December 2018	—	7,325	5,966	260	13,551

Of the amounts capitalised in the year in continuing operations, £2,923k arose from capitalising staff costs for development expenditure (2017: £3,026k).

Amortisation has been included within operating costs.

Impairment – Licences

The Group holds a licence in perpetuity to offer pari-mutuel off-track betting in the State of Connecticut in the US for its Venues division. This asset has a book value in USD at the reporting date, prior to any impairment that may be considered necessary, of £5,966k ($7,569k, 2017: $7,596k). 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 2018. In testing for impairment, other assets used solely to generate cash flows in the CGU are also included, totalling £15,180k, $19,261k (2017: £14,921, $20,158k).

The recoverable amount of the asset has been determined based on a value-in-use calculation. The key base case assumptions made in calculating the value-in-use were:

- EBITDA forecasts assume year-on-year handle decline in the core operating business of 4.4% in 2019 and 1% per annum thereafter and into perpetuity;
- 7.6% increase in online handle in 2019, 40% in 2020 (representing enforcement by the State of Sportech's exclusivity rights), a further 10% increase in 2021, 3% annually through to 2023 and 2% into perpetuity;
- Handle at our Stamford venue is assumed to increase by 8% in 2019, 10% per annum from 2020 to 2023 and by 2% into perpetuity;
- a 6.1% increase in core F&B revenues, which excludes the Stamford venue, in 2019 and then declines of 1.4%, 0.6%, 0.6% and 0.7% in 2020, 2021, 2022 and 2023 respectively and thereafter stable revenues into perpetuity;
- F&B revenues at Bobby V's in Stamford are forecasted to increase by 17%, 15% and 5% in 2019, 2020 and 2021 respectively, by 3% in 2020 and 2023 and by 2% into perpetuity;
- 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% (2017: 9.1%) was used representing a market-based weighted average cost of capital appropriate for the Sportech Venues CGU. The pre-tax discount rate was 12.0%.

Following the impairment review, the recoverable amount of those assets was deemed to be £23,440k, $29,740k and accordingly no impairment was identified (2017: impairment of £12,040k, $16,075k) was charged to the income statement within operating costs).

The below assumptions represent a reasonable downside case and value the CGU at £13,514k, $17,146k, being an impairment of £7,632k to the carrying value of the licence and other assets used solely to generate cash flows in the CGU. This would reduce the carrying value of the intangible to £nil and result in an impairment to the carrying value of the property, plant and equipment used in the CGU of £1,667k.

- all assumptions for 2019 remain the same;
- core handle declines by a further 1% each year but remains at 1% decline into perpetuity;
- the State of Connecticut does not enforce Sportech's exclusive rights meaning growth in online is reduced to 3% in 2020, and 2% per annum thereafter and into perpetuity;
- handle at the Stamford venue grows at 5% per annum rather than 10% and increases into perpetuity at 2%;
- core food and beverage revenue decline is marginally worse; and
- Stamford food and beverage revenue growth is reduced to 5% in 2020, 3% in 2021, 1% in 2022 and 2023 and 2% into perpetuity.

Consolidated Financial Statements continued

Note that in the Downside Case, mitigating actions have been including representing cost saving measures attributing $410k of EBITDA annually and into perpetuity. Additionally, for information, if a post-tax discount rate of 9.9% was used in the Base Case model this would lead to an impairment of £38k, a post-tax discount rate of 10.5% would lead to an impairment of £1,506k.

2017	Customer contracts and relationships £000	Software £000	Licences £000	Other £000	Total £000
Cost					
At 1 January 2017	36,500	51,980	16,874	4,651	110,005
Additions – continuing operations	—	3,906	—	42	3,948
Additions – discontinued operations	—	1,032	—	—	1,032
Disposals – continuing operations	—	(11)	—	—	(11)
Disposals – discontinued operations	(35,638)	(27,235)	—	(2,030)	(64,903)
Transfer from property, plant and equipment	—	221	—	—	221
At 31 December 2017	862	29,893	16,874	2,663	50,292
Accumulated amortisation					
At 1 January 2017	36,500	45,819	1,093	4,650	88,062
Charge for year – continuing operations	—	1,818	—	72	1,890
Charge for year – discontinued operations	—	561	—	—	561
Impairment	—	—	12,040	—	12,040
Disposals – discontinued operations	(35,638)	(23,056)	—	(1,180)	(59,874)
At 31 December 2017	862	25,142	13,133	3,542	42,679
Exchange differences	—	1,075	1,862	1,079	4,016
Net book amount at 31 December 2017	—	5,826	5,603	200	11,629

14. Property, plant and equipment

2018	Short leasehold land and buildings £000	Long leasehold and owned land buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets in the course of construction £000	Total £000
Cost						
At 1 January 2018	246	16,018	9,867	5,095	643	31,869
Additions	—	—	1,058	2	867	1,927
Disposal	—	—	(10)	—	—	(10)
Transfer	—	231	37	226	(494)	—
At 31 December 2018	246	16,249	10,952	5,323	1,016	33,786
Accumulated depreciation						
At 1 January 2018	119	5,005	472	3,229	709	9,534
Charge for year	20	512	1,769	559	—	2,860
Disposal	—	—	(10)	—	—	(10)
At 31 December 2018	139	5,517	2,231	3,788	709	12,384
Exchange differences	36	2,326	1,470	494	609	4,935
Net book amount at 31 December 2018	143	13,058	10,191	2,029	916	26,337

Depreciation charges have been included in operating costs.

2017	Short leasehold land and buildings £000	Long leasehold and owned land buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets in the course of construction £000	Total £000
Cost						
At 1 January 2017	200	11,586	18,074	745	4,494	35,099
Additions – continuing operations	46	82	589	—	6,188	6,905
Additions – discontinued operations	—	15	45	12	—	72
Disposals – discontinued operations	—	(3,079)	(5,899)	(1,008)	—	(9,986)
Transfer	—	7,414	(2,942)	5,346	(10,039)	(221)
At 31 December 2017	246	16,018	9,867	5,095	643	31,869
Accumulated depreciation						
At 1 January 2017	119	7,501	6,601	444	—	14,665
Charge for year – continuing operations	—	305	2,076	359	—	2,740
Charge for year – discontinued operations	—	61	86	31	—	178
Impairment	—	—	165	—	709	874
Disposals – discontinued operations	—	(2,862)	(5,087)	(974)	—	(8,923)
Transfer	—	—	(3,369)	3,369	—	—
At 31 December 2017	119	5,005	472	3,229	709	9,534
Exchange differences	27	1,538	992	377	436	3,370
Net book amount at 31 December 2017	154	12,551	10,387	2,243	370	25,705

Impairment charges

The Group decided that it would not continue with its ventures in California and would exit this territory.

The Group owned certain items used to fit out its venue in San Diego, and also incurred demolition and initial construction costs for a prospective new site at Norco in California. Those items have been impaired in full to reflect that future profits will not be generated from their use.

