



# A WORLD LEADER IN POOL BETTING

**Sportech PLC**
Annual Report and Accounts 2014

Sportech PLC

# Welcome to our Annual Report 2014

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

In 2014, we have continued to invest in developing our strategic position in the US technology and gaming markets, whilst modernising our Football Pools business, positioning us for future growth.

## What's inside this report





# Highlights of the year
# Strong strategic progress

## Strategic and operational highlights

**Sportech Racing and Digital**

- Agreement with Betfred to provide new systems and digital technology to Totepool (UK Tote)
- Launched US online gaming services in February 2015 to iconic Atlantic City-based Resorts Casino Hotel through SNG, our joint venture with NYX Gaming Group

**Sportech Venues**

- Opened 10,000 sq ft sports bar and restaurant at our existing betting venue in Bradley, Connecticut and launched Connecticut's only legal online betting site, MyWinners.com
- Received regulatory approval to open a pipeline of three new sports bar, restaurant and betting venues in Stamford, Connecticut and in San Diego and Norco in California

**Football Pools**

- Acquired record number of new customers to the Classic Pools subscription business
- Launched new online platform to support customer acquisition and facilitate cross-sell opportunities from core subscription players

## Financial highlights

**Revenue**
£m


**EBITDA**
£m

# Overview
# Sportech at a glance

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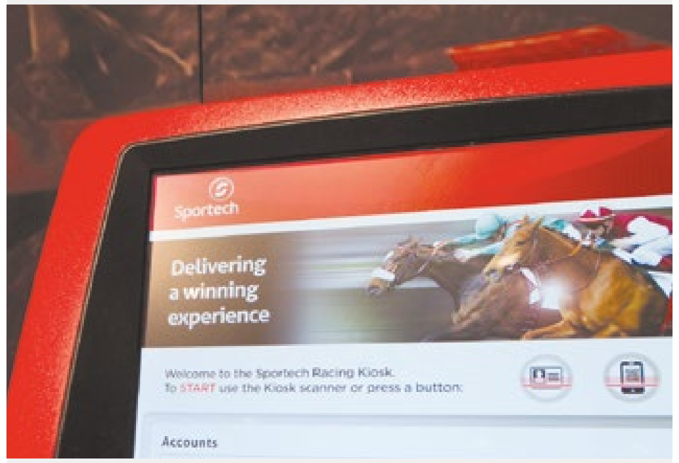
In 2014, we strengthened our strategic position in a widening world betting and gaming market with technological advances and progress in key joint ventures and regulatory relationships.

**Roger Withers**
Chairman

## Sportech Racing and Digital




Supplier of tote equipment, services and software both on and off-track (online and mobile)

## Sportech Venues

Exclusive operator of betting on racing in venues and online across Connecticut and the Netherlands, with opportunities to develop in California

## The Football Pools


Operator of pools betting predominantly through subscription and online channels

| | Sportech Racing and Digital | Sportech Venues | The Football Pools |
|---|---|---|---|
| **Division information** | Division includes Bump and iGaming joint ventures with NYX and Picklive | Division operates brands Winners (Connecticut) and Runnerz (the Netherlands) | Over 300,000 customers playing a range of pool games every week |
| **Location** | US (Atlanta, New Jersey, California), UK, Ireland, Germany | US (Connecticut, California), the Netherlands | UK |
| **Customers** | Worldwide | Connecticut, California and the Netherlands | Predominantly UK |
| **Divisional performance** | Revenue £34.5m; EBITDA £8.1m | Revenue £32.5m; EBITDA £3.2m | Revenue £38.0m; EBITDA £16.6m |
| **Contribution to Group revenue** | 33% | 31% | 36% |
| **Find out more** | See pages 14 and 15 | See pages 16 and 17 | See pages 18 and 19 |

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

The Group's strategy is to develop Sportech's position as one of the leading companies in the regulating US and global betting industry. In 2014, we have continued to invest in developing our strategic position in the US technology and gaming markets, whilst modernising our Football Pools business, positioning us for future growth.

## Business model


## Overview

The Group's strategy is to build a multi-platform gaming business in the US using the legal regulated horseracing and greyhound operations as a base to position the Group for broader-based gaming opportunities as regulation develops.