The Group retained 80% control of the Norco site included within assets in the course of construction which have been impaired, and so 20% of this write off (£142k) is therefore attributable to non-controlling interests. The items used in fitting out the sports bar in San Diego were 100% owned by the Group.

15. Net investment in joint ventures/associates

During the year, the Group held a 50% investment in Striders sports bar in San Diego, as part of the joint venture company S&S Venues California, LLC. Striders is a food and beverage venue with on-site wagering facilities in California. It commenced trading in February 2016. Note that the Group maintained shareholdings in Sportshub Private Limited (India) and DraftDay Gaming Group, Inc (Draftday). Those investments are no longer actively managed by the Group and were impaired in full in 2017. The Group invested no cash in those businesses during the year and has no obligations to meet any losses as they fall due. No disclosure is therefore made of those joint ventures/associates below.

Consolidated Financial Statements continued

a) Movements in the Group's net investment in joint ventures and associates

	2018 S&S Venues £000	2018 Total £000	2017 S&S Venues £000	2017 Total £000
At 1 January	**—**	**—**	1,416	1,416
Additions	**291**	**291**	173	173
Income statement items:				
Impairment	**(44)**	**(44)**	(1,184)	(1,184)
Share of loss after tax	**(247)**	**(247)**	(300)	(300)
Net income statement charge (see below)	**(291)**	**(291)**	(1,484)	(1,484)
Exchange differences	**—**	**—**	(105)	(105)
At 31 December	**—**	**—**	—	—

The share of loss after tax of the S&S Venues joint venture has been charged to exceptional costs (see note 4), given the provision for onerous contracts in relation to this joint venture, equivalent to the losses incurred, has been released to exceptional costs, having been recorded through exceptional costs in 2017.

b) Capital commitments and future obligations

Sportech Venues Inc. is a guarantor for certain future obligations at Striders. As the Group had decided to exit California those commitments have been provided for in full. See note 22 for further details.

c) Summarised financial information of joint venture investments held at the reporting date

Note that although the Group continues to hold a share in its Indian joint venture and Draftday at the reporting date, these businesses are no longer actively managed by the Group. The net investment in these joint ventures is £nil at both 31 December 2018 and 31 December 2017.

Summarised financial information of the Striders bar in San Diego is presented as below:

	2018 £000	2017 £000
Non-current assets	**1,901**	2,125
Current assets	**133**	147
Total assets	**2,034**	2,272
Current liabilities	**(72)**	(75)
Net assets	**1,962**	2,197
Revenue	**607**	678
Expenses	**(1,102)**	(1,278)
Loss for the year	**(495)**	(600)

16. Trade and other receivables

	2018 £000	2017 £000
Non-current		
Trade receivables	1,041	450
Less provision for impairment of receivables	(589)	—
Trade receivables – net	452	450
Accrued income	—	250
Other receivables	215	197
Contingent consideration due on the disposal of Sportech-NYX Gaming, LLC	—	1,546
Non-current trade and other receivables	667	2,443
Current		
Trade receivables	6,292	8,945
Less provision for impairment of receivables	(980)	(1,606)
Trade receivables – net	5,312	7,339
Other receivables	1,644	1,498
Accrued income	177	575
Prepayments	1,036	930
Current trade and other receivables	8,169	10,342
Total trade and other receivables	8,836	12,785

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

In 2015 the Group disposed of its joint venture with NYX Gaming Group, Sportech-NYX Gaming, LLC, for consideration which is partly contingent on future events. The contingent consideration is C$1.0m for each customer that NYX successfully sign up to its Real Money Live wagering platform before May 2020, up to a maximum of C$3.0m. It is now management's belief that NYX will sign up no new customers to the relevant platform and therefore the contingent consideration receivable has been impaired in full in the year, expensed to operating costs and disclosed as an exceptional item (see note 4d).

Movements in the provision for impairment of receivables in the year is shown below:

	2018 £000	2017 £000
At 1 January	1,606	1,537
Released to the income statement	(76)	762
Utilisation of provision	(34)	(403)
Reclassification from provisions	—	125
Reclassification to asset held for sale	—	(325)
Foreign exchange movements	73	(90)
At 31 December	1,569	1,606

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

	2018 £000	2017 £000
Sterling	1,092	1,860
US Dollar	5,689	8,265
Euro	1,582	2,125
Other	473	535
Total	8,836	12,785

Trade receivables that are not less than three months past due are not considered impaired. As at 31 December 2018, £1,041k (2017: £376k) of trade receivables were past due and not impaired. Management also considers that these receivables are recoverable in full.

Consolidated Financial Statements continued

17. Deferred tax

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

	Note	2018 £000	2017 £000
Net deferred tax asset at 1 January		**6,406**	3,036
Income statement credit – continuing operations	9	**(612)**	3,856
Income statement credit – discontinued operations	10	**(175)**	73
Tax credited directly to other comprehensive income		**(83)**	55
Disposal of Football Pools		**—**	(140)
Reclassification of available for sale asset		**—**	(212)
Exchange differences		**443**	(262)
Net deferred tax asset at 31 December		**5,979**	6,406

Deferred tax assets

	Pension £000	Capital allowances £000	Losses and foreign tax credits £000	Other temporary differences £000	Total £000
At 1 January 2017	598	(1,830)	4,433	(165)	3,036
Income statement (charge)/credit	(256)	2,905	(235)	1,515	3,929
Tax credited directly to other comprehensive income	55	—	—	—	55
Disposal of Football Pools	—	(140)	—	—	(140)
Reclassification of available for sale asset	—	4	(216)	—	(212)
Currency translation differences	—	—	(172)	(90)	(262)
At 31 December 2017	397	939	3,810	1,260	6,406
Income statement (charge)/credit	(112)	(161)	(712)	198	(787)
Tax debited directly to other comprehensive income	(83)	—	—	—	(83)
Currency translation differences	24	51	213	155	443
At 31 December 2018	**226**	**829**	**3,311**	**1,613**	**5,979**

In addition to the deferred tax asset which has been recognised, the Group has not recognised further deferred tax assets on £12,924k (2017: £4,005k) arising from unutilised trading losses and carried forward foreign tax credits. The Directors do not consider there will be sufficient future profits against which these losses/credits can be offset due to the low profit generation in these particular business units. The increase in the deferred tax assets not recognised is due the derecognition in the year of deferred tax on foreign tax credits in the US.

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.

All deferred tax is expected to unwind in more than one year's time.

18. Inventories

	2018 £000	2017 £000
Work in progress	**103**	99
Spare parts	**2,217**	2,313
Finished goods	**256**	240
	2,576	2,652

The cost of inventories recognised as an expense and included in cost of sales amounted to £810k (2017: £1,260k). Provisions for obsolescence held against inventories at 31 December 2018 amounted to £286k (2017: £310k). The provision for obsolete inventories has increased in the year as a result of spare parts which have not been utilised for a period of time. Those spare parts must be held by the Group for terminals that are in use at customer sites.

19. Asset held for sale

At 31 December 2017, the Board were of the view that the most probable route of realising future economic benefit through its Venues business in The Netherlands, Sportech Racing BV and its subsidiaries, was through a sale rather than continuing to operate it as part of the Sportech Group.

On 31 March 2018, the Group agreed to dispose of this business to RBP Luxembourg SA ("Ze Turf") on a cash-free-debt-free basis for initial consideration of €2.8m. The deal was structured as a locked box mechanism with an effective date of 31 December 2017, and so the net cash/debt adjustments are known to the Group, being an increase in the purchase price received of €233k.

Earn out consideration could also be earned by the Group of up to €450k, contingent upon certain activities of this business being completed by 31 December 2018.

In accordance with IFRS 5, this business was treated as an asset held for sale as at the 31 December 2017 as the sale was deemed to be probable, and the disposal of Sportech Racing BV will signal a departure from a major geographic location in which the Group previously operated. Accordingly, it has also been treated as a discontinued operation in these financial statements.

The net assets of this business as at 31 December 2017 (which have been presented net on the Group prior year balance sheet), and on the date of disposal (28 July 2018), are shown below:

	28 July 2018 £000	31 December 2017 £000
Non-current assets		
Intangible fixed assets	**288**	212
Property, plant and equipment	**351**	394
Deferred tax assets	**212**	212
	851	818
Current assets		
Trade and other receivables	**231**	284
Inventories	**47**	28
Cash and cash equivalents	**284**	413
	562	725
TOTAL ASSETS	**1,413**	1,543
Liabilities		
Current liabilities		
Trade and other payables	**(1,070)**	(735)
Provisions	**(25)**	(30)
Total Liabilities	**(1,095)**	(765)
Net Assets	**318**	778

Consolidated Financial Statements continued

The net cash and debt adjustment made to the purchase price are cash and cash equivalents (£413k, €466k), provisions (£30k, €34k) and certain accrued costs within trade and other payables (£177k, €199k).

The above net assets exclude balances due to/from other Sportech businesses which are settled by way of the completion mechanism in the SPA.

20. Cash and cash equivalents

	2018 £000	2017 £000
Cash and short-term deposits	**14,728**	15,885
Customer funds	**3,187**	2,872
	17,915	18,757

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

Cash balances of £3,187k (2017: £2,872k) are held on behalf of customers in respect of certain online and telephone betting activities. The corresponding liability is included within trade and other payables (see note 21).

At December 2017, the Group also held cash in its Venues business in The Netherlands of £413k. This has been presented within the net asset held for sale value as disclosed in note 19.

21. Trade and other payables

	2018 £000	2017 £000
Trade payables	**4,018**	5,356
Other taxes and social security costs	**113**	435
Accruals	**5,382**	7,107
Deferred income	**246**	288
Player liability	**3,187**	2,872
	12,946	16,058

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

22. Provisions

	Onerous contracts £000	Other Provisions £000	Total £000
At 1 January 2017	127	431	558
Net charge to income statement, excluding release of provisions which did not arise during period of Sportech ownership	2,553	—	2,553
Reclassification of provisions for bad debts	—	(125)	(125)
Release of provisions which did not arise during period of Sportech ownership	(120)	(141)	(261)
Reclassification as held for sale asset	—	(30)	(30)
Currency differences	(46)	(23)	(69)
At 31 December 2017	2,514	112	2,626
Utilised during the year	(96)	—	(96)
Credit to the income statement – share of loss of JV	(291)	—	(291)
Release of discount interest to the income statement	22	—	22
Currency differences	143	7	150
At 31 December 2018	**2,292**	**119**	**2,411**
Of which:			
Current provisions	**977**	**—**	**977**
Non-current provisions	**1,315**	**119**	**1,434**
	2,292	**119**	**2,411**

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 leased property to its original condition at the start of the lease term.

The Group has a number of committed financial obligations with its joint venture in California. The amounts provided for include committed costs at the leased sites in Norco and San Diego, discounted at 2.5%, totalling $1,930k (£1,521k, 2017: $2,265k (£1,676k)), plus other onerous contract costs of $nil (£nil, 2017: $132k (£98k)) and further obligations estimated at $978k (£770k, 2017: $1,000k (£740k)). The Norco lease ends in October 2023, and the San Diego lease ends in August 2024. The Group is a joint and severally liable guarantor for both leases with its JV partner. In the absence of funding receipts from the Group's JV partner, 100% of the future lease liability has been provided for. The release of these provisions will be credited to the share of JV loss line in the income statement as the commitments are paid via investment into the joint ventures.

23. Financial liabilities

	2018 £000	2017 £000
Deferred and contingent consideration due within one year, recognised within:		
Current liabilities	**—**	175
Non-current liabilities	**—**	—
	—	175

Deferred and contingent consideration outstanding at the prior year balance sheet date represented amounts due for the acquisition of Bump. The total amount payable is made up of two items as below:

- an amount equivalent to the 2017 EBITDA earned by Bump; and
- 25% of the 2018 EBITDA earned by Bump.

The cost of this was treated as employment costs under IFRS 3 'Business Combinations' (revised) and was therefore accrued on a time apportioned basis to 31 December 2017. The accrued amount was paid in full in 2018.

Movements on this financial liability in the year are as below:

	2018 £000	2017 £000
At 1 January	**175**	278
Employment costs accrued under IFRS 3	**—**	74
Instalment payment made	**(167)**	(150)
Currency movements	**(8)**	(27)
At 31 December	**—**	175

Consolidated Financial Statements continued

24. Pension schemes

The Group operates defined contribution schemes, and a funded defined benefit scheme in the UK. Datatote employees contribute to a separate defined contribution scheme to that of Sportech PLC. 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 (prior to its sale) and a defined contribution scheme in Ireland.

Summary of pension contributions paid

	2018 £000	2017 £000
Defined contribution scheme contributions	**177**	323
Defined benefit scheme contributions	**692**	528
Total pension contributions	**869**	851

Defined contribution schemes

In the UK, employer contributions for Sportech are set at a maximum of 8% 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.

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 provided benefits to employees on a percentage of salary basis.

For employees in Ireland (of which there are 15), 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 (of which there are one and seven respectively), all pensions cover is provided through employer and employee social security contributions.

Defined benefit schemes

In disposing of certain business assets with the Football Pools division in 2018, the defined benefit pension scheme was retained by Sportech.

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 and is not open to new members. The assets of this scheme are held in an independent Trustee administered fund.