The Group comprises three divisions: Racing and Digital, Venues and Football Pools, all of which focus on horseracing and football markets. The Racing and Digital and Venues divisions are based in the United States, where we are licensed by gaming regulators in 28 states, employing 700 people across field operations and four corporate offices. The Football Pools is the oldest football gaming business in the world and, through its Classic Pools product together with a range of pools and casino games, it generates strong cash flows.

## Strategic progress

During 2014, the Group has made further progress in delivering its strategy. This includes entry into the New Jersey online gaming market through SNG Interactive, our joint venture with NYX. This is an important first step for the business in the largest US state to have legalised online gaming to date, and provides a platform for future growth as online regulation develops across the US. In our Venues business, we opened a 10,000 sq ft sports bar and restaurant in our Bradley venue which is attracting a younger, more diverse customer base. In Connecticut, we also launched the State's only legal online betting site, MyWinners.com. The Group obtained key regulatory approvals for new sports bar, restaurant and betting venues in Stamford, Connecticut and San Diego and Norco in California. Refinement of Venues expansion plans is ongoing and development is subject to the Group's available capital resources. The Racing and Digital business has secured a number of new contracts in the year, including the supply of a new tote system and digital technology to Totepool in the UK. However, we have been informed that our contract with the Californian racing authorities to process bets across the State will not be renewed at the end of October 2015.



The Group is confident that it will be able to substantially mitigate the impact of this contract loss through cost saving and revenue generating actions.

During the year the Group strengthened its capability in online technology with the appointment of Rich Roberts to head its Digital operations in the US, including SNG Interactive and MyWinners.com. Rich has recruited an experienced team to drive progress in this important growth area.

## 2014 performance

Turning to the performance of our three divisions, our Racing and Digital business has shown EBITDA growth following the investments made in technology and products over recent years. The Football Pools has made further progress in modernisation of its systems and development of its customer offering, and is moving towards stabilisation of direct channel revenues.

However, Venues profits fell in 2014 due to reduced wagering revenues combined with increased content costs and start-up losses at Bradley. Whilst disappointing, the fall in Connecticut revenues has been in line with US industry-wide wagering handle and our venues have performed better than similar facilities in the North East of America.

This difficult trading environment is expected to continue in 2015, but we remain confident in the long-term value within the Venues business.

## VAT claim

In September, the Upper Tribunal ruled in favour of Her Majesty's Revenue & Customs ("HMRC") in HMRC's appeal case relating to a VAT repayment claim on the "Spot the Ball" game. This followed the initial ruling last year of the First-tier Tribunal in Sportech's favour. The Board has been granted permission to appeal to the Court of Appeal which will be held in the week commencing 2 November 2015.

## Outlook

Racing and Digital and Football Pools are trading in line with expectations. Trading in our Venues business remains challenging, with amounts wagered below prior year levels, as a result of a lack of racing due to the cold weather in North East USA. The Group launched operations in its online gaming joint venture in February. The Board remains confident in the Group's prospects for the full year ahead.

**Ian Penrose**
Chief Executive
4 March 2015

| | Core business → | Growth investment → | Future plans → |
|---|---|---|---|
| **Strategic priorities** | **Modernising core business to secure cash generation**<br>- Stabilise Football Pools revenues from 2015<br>- Increase Group's digital earning capabilities | **Using cash from stable core business for investment**<br>- Drive value from exclusive licences in Connecticut<br>- Invest in innovation and new technologies | **Capitalise on opportunities as markets regulate**<br>- Be first to market and capitalise on regulatory change<br>- Continuous leadership in technology enhancement |
| **Progress in 2014** | - Football Pools modernisation including new web platform<br>- New Racing and Digital contracts including Totepool | - Opened venue in Bradley, Connecticut<br>- Secured regulatory approvals for new venues in CT and CA | - Continually monitoring opportunities for slots in CT<br>- Foundations laid for iGaming development in US |
| **Priorities for the future** | - Stabilise Football Pools revenues and earnings<br>- Focus on improved margins via technology enhancement | - Finalise plans for Stamford, San Diego and Norco based on available capital resources<br>- First entry into iGaming with Resorts in New Jersey | - Lobbying in US states to position for regulatory change |


# Sportech is the industry leader in pool betting operations and technology

In 2014, our Racing and Digital and Football Pools divisions made great strategic progress against objectives. Opportunities for expansion in our Venues division also received regulatory approvals.