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 amounts recognised in the balance sheet within non-current liabilities were as follows:

	2018 US £000	2018 UK £000	2018 Total £000	2017 US £000	2017 UK £000	2017 Total £000
Fair value of plan assets	**3,652**	**2,168**	**5,820**	2,935	2,306	5,241
Present value of the schemes' liabilities	**(4,583)**	**(2,139)**	**(6,722)**	(4,481)	(2,297)	(6,778)
Deficit in the schemes	**(931)**	**29**	**(902)**	(1,546)	9	(1,537)

There is a funding obligation in relation to the US defined benefit scheme whereby not less than 80% of the liability must be represented by its assets. At the balance sheet date, that shortfall was £15k, and will be settled by the Group in 2019.

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

	US 2018	**UK 2018**	US 2017	UK 2017
Discount rate	**4.25%**	**2.7%**	3.5%	2.4%
Rate of increase in salaries	**N/A**	**3.5%**	N/A	3.4%
Rate of inflation	**N/A**	**3.5%**	N/A	3.4%
Mortality table	**RP-2014 Total Dataset Adjusted to 2006 with Scale MP-2018**	**S2NxA CMI 2017 projections 1.5% per annum long-term rate of improvement**	RP-2014 Total Dataset Adjusted to 2006 with Scale MP-2017	S2NxA CMI 2015 projections 1.5% per annum long-term rate of improvement

The qualified actuaries who valued the scheme are Barnett Waddingham LLP for the UK and The Prudential Insurance Company for the US scheme.

The movement in the net defined benefit obligation over the year is as follows:

	Present value of obligation £000	**Fair value of plan asset £000**	**Total £000**
At 1 January 2018	6,778	(5,241)	1,537
Income statement expense/(income):			
– Current service cost	97	—	97
– Interest expense/(income)	217	(172)	45
– Administrative expenses	—	136	136
	314	(36)	278
Remeasurements:			
– Currency exchange movements	289	(195)	94
– (Gain)/loss from change in actuarial assumptions	(433)	118	(315)
	(144)	(77)	(221)
Contributions:			
– Employer’s	—	(692)	(692)
Payments from plans:			
– Benefit payments	(226)	226	—
At 31 December 2018	6,722	(5,820)	902

Consolidated Financial Statements continued

	Present value of obligation £000	Fair value of plan asset £000	Total £000
At 1 January 2017	7,135	(5,427)	1,708
Income statement expense/(income):			
– Current service cost	89	—	89
– Interest expense/(income)	229	(176)	53
– Administrative expenses	—	178	178
	318	2	320
Remeasurements:			
– Currency exchange movements	(429)	295	(134)
– (Gain)/loss from change in actuarial assumptions	187	(16)	171
	(242)	279	37
Contributions:			
– Employer's	—	(528)	(528)
Payments from plans:			
– Benefit payments	(433)	433	—
At 31 December 2017	6,778	(5,241)	1,537

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 decreased by one year the liabilities would 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 £17,000.

For the UK, if the rate of inflation were to be reduced by 0.25% the liabilities would decrease by £64,000.

For the UK, if the discount rate were to be increased to 2.95% the liabilities would decrease by £63,000.

For the US, if the discount rate were to be increased to 4.75% the liabilities would decrease by £201,000.

Future commitments – employer contributions

The expected employer annual contributions to the schemes for the financial year ending 31 December 2019 amount to £528k (year ended 31 December 2018: £638k).

Future commitments – benefit payments

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

	Less than a year £000	1 and 2 years £000	2 and 5 years £000	Over 5 years £000	Total £000
UK pension scheme	98	102	327	626	1,153
US pension scheme	734	225	1,124	7,435	9,518

The weighted average duration of the US scheme is approximately 8.4 years, and the UK scheme 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

Most 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.

25. Financial instruments

Financial risk management policies and objectives

The key financial risks borne by the Group, and the policy of managing those risks, are outlined below:

Liquidity risk

The Group is exposed to liquidity risk and has to manage its cash requirements. In managing short term divisional liquidity risks, cash flow forecasting is performed on a weekly basis in the operating entities 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. Cash surpluses are managed centrally by Group finance and cash swept up/pushed down as cash surpluses/requirements arise.

Credit risk

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 and the cash which is deposited is spread over a few of financial institutions with Moody's ratings of A or above (defined as upper-medium grade and subject to low credit risk). Amounts held in cash for the Sportech Venues division are held in highly secure environments.

Foreign exchange risk

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

Consolidated Financial Statements continued

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 2018, there were no outstanding commitments on foreign exchange forward contracts (2017: none). The Group did not enter into any forward contracts during the year (2017: the Group entered into a number of forward contracts for the settlement of US Dollars at contracted rates. A net gain of £nil was recognised in respect of forward contracts in 2018 (2017: £42,000).

A long term strategy of managing foreign exchange risk may involve a transition in its reporting currency from GBP to US Dollars. This is under consideration by management and may result in a change in financial statement currency presentation in future periods.

The average rate for the US Dollar and Euro in both the current and previous reporting period are as outlined below.

	2018		2017	
	Average	**Closing**	Average	Closing
US Dollars	**1.33**	**1.27**	1.30	1.35
Euro	**1.13**	**1.11**	1.14	1.13

If the exchange rates in 2018 were comparable to those in 2017, loss after tax would have been £2,486k and the net assets would have been £44,921k at 31 December 2018.

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.

An appropriate metric in considering capital risk management, and the ability of the Group to return cash to shareholders whilst operating within its means, would be its implied liquidity per share, defined as below:

Implied liquidity per share	**2018 £000**	2017 £000
Current assets	**28,660**	32,529
Current liabilities	**(20,486)**	(24,442)
Net current assets	**8,174**	8,087
Non-current trade and other receivables	**667**	2,443
Non-current liabilities	**(2,336)**	(3,060)
	(1,669)	(617)
Net position	**6,505**	7,470
less inventories held	**(2,576)**	(2,652)
Implied liquidity	**3,929**	4,818
Implied liquidity per share	**2.1p**	2.6p

Management continue to monitor its implied liquidity per share in considering its most appropriate long-term strategy for either returns to shareholders or reinvestment in capital to drive further growth and potential returns.

Financial assets and liabilities

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

	2018 £000	2017 £000
Loans and receivables	7,800	10,309
Available for sale financial assets	—	1,546
Financial liabilities measured at amortised cost	(12,701)	(15,945)

Available for sale financial assets

	2018 £000	2017 £000
Non-current assets – Available for sale financial assets		
Contingent consideration receivable from disposal of Sportech-NYX Gaming, LLC	—	1,546

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).

Contingent consideration receivable from disposal of Sportech-NYX Gaming, LLC

In 2015 the Group disposed of its joint venture with NYX Gaming Group, Sportech-NYX Gaming, LLC, for consideration which is partly contingent on future events. The contingent consideration is C$1.0m for each customer that NYX successfully sign up to its Real Money Live wagering platform before May 2020, up to a maximum of C$3.0m.

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.

Management now believe that NYX are unlikely to sign up any new customers to the relevant platform prior to May 2020 and therefore the contingent consideration receivable previously recognized has been impaired in full on 31 December 2018. The amount had previously been discounted at 9%, with interest unwinding on this discount within other finance charges. The amount recognised as at 31 December 2018 is £nil within non-current trade and other receivables (2017: CAD 2,618k; £1,546k).

Maturity of financial liabilities

Non-derivative financial liabilities are all payable within twelve months.

Consolidated Financial Statements continued

26. Contingencies and 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 £2,249k (2017: £4,333k). The prior year included costs of providing for future operating lease payments in California as outlined in note 22 of £1,676k.

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

	2018 £000	2017 £000
No later than one year	**1,932**	1,923
Later than one year and no later than five years	**4,414**	6,511
Later than five years	**5,880**	7,704
Total	**12,226**	16,138

Other financial commitments

The Group continues to provide a performance guarantee bond in Turkey amounting to $200k at 31 December 2018. This is to facilitate provision of a customer service contract in the territory.

Contingent items

Tax

The Group's activities in recent periods have resulted in material tax liabilities crystallising. The ultimate tax liability due, in all instances, is subject to a degree of management judgment. The judgments which are made are done so in good faith, with the aim of always paying the correct amount of tax at the appropriate time. Management work diligently with the Group's external financial advisors in quantifying the anticipated accurate and fair tax liability which arises from material one-off events such as the Spot the Ball legal case and the disposal of the Football Pools. Management have an open, transparent and constructive relationship with tax regulators, and engage positively when discussing any difference in legal interpretation between that of the Group and the regulators.

Certain contingent items exist at the reporting date with respect to tax liabilities as outlined below.

Corporation tax
Judgment has been applied by management as to the corporation tax which arises on the sale of the Football Pools in June 2017. Exposure to further liabilities as a result of differences to management judgment exists, and a possible further tax liability could arise.

VAT
As disclosed in the 2015 interim financial statements, HMRC have previously challenged the recovery of VAT by Sportech PLC as an active holding company providing wholly economic activities. This challenge was aligned to European Case Law which ultimately ruled in the taxpayer's favour.

HMRC adjusted their challenge to Sportech in 2017 to instead focus on the value of the economic activities that Sportech PLC provides to its trading subsidiaries, the majority of which are based overseas. Assessments have been raised totalling £3.3m for the period to 30 June 2017, citing an under-valuation of the Group's management supplies which is made primarily to its exempt UK Football Pools business. The Group has continued to engage its external advisors on this issue and has entered into a formal appeals process.

To continue with the appeal, and in accordance with due process, £1.3m was paid to HMRC in 2018 (HMRC agreed to defer payment of the remaining amount). Management remain confident that this amount will be recovered given advice from its external tax and legal advisors. A provision of £1.7m has been made in the Group accounts and Management consider the likelihood of any further material outflow, over this amount, being made to HMRC to settle this issue is remote.

Irish subsistence claims
The Irish revenue have assessed the Group for €106k for income tax allegedly underpaid in relation to subsistence claims of Irish field crew. Management believe that this assessment is incorrect and that all subsistence claims paid were made without tax deduction in accordance with relevant regulations. An appeal is being pursued and no provision has been recorded in these financial statements.

Other contingent items

M&A activity
Both the 2017 sale of the Football Pools division and the 2018 sale of the Group's Venues business in The Netherlands have customary seller warranties under the terms of the Sale and Purchase Agreements. Those warranties have been provided in good faith by management in light of the probability of certain events occurring. The possibility of material claims being made under the seller warranties in either deal is considered by management to be remote.

Legal
The Group is engaged in certain disputes in the ordinary course of business which could potentially lead to outflows greater than those provided for on the balance sheet. The maximum possible exposure considered to exist, in view of advice received from the Group's professional advisors, is up to £0.5m. Management are of the view that the risk of those outflows arising is not probable and accordingly they are considered contingent items.

27. Ordinary shares

	2018		2017	
Authorised, issued and fully paid ordinary shares	**'000**	**£000**	'000	£000
At 1 January	**185,614**	**37,123**	206,238	103,119
New shares issued to satisfy vesting of PSP	**1,137**	**227**	—	—
Cancellation of shares in issue	**—**	**—**	(20,624)	(10,312)
Capital reduction: nominal value reduced to 20p per share (2017: 20p)	**—**	**—**	—	(55,684)
At 31 December	**186,751**	**37,350**	185,614	37,123

On 21 March 2017, the Company purchased 10% of its issued share capital back from shareholders. The tender offer price for the buyback was £1.015 and was fully subscribed, resulting in payments to shareholders of £20,933k. Associated fees of this transaction were £259k. Those shares were purchased and cancelled, thus reducing the number of shares in issue to 185,614,244. Further shares have been issued in the year to satisfy employee share options (1,137,013), taking the total number of shares in issue to 186,751,257.

On 8 November 2017, the Company received Court approval for a 30p per share reduction in the nominal value of its share capital from 50p to 20p as approved by shareholders in May 2018.

This created distributable reserves of £55,684k and assisted in the Group making a further distribution of surplus cash in December 2017 by way of a special dividend of 29p per share.

Consolidated Financial Statements continued

Potential issue of ordinary shares

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.

Movement in share awards in respect of the Performance Share Plan are shown below:

	2018 '000	2017 '000
Outstanding awards at 1 January	**3,255**	6,058
Increase in awards for dividend in December 2017	**1,091**	—
Awarded	**—**	1,389
Exercised	**(1,137)**	—
Surrendered for participation in Value Creation Plan	**—**	(1,389)
Lapsed as a result of failure to meet performance conditions	**(1,139)**	(1,873)
Lapsed due to employees leaving the Group	**(33)**	(930)
Outstanding awards at 31 December	**2,037**	3,255

Dividend adjustment

As per the terms of the Sportech Share Performance Plan, a dividend adjustment was made to awards outstanding at 31 December 2017 to compensate award holders for the dividend paid by the Company in December 2017. The adjustment was agreed to be 0.335 as disclosed in the Remuneration Report on page 57.

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 was dependent on the Company's TSR over a fixed three-year period commencing 3 March 2017 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.

A vesting schedule no less demanding than the following applied:

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 was also subject to a financial underpin condition. It was determined in March 2019 that zero% of the award would vest, accordingly all awards will lapse in 2019.

2015 grant

The vesting of one-half of the award ('Part A') was 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 would vest unless the Company's TSR performance at least matched that of the index. Thereafter, a vesting schedule no less demanding than the TSR condition on the 2016 grant as outlined above. The vesting of the second half of the award was 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 was 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%

It was determined that Part A vesting in full and Part B vested at 0%, therefore an overall vesting of the award of 50% occurred in April 2018. The vesting date was delayed to April due to the Group's results announcement for the year ended 31 December 2017 being delayed until this date.