## Strategic progress in 2014

- New Racing and Digital contracts including Betfred/Totepool
- New proprietary Football Pools website, new product development and record digital acquisition

**$13**
billion bets processed in 2014

## Priorities for 2015

- Stabilisation of The Football Pools
- Investment in technology to remain at forefront of the industry
- Expansion of Venues business – opportunities in Connecticut and California based on regulatory approvals

**Read more on how we are leading the way in Racing and Digital technology**

See pages 14 and 15

# LEADING THE WAY

# DRIVING FUTURE OPPORTUNITIES

## We are capitalising on opportunities as North American markets regulate

Sportech has a unique position in the US market and is well placed to capitalise on opportunities as global markets regulate.

### Strategic progress in 2014

- Approval for Stamford venue in Connecticut
- Received regulatory approval for California venues
- Online joint venture with Resorts in New Jersey live in February 2015
- Acquisition of Bump – first entry into the professional sports market

28

Licences in 28 states with 130 racetrack, online wagering and casino customers across the US

### Priorities for 2015

- Drive existing Venues business
- Successful launch of Resorts JV creating a footprint in the US gaming market
- Stabilisation and modernisation of The Football Pools to drive future growth
- Slots opportunity in Connecticut venues

Read more on how we are **driving future opportunities in our Venues business**

See pages 16 and 17

# KPIs
# Measuring our performance

## Financial KPIs

**Adjusted profit before tax**
£m


**Cash generated from operations**
£m


**Capital expenditure**
£m


## Non-financial KPIs

**$CO_2$ emissions**
Metric tonnes


**Employees**
Number of full time equivalents




# Financial review
# How we have performed

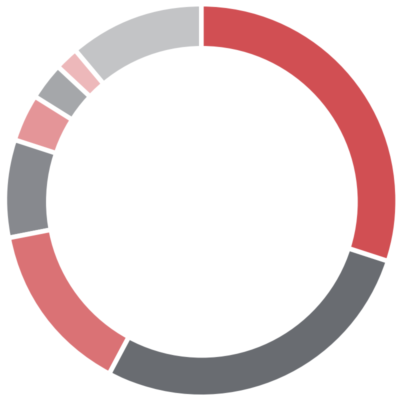
The Group refinanced its borrowings in 2014, increasing its facility to £80m, reducing its cost of borrowing and extending the term to August 2018. This also provided the Group with increased flexibility and improved covenant terms.

**Summary**

- Revenue fell £2.1m to £104.1m on a constant currency basis
- Group EBITDA of £24.0m is a fall of £1.3m at constant currency
- Sportech Racing and Digital EBITDA was up 11% at constant currency
- Sportech Venues EBITDA was down 29% at constant currency
- Football Pools EBITDA was down 5%
- Net debt at 31 December 2014 was £63.8m (2013: £63.4m)

**Capital expenditure analysis**
(£m)

| | |
|---|---|
| Football Pools modernisation programme | 3.0 |
| Technology enhancement in Sportech Racing and Digital | 2.8 |
| Tote services contract renewals | 1.4 |
| Data centre upgrades | 0.8 |
| Bradley sports bar | 0.4 |
| Existing venue investment | 0.3 |
| Stamford preliminary work | 0.2 |
| Other | 1.1 |



## Overview

Group revenue from continuing operations was £6.2m lower than the prior year at £104.1m (2013: £110.3m). EBITDA from continuing operations fell by 8% to £24.0m (2013: £26.0m). Growth in Sportech Racing and Digital, despite adverse foreign exchange ("FX") impacts, was offset by declines in Football Pools and Sportech Venues, the latter also impacted by FX. Adjusted profit before tax was £14.4m (2013: £14.5m), the EBITDA shortfall and increased depreciation charge being offset by a lower share option expense and interest savings, having held £93m of Spot the Ball VAT repayment monies for five months. An impairment of £28.1m has been recorded which reduces the carrying value of the Football Pools goodwill to £119.5m. Loss after tax as a result was £21.3m (2013: profit, £3.4m) with basic loss per share of 10.4p (2013: earnings, 1.7p) and adjusted earnings per share of 5.5p (2013: 5.3p). Net debt at 31 December 2014 was £63.8m (2013: £63.4m).