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 valuation calculation are as below:

Grant date	March 2017*	November 2016	March 2015
Exercise price	£nil	£nil	£nil
Number of employees issued shares	14	19	25
Share price at date of valuation	£0.988	£0.653	£0.667
Expected term (fixed)	2.67 years	3 years	3 years
Expected volatility	34.2%	43.0%	35.2%
Dividend yield	0%	0%	0%
Fair value of award	£0.585	£0.433	£0.544

* The assumptions disclosed on the March 2017 award are those that were used when valuing the award at 21 July 2017 on creation of the VCP. It is this valuation that triggers the financial statement impact of the awards in issue.

The weighted average remaining contractual life of outstanding awards under the PSP at 31 December 2018 was ten months (2017: one year). The weighted average exercise price of awards granted during the period was £nil (2017: £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 5 and 6 for the total expense recognised in the income statement for share options granted and PSP awards made to Directors and employees respectively

Value Creation Plan

On 24 May 2017, shareholders approved the creation of a new executive management incentive plan known as the Value Creation Plan (VCP). Participants in the VCP were granted an Award giving them a future right to earn ordinary shares in the Company based on the cumulative total shareholder return generated over the VCP performance period. The VCP provides participants with a pool of ordinary shares with a value equal to 20% of any cumulative shareholder value created above a compound hurdle rate of 8% per annum. However, in the event of a change of control that results in accelerated vesting in 2017 or 2018, or in the case of an Executive Director being deemed a "Good Leaver" (as defined in the VCP rules) in 2017 or 2018, the compound hurdle rates for vesting will be 12% and 10% respectively.

Consolidated Financial Statements continued

Awards are expected to vest on the fifth anniversary of the deemed date of grant of the Award (for the existing awards, 1 January 2017) to the extent that any applicable performance conditions have been satisfied.

Awards are valued using a Black-Scholes-Merton option pricing model. The fair value per award granted and the assumptions used in the valuation calculation are as below:

Valuation date (date of award issues)	**29 June 2018**	21 July 2017
VCP performance period start date	**01 January 2017**	01 January 2017
End of vesting period	**31 December 2021**	31 December 2021
Share price at period start date	**£0.978**	£0.978
Expected term	**3.5 years**	4.43 years
Expected volatility	**40%**	35%
Dividend yield	**0%**	0%
Risk free rate	**0.80%**	0.51%
Fair value of each issued share in VCP	**£279**	£463

28. Cash generated from operations

Reconciliation of loss before taxation to cash generated from operations, before exceptional items:

	Note	2018 £000	2017 £000
Loss before tax – continuing operations		**(2,439)**	(23,150)
Adjustments for:			
Net exceptional items	4	**3,453**	4,776
Realised losses on sale of shares in NYX Gaming Group		**—**	1,603
Share of loss after tax and impairment of joint ventures/associates	15	**—**	1,484
Depreciation and amortisation	13, 14	**4,777**	4,630
Impairment of assets	12, 13, 14	**—**	12,914
Net finance (income)/costs	8	**(473)**	19
Acceleration of IFRS 2 charge for departing management		**—**	3,765
Share option expense		**1,222**	666
Employers' taxes paid on options vested		**(67)**	(21)
Changes in working capital:			
Decrease in trade and other receivables		**1,831**	1,099
Decrease/(increase) in inventories		**76**	(177)
Decrease in trade and other payables		**(2,805)**	(939)
Increase/(decrease) in customer funds		**315**	(251)
Cash generated from operating activities, before exceptional items		**5,890**	6,418

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 6.

b. 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, and no amounts outstanding at the reporting date.

30. Post balance sheet events

Acquisition of Lot.to Systems Limited

On 1 February 2019, the Group acquired 100% of the issued share capital of Lot.to Systems Limited ("LOT.TO"), a leading, UK-based digital gaming technology business.

The acquisition provides Sportech with a leading digital gaming platform, iLottery, and a specialist team focused on innovative digital gaming technologies. It will also help solidify the Group's global gaming capabilities and services position. Importantly, the acquisition also provides Sportech with growth opportunities through broadening the suite of gaming services offered by the Group.

UK-regulated LOT.TO is recognised as a digital specialist in the lottery sector providing turn-key solutions to its B2B client base. Whilst its proprietary 'Rapid Lotto' and lotto betting verticals online have been its core consumer products, LOT.TO's iLottery platform has the capability to operate in any gambling vertical including self-service POS terminals plus online and mobile interfaces.

The consideration will be satisfied by way of issuance of two million new Sportech ordinary shares of 20p each to the vendors (the "Consideration Shares"). The vendors are subject to a three-year lock-up arrangement in respect of their Consideration Shares (subject to certain customary exceptions), effective from the acquisition date. Of the two million shares issued, 100,000 were issued to Richard McGuire (Interim Executive Chairman), in consideration of his 5% holding in Lot.to Systems Limited prior to its sale to Sportech PLC.

Full disclosure of the impact on the Group's financial statements will be included in the 2019 Interim Report. In addition, the Group will repay £1.3m of former shareholders' loans by the end of 2019.

31. 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 Group Holdings Limited	England & Wales	1	Ordinary	85%
Sportech Gaming Limited	England & Wales	1	Ordinary	100%
Sportech Pools Limited	England & Wales	1	Ordinary	100%
Sportech Pools Games Limited	England & Wales	1	Ordinary	100%
Sportech Holdco 1 Limited	England & Wales	1	Ordinary	100%
Sportech Holdco 2 Limited	England & Wales	1	Ordinary	100%
Datatote (England) Limited	England & Wales	1	Ordinary	100%
Sportech Mauritius Limited	Mauritius	2	Ordinary	100%
Sportech, Inc.	United States	3	Ordinary	100%
Sportech Venues, Inc.	United States	3	Ordinary	100%
eBet Technologies, Inc.	United States	3	Ordinary	100%
Sportech Venues California, LLC	United States	3	Ordinary	100%
Sportech Venues CA Holdco, LLC	United States	3	Ordinary	100%
Sportech Games Holdco, LLC	United States	3	Ordinary	100%
Sportech Racing, LLC	United States	4	Ordinary	100%
Bump Worldwide, Inc.	Canada	5	Ordinary	100%
Sportech Racing Canada, Inc.	Canada	5	Ordinary	100%
1891323 Ontario, Inc.	Canada	5	Ordinary	100%
Sportech Racing Panama, Inc.	Panama	6	Ordinary	100%
Sportech Racing Limited	British Virgin Islands	7	Ordinary	100%
Racing Technology Ireland Limited	Ireland	8	Ordinary	100%
Autotote Europe GmbH	Germany	9	Ordinary	100%
Sportech Racing GmbH	Germany	10	Ordinary	100%
Sportech Racing Turkey	Turkey	11	Ordinary	100%
Sportech Racing SAS	France	12	Ordinary	100%

Consolidated Financial Statements continued

Joint ventures and associates	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportshub Private Limited	India	13	Ordinary	50%
S&S Venues California, LLC	United States	3	Ordinary	50%
DraftDay Gaming Group, Inc	United States	14	Ordinary	30%