An analysis of Group revenue and EBITDA performance by business segment is shown in the table overleaf.

## Corporate costs

Corporate costs of £3.9m (2013: £3.9m) have been managed carefully and again remain in line with the prior year. In addition, we also have a non-cash share option expense under IFRS 2 of £0.6m (2013: £1.5m), reduced as a result of employees leaving the Group and a revision of expected likely vesting.

## Depreciation, amortisation and goodwill impairment

The Group's normal depreciation and amortisation charge increased in the period to £6.2m (2013: £5.7m), principally due to the ongoing capital expenditure in our businesses in North America. In addition, the Group incurred a non-cash amortisation charge of £4.1m (2013: £7.2m) on the intangible assets acquired with Vernons in 2007, eBet in 2012 and Data Tote in 2013. The Vernons assets became fully amortised in June 2014, which resulted in the reduced charge in 2014 compared to 2013. An impairment of £28.1m was recorded to reduce the carrying value of The Football Pools goodwill to £119.5m. This is as a result of revisions to the underlying cash flow assumptions to reflect the division achieving ongoing earnings stability.

# Financial review continued

**Revenue**

| | 2014 £m | 2013* £m |
|---|---|---|
| Racing and Digital | **34.5** | 33.7 |
| Venues | **32.5** | 32.2 |
| Football Pools | **38.0** | 41.3 |
| FX effect | **—** | 4.1 |
| Trading divisions | **105.0** | 111.3 |
| Inter-segment elimination | **(0.9)** | (1.0) |
| Total | **104.1** | 110.3 |

**EBITDA**

| | 2014 £m | 2013* £m |
|---|---|---|
| Racing and Digital | **8.1** | 7.3 |
| Venues | **3.2** | 4.5 |
| Football Pools | **16.6** | 17.4 |
| FX effect | **—** | 0.7 |
| Trading divisions | **27.9** | 29.9 |
| Corporate costs and inter-segment elimination | **(3.9)** | (3.9) |
| Total | **24.0** | 26.0 |

**Adjusted operating profit**

| | 2014 £m | 2013* £m |
|---|---|---|
| Racing and Digital | **4.6** | 4.5 |
| Venues | **2.0** | 3.2 |
| Football Pools | **15.1** | 16.0 |
| FX effect | **—** | 0.5 |
| Trading divisions | **21.7** | 24.2 |
| Corporate costs and inter-segment elimination | **(4.5)** | (5.4) |
| Total | **17.2** | 18.8 |

* 2013 numbers are at "constant currency", translated using 2014 exchange rates

## Exceptional costs

The Group has incurred exceptional administration costs of £2.3m (2013: £2.7m) in the twelve-month period. These costs include restructuring and other costs of £1.4m (2013: £1.3m), costs in relation to the set-up of our joint venture companies of £0.6m (2013: £nil), compensation for loss of office of £nil (2013: £0.3m), costs in relation to the New Jersey licence of £0.1m (2013: £0.3m), transaction costs in relation to acquisitions of £0.1m (2013: £0.2m) and legal costs of £0.2m in connection with the "Spot the Ball" VAT claim (2013: £0.5m). A refinancing fee of £1.4m and fair value movement on ineffective interest rate hedges of £0.8m are classified as exceptional and are disclosed in net finance costs.

## Net finance costs

The Group has incurred net interest costs in the period of £2.8m (2013: £4.3m), with the reduction being primarily due to the savings made from holding £93m in cash in relation to the VAT repayment claim from the end of June to November 2014. In addition, other finance income amounted to £0.3m (2013: £0.8m), reflecting a refinancing fee of £1.4m, offsetting the credit of fair value movement on interest rate swaps of £0.8m and foreign exchange gains on intercompany loans of £0.9m.

## Net bank debt

In May 2014, the Group refinanced its banking facilities, increasing the facility to £80m and extending the term to August 2018, whilst obtaining increased flexibility and improved covenant terms. Net bank debt has increased marginally in the year to £63.8m (2013: £63.4m), following investment in capital expenditure and joint ventures of £11.9m. The Group's bank leverage ratio for covenant testing purposes (net bank debt/adjusted EBITDA) was 2.66x as at 31 December 2014 (31 December 2013: 2.41x). At 31 December 2014, the leverage covenant was 3.00x (net bank debt/adjusted EBITDA).

## Capital expenditure

Capital expenditure was £2.6m lower than the prior year at £10.0m (2013: £12.6m). Expenditure included continuing modernisation of Football Pools technology, the customer database and online platform, contract renewals in Sportech Racing and Digital and completion of the Bradley sports bar in Sportech Venues.

## Acquisitions and investment in joint ventures

During the year the Group acquired Bump 50:50 Inc. for £0.1m in cash consideration with a potential further contingent consideration of up to £5.5m in the event that the business meets challenging growth performance targets in the year ended 31 December 2016. Dan Tanenbaum, the 100% owner and Chief Executive of Bump has remained in employment with the Group and as such the expected contingent consideration payable is being accrued over the performance period in exceptional costs. £0.1m has been accrued as at 31 December 2014. Cash on balance sheet at the acquisition date was an overdraft of £0.1m.

In December 2014, £0.7m was paid in deferred consideration for the 2012 acquisition of eBet Online Inc. Additional maximum potential consideration is due of £0.9m, based on EBITDA performance in the year ended 31 December 2015.

The Group has invested £0.6m into its Californian joint venture to commence the preliminary construction phase at the Norco venue, and has invested £0.2m in Picklive USA and £0.9m in Sportech NYX Gaming (both joint venture companies). In addition, the Group continues to support the running costs of its Indian joint venture at £0.2m per annum.

## VAT claim

In September 2014, HMRC were successful in their appeal to the Upper Tribunal ("UT") in respect of the "Spot the Ball" game VAT repayment claim. This followed the decision in the Group's favour by the First-tier Tax Tribunal ("FTT") in March 2013. The claim is for approximately £96m including simple interest and the Group has been granted permission to appeal to the Court of Appeal. The appeal will be heard in the week commencing 2 November 2015.

The Group received £93m from HMRC in June 2014 in relation to this claim. Following the reversal of the FTT decision by the UT, these funds were repaid to HMRC in November 2014.

## Dividend

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

## Taxation

A tax charge for the period of £1.3m (2013: £1.9m) has been provided at the weighted average applicable tax rate for the Group of 23.0% (2013: 26.8%). The Group has a net deferred tax asset of £0.8m (2013: £0.7m), representing primarily foreign taxes withheld, which can be utilised against future profits, and deferred tax provided on unvested share options and on interest rate swap liabilities. Tax payments of £1.3m were made during the period (2013: £1.7m), principally representing final payments for prior year tax liabilities and overseas tax deducted at source.

## Shareholders' funds

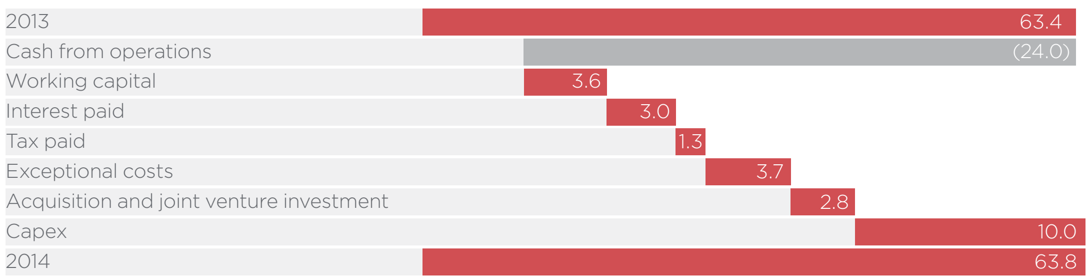
During the year 0.4m shares were issued to settle employee share options, increasing issued share capital to 205,220,769.

Total shareholders' equity and the Group's net assets have reduced by £19.9m to £119.8m (2013: £139.7m).