Companies considered held for sale during the period and disposed of by the reporting date	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportech Racing BV	Netherlands	15	Ordinary	100%
Sportech Racing Banen BV	Netherlands	15	Ordinary	100%
Sportech BV	Netherlands	15	Ordinary	100%

Dormant companies	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportech Trustees Limited	England & Wales	1	Ordinary	100%
Thepools.com Limited	England & Wales	1	Ordinary	100%
C&P Promotions Limited	England & Wales	1	Ordinary	100%
Pools Promotions Limited	England & Wales	1	Ordinary	100%
Sportech 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%
Sportech Management Limited	Scotland	16	Ordinary	100%
Sportech Pools Trustee Company Limited	Scotland	16	Ordinary	100%

Registered addresses

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

Company Financial Statements

Company Balance Sheet

at 31 December 2018

	Note	2018 £000	2017 £000
ASSETS			
Non-current assets			
Intangible fixed assets	C5	**998**	1,243
Property, plant and equipment	C6	**—**	10
Investment in subsidiaries	C7	**92,673**	231,989
Trade and other receivables	C8	**3,844**	—
Deferred tax assets		**73**	156
		97,588	233,398
Current assets			
Trade and other receivables	C8	**1,505**	3,249
Income tax receivable		**421**	—
Cash and cash equivalents		**8,303**	11,126
		10,229	14,375
TOTAL ASSETS		**107,817**	247,773
LIABILITIES			
Current liabilities			
Trade and other payables	C9	**(19,754)**	(162,251)
Net current liabilities		**(9,525)**	(147,876)
NET ASSETS		**88,063**	85,522
EQUITY			
Ordinary shares		**37,350**	37,123
Other reserves		**17,848**	16,920
Retained earnings carried forward		**32,865**	31,479
TOTAL EQUITY		**88,063**	85,522

The Company financial statements on pages 129 to 136 were approved and authorised for issue by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Richard McGuire **Thomas Hearne**

Company Registration Number: SC069140

Company Financial Statements continued

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Ordinary shares £000	Other reserves: Capital redemption reserve £000	Other reserves: Share option reserve £000	Retained earnings £000	Total £000
At 1 January 2017	103,119	—	2,198	(21,836)	83,481
Comprehensive expense					
Profit of the year	—	—	—	72,651	72,651
Transactions with owners					
Share option charge, excluding acceleration of IFRS 2 charge for departing management	—	—	666	—	666
Acceleration of IFRS 2 charge for departing management	—	—	3,765	—	3,765
Employer taxes paid on vesting of options	—	—	(21)	—	(21)
Share buyback	—	—	—	(21,192)	(21,192)
Cancellation of share capital	(10,312)	10,312	—	—	—
Capital reduction	(55,684)	—	—	55,684	—
Special dividend	—	—	—	(53,828)	(53,828)
At 31 December 2017	37,123	10,312	6,608	31,479	85,522
Comprehensive expense					
Profit for the year	—	—	—	1,159	1,159
Transaction with owners					
Share option charge	—	—	1,222	—	1,222
Taxes paid on vesting of share options	—	—	(67)	—	(67)
New shares issues in relation to the PSP	227	—	(227)	—	—
Shares gifted to the EBT	—	—	—	227	227
At 31 December 2018	37,350	10,312	7,536	32,865	88,063

Company Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Cash generated from operations, before exceptional items	C11	**2,522**	89,280
Interest paid		**(19)**	(235)
Interest received		**125**	—
Tax paid		**(152)**	(18,833)
Net cash generated from operating activities before exceptional items		**2,476**	70,212
Exceptional cash inflows		**—**	494
Exceptional cash outflows		**(1,863)**	(12,419)
Net cash generated from operating activities		**613**	58,286
Cash flows from investing activities			
Dividends received		**—**	8,105
Investment in subsidiaries	C7	**(3,374)**	—
Investment in intangible fixed assets	C5	**(62)**	(429)
Purchase of property, plant and equipment	C6	**—**	(16)
Net cash (used in)/generated from investing activities		**(3,436)**	7,660
Cash flows from financing activities			
Shareholder distribution – March 2018		**—**	(21,192)
Shareholder distribution – December 2018		**—**	(53,828)
Net cash used in financing activities		**—**	(75,020)
Net decrease in cash and cash equivalents		**(2,823)**	(9,074)
Net cash and cash equivalents at the beginning of the year		**11,126**	20,200
Net cash and cash equivalents at the end of the year		**8,303**	11,126

Company Financial Statements continued

C1. Accounting policies

The accounting policies applied by the Company are consistent to those disclosed on pages 86 to 95 where applicable.

C2. Result of Company

The result for the year is a profit after tax of £1,159k (2017: £72,651k).

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 20 March 2019.

C3. Auditor remuneration

Fees payable to the Company auditors for the audit of these financial statements are £60k (2017: £55k). Other amounts payable to the Company auditors during the year are disclosed in note 7 of the Group Consolidated Financial Statements.

C4. Directors and key management remuneration

	Directors		Key management	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Short-term employee benefits	**714**	1,032	**752**	1,188
Consultancy fees	**76**	146	**76**	146
Share-based payments	**388**	205	**388**	205
Accelerated IFRS 2 charge for departing management	**—**	3,567	**—**	3,567
Pay in lieu of notice	**—**	859	**—**	964
Post-employment benefits	**5**	46	**5**	46
Total remuneration	**1,183**	5,855	**1,221**	6,116

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration report on pages 42 to 62. This information forms part of the financial statements. Retirement benefits are accruing under defined benefit pension schemes for nil Directors (2017: nil). Nil Directors exercised share options in the year (2017: nil).

Key management is considered to be the Directors of the Company. Consultancy fees are amounts payable to Richard Cooper in providing additional services to Group companies in his capacity as Non-executive Director following the resignation of Mickey Kalifa, as detailed in the Remuneration report on page 54 of the Group Consolidated Financial Statements.

C5. Intangible fixed assets

2018	Software £000	Total £000
Cost		
At 1 January 2018	18,078	18,078
Additions	62	62
At 31 December 2018	18,140	18,140
Accumulated amortisation		
At 1 January 2018	16,835	16,835
Charged during the year	307	307
At 31 December 2018	17,142	17,142
Net book amount at 31 December 2018	998	998

2017	Software £000	Other £000	Total £000
Cost			
At 1 January 2017	17,649	1,082	18,731
Additions	429	—	429
Disposal	—	(1,082)	(1,082)
At 31 December 2017	18,078	—	18,078
Accumulated amortization			
At 1 January 2017	16,627	1,082	17,709
Charged during the year	208	—	208
Disposal	—	(1,082)	(1,082)
At 31 December 2017	16,835	—	16,835
Net book amount at 31 December 2017	1,243	—	1,243

Software owned by the Company relates primarily to in-house developed proprietary pari-mutuel software serving racing customers worldwide but also costs in relation to the implementation and customisation of the Group ERP system. Other intangible assets held were certain developments in modifying this core pari-mutuel software to enable the provision of tote software to the Group's Indian joint venture which was fully impaired in 2017.