**Cliff Baty**
Chief Financial Officer
4 March 2015

**EBITDA bridge**
£m


**Net debt bridge**
£m



# Operational overview
# Sportech Racing and Digital

**President – Sportech Racing and Digital**
Andrew Gaughan

**Revenue** £34.5m

**EBITDA** £8.1m

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

| | 2014 £m | 2013* £m |
|---|---|---|
| Tote services | **26.6** | 26.1 |
| Equipment sales | **4.2** | 3.9 |
| Digital | **3.7** | 3.7 |
| FX impact | **—** | 2.2 |
| **Total revenue** | **34.5** | 35.9 |
| Payroll | **(12.7)** | (13.4) |
| Other costs | **(13.7)** | (13.0) |
| FX impact | **—** | (1.8) |
| **EBITDA** | **8.1** | 7.7 |

* 2013 numbers are at "constant currency", translated using 2014 exchange rates

## Overview

Sportech Racing and Digital is the largest international provider of pool betting systems and services for a global customer base of licensed racing and betting operators, both on and off-track. The division's proprietary betting hardware and software product offerings range from agent-operated to self-service, and include apps that allow players to use their own smartphones or tablets to place bets (known as Digital Link™). Racing and Digital also provide customised websites and telephone betting systems, as well as the services that help customers manage these digital channels.

During the year, the division agreed a ten-year contract to supply Betfred's Totepool business with a comprehensive suite of its betting technology products, including its mobile and online betting platform, as well as the core Quantum tote system. This system will go-live in 1H 2015. The agreement with Betfred further highlights the quality of our offer, following the 2013 sales to Danske Spil, the State-owned Danish gaming operator, and Penn National, the largest owner and operator of racetracks and betting facilities in the United States. Both these prior year sales have been successfully implemented during 2014.

The division also agreed with Hawthorne Race Course in Illinois to supply its full suite of digital and land-based betting technologies, including the Digital Link™ mobile product, together with its next generation self-service wagering terminal. We were also pleased to have renewed our contract to operate Nassau OTB network following a tender process. However, we were disappointed to receive notice that we were not successful in renewing our contract to process all bets across the State of California. Our existing agreement in California will come to an end in October 2015 resulting in the loss of a significant number of Sportech staff, together with the withdrawal of approximately 3,500 betting terminals from the State. Plans to mitigate the ongoing impact of this loss from October 2015 are in progress.

For the Racing and Digital division, overall revenues have declined to £34.5m (2013: £35.9m) due primarily to foreign exchange. Within Tote Services and equipment sales, on a constant currency basis, revenues are £0.8m ahead of prior year. There was a slight decline in US domestic revenues due to poor weather and a weak third quarter (US Industry data shows that thoroughbred wagering handle declined 2.8% in 2014 versus 2013). Offsetting this is another solid performance from our Dominican Republic customer, as well as the full year of revenues from the Data Tote acquisition completed in September last year. Total equipment sales revenues in the period were £4.2m (2013: £3.9m, constant currency basis) including £1.7m in relation to the Betfred system sale.

EBITDA for the division has increased by £0.4m to £8.1m (2013: £7.7m). On a constant currency basis, EBITDA in Tote Services and equipment sales has increased by £0.2m, driven by cost reductions in the US domestic business together with a full year contribution from Data Tote, offset by reductions in Puerto Rico and Germany.

Within Digital, at constant currency, revenues are in line with prior year. EBITDA is ahead of prior year at £1.2m (2013: £0.6m) due to the recovery of a previously written-off bad debt, together with specific cost actions including the closure of the San Diego office.

In February 2015, our joint venture with NYX Gaming Group, SNG Interactive, launched its online gaming platform in the New Jersey market as a supplier to the Atlantic City-based Resorts Casino Hotel. The Group has invested £0.9m to date in the set-up and operation of the joint venture.

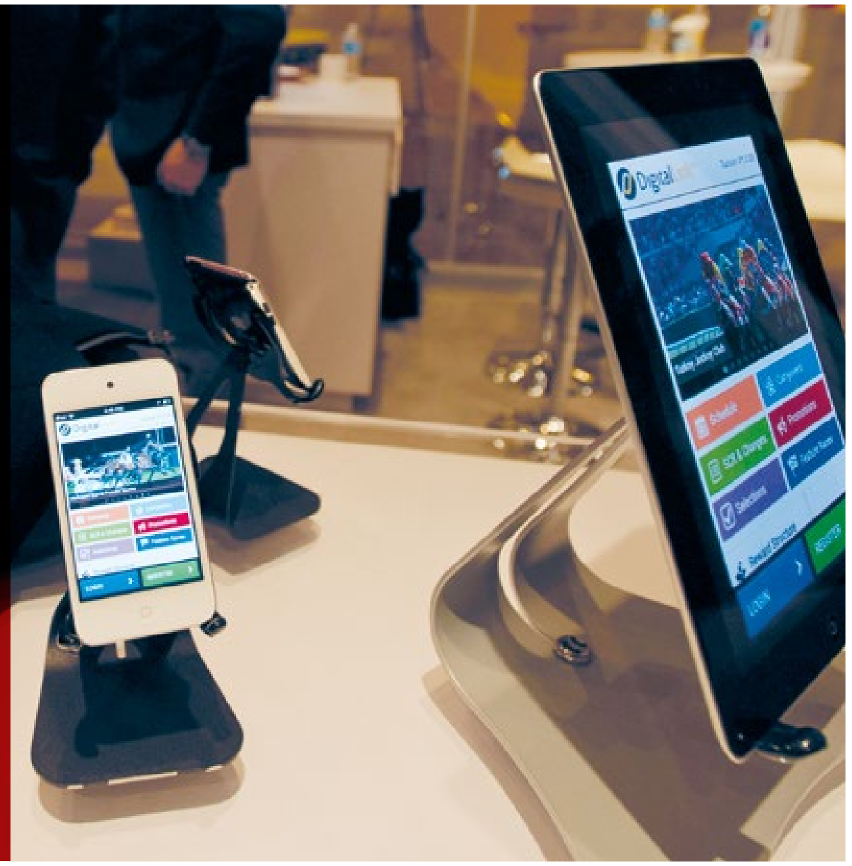
During the year the division acquired BUMP Worldwide Inc. ("Bump") for £0.1m on completion, and a contingent earn-out payment based upon 2016 operating performance. Bump is a provider of electronic charitable raffles conducted in-stadia during professional sporting events, known as "50:50 raffles", and its customers are the charitable foundations of US professional sports teams across the NHL, NBA, NFL, MLS and NASCAR. The business has significant growth potential and has recently announced new supply agreements with the Montreal Canadiens (NHL) and Cleveland Browns (NFL).

**Leading the way**
in pool betting technology

**Best-in-class technology platforms laying the foundations for future growth**

**Technologies from Sportech Racing and Digital will enable us to transform how we offer pools wagering in the UK, and extend our services to new markets. The technologies we've selected – Quantum Tote System, G4 Digital Platform, and Digital Link™ Mobile – form a cohesive solution to help Betfred Totepool lead the way in technological innovation and racecourse service.**

*Philip Siers, Chief Commercial Officer, Betfred Group*



# Operational overview
# Sportech Venues

**President – Connecticut Venues**
Ted Taylor

**Revenue** £32.5m

**EBITDA** £3.2m

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

| Connecticut Venues | 2014 £m | 2013* £m |
|---|---|---|
| Revenue | 27.0 | 26.7 |
| Tax | (3.8) | (3.9) |
| Track/tote/ interface fees | (7.6) | (7.5) |
| Margin | 15.6 | 15.3 |
| Payroll | (4.9) | (4.4) |
| Facility costs | (3.5) | (3.5) |
| Other costs | (4.2) | (3.3) |
| FX impact | — | 0.3 |
| Connecticut EBITDA | 3.0 | 4.4 |
| Other EBITDA | 0.2 | 0.4 |
| **Total Venues EBITDA** | 3.2 | 4.8 |

* 2013 numbers are at "constant currency", translated using 2014 exchange rates

## Connecticut Venues

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

Overall revenues have increased by £0.4m compared to prior year at constant currency, driven by food and beverage sales. Betting revenues have declined 3.0% impacted by some severe weather at the start of 2014, which caused a significant number of race cancellations together with a reduction in amounts wagered by certain VIP customers. Internet revenues were £1.0m (2013: £0.4m) following the launch of the MyWinners.com website in the year. This site is the only legal betting website in Connecticut, although it currently faces considerable competition from other online operators who pay no state taxes. The Connecticut authorities have issued formal cease and desist letters to these operators.