C6. Property, plant and equipment

	Plant and machinery £000	Total £000
Cost		
At 1 January and 31 December 2018	224	224
Accumulated depreciation		
At 1 January 2018	214	214
Charged during the year	10	10
At 31 December 2018	224	224
Net book amount at 31 December 2018	—	—

Company Financial Statements continued

	Short leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2017	141	208	349
Additions	—	16	16
Disposals	(141)	—	(141)
At 31 December 2017	—	224	224
Accumulated depreciation			
At 1 January 2017	141	152	293
Charged during the year	—	62	62
Disposals	(141)	—	(141)
At 31 December 2017	—	214	214
Net book amount at 31 December 2017	—	10	10

C7. Investments in subsidiaries

A full list of the Company's subsidiaries and other related undertakings is included in note 31 of the Group Consolidated Financial Statements.

At 1 January 2018, the Company held direct investments in the following entities:

Company	Nature of business
Sportech Group Holdings Limited ("SGHL")	Holds investments in Group companies
Sportech Trustees Limited	Dormant
Sportech Management Limited	Dormant

Capital contributions were made during the year to SGHL as follows;

22 August 2018	£1,143k	$1,500k
6 September 2018	£1,077k	$1,400k
20 September 2018	£1,154k	$1,500k

Each contribution was translated at the exchange prevailing at the time.

Movement in the book value of the Company's investments is shown below:

	2018 £000	2017 £000
At 1 January	**231,989**	194,620
Capital contributions	**3,374**	37,369
Impairment	**(142,690)**	—
At 31 December	**92,673**	231,989

In 2018, an impairment charge was recognised to the Company's investment in SGHL following a dividend receipt from SGHL of £150,000k and a review of the carrying value of the investment. The Directors consider the investments, following the impairment, to be supported by the underlying net assets and cash flows of the Group. Significant judgement is involved in forecasting the cashflows of the Group and if these forecasts are not achieved further impairment to the investment in SGHL would result. Principal risks of the Group are identified in the Risk Management section of the Consolidated Financial Statements.

C8. Trade and other receivables

	2018 £000	2017 £000
Non-current		
Amounts owed to Group companies	**3,844**	—
Current		
Amounts owed to Group companies	**622**	2,354
Other receivables	**842**	828
Prepayments	**41**	67
Current trade and other receivables	**1,505**	3,249
Total	**5,349**	3,249

Amounts due in more than one year are from:

	2018 £000
Datatote (England) Limited	**247**
Racing Technology (Ireland) Limited	**2,075**
Bump (Worldwide) Inc	**176**
Sportech Racing GmbH	**1,346**
	3,844

Loans have no fixed repayment date and carry interest charges of Bank of England base rate plus 3%. Interest is charged quarterly in arrears and added to the loans.

C9. Trade and other payables

	2018 £000	2017 £000
Trade payables	**101**	193
Amounts owed to Group companies	**19,129**	159,939
Social security and other taxes	**23**	—
Accruals	**501**	2,119
Total	**19,754**	162,251

Amounts due to Group companies are repayable on demand and carry interest charges of Bank of England base rate plus 3%, other than loans with the Football Pools companies. Interest is charged quarterly in arrears and added to the loans. It is expected that the loans with the Football Pools companies which are all now dormant, will be settled via dividend payments during 2019. Given the expected settlement no interest has been charged on these payables during the year. The payables to the Football Pools companies amount to £15,047k.

C10. Contingencies and commitments

Operating lease commitments

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

	2018 £000	2017 £000
No later than one year	**—**	140
Total	**—**	140

Contingent items

The Company is exposed to certain contingent items for corporation tax, VAT, M&A activity and legal claims. Further details of those are disclosed in note 26 of the Group Consolidated Financial Statements.

Company Financial Statements continued

C11. Cash generated from operations

Reconciliation of profit before taxation to cash generated from operations, before exceptional items:

	Note	2018 £000	2017 £000
Profit before taxation		**6,422**	73,141
Adjustments for:			
Investment income		**(150,000)**	(86,841)
Net exceptional costs		**1,058**	3,801
Depreciation	C6	**10**	62
Amortisation of other intangibles	C5	**307**	208
Impairment of investments	C7	**142,690**	—
Finance costs		**19**	4,438
Finance income		**(125)**	—
Other finance (income)/expense		**(157)**	1,413
Share option charge, excluding acceleration of IFRS 2 charge for departing management		**1,222**	657
Shares gifted to EBT		**227**	—
Acceleration of IFRS 2 charge for departing management		**—**	3,765
Changes in working capital:			
Movement in trade and other receivables		**(2,100)**	(5,587)
Movement in trade and other payables*		**2,949**	94,223
Cash generated from operating activities, before exceptional items		**2,522**	89,280

*Movement in trade and other payables in 2017 includes the settlement of various intercompany loan balances by receipt of investment income totaling £78,736k. The loan balances were settled on receipt of this income and no cash was physically transferred between the Company and its subsidiaries in respect of this. £8,105k of investment income was received in cash and has been shown as cash from investing activities in the cash flow statement.

C12. Related party transactions

The Company had the following transactions with subsidiaries during the year:

	2018 £000	2017 £000
Management charges received	**833**	1,238
Royalty income received	**1,866**	1,934
Investment income	**150,000**	86,841
Interest paid on inter-company loan balances	**(19)**	(4,437)
Interest received on inter-company loan balances	**46**	158

The amount outstanding in relation to management charges at the balance sheet date was £77k (2017: £46k). All inter-company transactions are on an arm's-length basis.

Advisors and Corporate Information

Stockbroker
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

Principal bankers
Bank of Scotland PLC
10 Gresham Street
London EC4M 9AF

Wells Fargo
420 Montgomery Street
San Francisco, California 94104

Solicitors as to UK law
Dickson Minto W.S.
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Lawyers as to US law
Duane Morris LLP
1940 Route 70
East Suite 100
Cherry Hill, New Jersey 08003

Statutory auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registrars
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

Tel: 0871 664 0300
E-mail: enquiries@linkgroup.co.uk

Company Secretary
SGH Company Secretaries Ltd
6th Floor
60 Gracechurch Street
London EC3V 0HR

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

European head office
Sportech PLC
Icarus House
Hawkfield Business Park
Bristol BS14 0BN

North American head office
Sportech, Inc.
600 Long Wharf Drive
New Haven, Connecticut 06511

Company registration number
SC69140

Internet
The Group website can be found at www.sportechplc.com. This site is regularly updated to provide information about the Group. The Group's press releases and announcements can be found on the site.

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Icarus House
Hawkfield Business Park
Bristol BS14 0BN
www.sportechplc.com