During 2014, food and beverage revenues increased by £1.3m due to the opening of Bobby V's sports bar and restaurant in Bradley, in February 2014. This facility has received positive customer feedback and is growing its local reputation as the best local destination to watch big sporting events. Start-up losses of £0.3m were incurred in the year.

EBITDA at constant currency has declined by £1.1m, with £0.5m due to the reduced wagering, £0.3m due to increase in content costs following an increase in rates charged by suppliers, together with the £0.3m of start-up losses at Bobby V's.

We have received regulatory approval to build and open a flagship sports bar, restaurant and betting venue in downtown Stamford. Stamford has no existing betting venue and has a population of more than 120,000, including a thriving financial district. Detailed construction plans are being prepared with build-out to commence subject to the Group's available capital resources. The Group remains committed to development of this exciting new location.



**Leading the way**
in venue development

**In 2014, we launched our flagship sports bar and wagering venue in Bradley, Connecticut**

**"Bobby V's Restaurant and Sports Bar is a magnificent facility. Working with the team at Sportech to turn this new concept in sports entertainment into a reality has truly been a pleasure. I am proud to put my name on the front door of such an amazing facility and look forward to expanding my relationship with Sportech.**

*Bobby Valentine, former professional baseball player, manager and restaurant entrepreneur*

## Other Venues

Revenue for Other Venues was £5.5m (2013: £5.6m) with EBITDA of £0.2m (2013: £0.4m), comparatives at constant currency.

The Group has an agreement to develop up to ten new sports bar, restaurant and betting venues across Southern California under the brand name "Striders". Local approvals have been received at two locations; in the town of Norco and in the heart of downtown San Diego, with both being developed in partnership with local partner, the Silky Sullivan Group. Preliminary work at the Norco site has been undertaken with full construction work at both developments planned to commence subject to the availability of finance.

The Group currently supplies betting services to eight locations in Southern California. Amounts wagered at these locations grew 58% following the opening of three additional facilities in the year, generating total revenues of £0.4m (2013: £0.3m).

In the Netherlands we operate a number of OTBs, point-of-sale terminals and online betting on horseracing, all on an exclusive basis under a licence from the Ministry of Justice. This licence has been extended until December 2016 and we continue to work closely with the Government, the regulator and the horseracing industry regarding the future regulatory plans. Netherlands revenues were £5.1m (2013: £5.3m) with EBITDA of £0.3m (2013: £0.2m), comparatives at constant currency.

# Operational overview
# Football Pools

**Managing Director – Football Pools**
Conleth Byrne

**Revenue** £38.0m

**EBITDA** £16.6m

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

| | 2014 | 2013 |
|---|---|---|
| Revenue (£m) | **38.0** | 41.3 |
| EBITDA (£m) | **16.6** | 17.4 |
| Classic Pools customer numbers ('000) | **286** | 324 |
| Weekly revenue per customer (£) | **2.81** | 2.67 |

## Overview

The strategy of The Football Pools business is to stabilise then grow revenues through improved customer retention, increased spend per head from core customers, and recruitment of new players to Direct Debit and online channels. As part of our ongoing modernisation project we have consolidated over 100,000 customers onto our proprietary "Turnstile" platform. In October, we integrated the NYX gaming platform into this platform and relaunched footballpools.com. This new site enables new customers and our direct channel customers to manage their accounts online, facilitating cross-sell opportunities to a wide range of pools and casino games.

Revenues for the period were £38.0m (2013: £43.1m), the reduction driven primarily by a £2.1m decrease in the collector and overseas channels following the closure of a number of collector regions in the year, together with forecast decline. Direct revenues showed continued resilience in the year at £27.0m (2013: £27.5m), and are expected to stabilise in the coming year. Classic Pools average weekly customer spend has increased to £2.81 (2013: £2.67) driven by additional games added in 2013, together with a reduction in discounted entries following the migration to the new Turnstile platform. EBITDA fell by £0.8m to £16.6m (2013: £17.4m) with cost efficiencies offset by increased marketing spend to drive player recruitment.

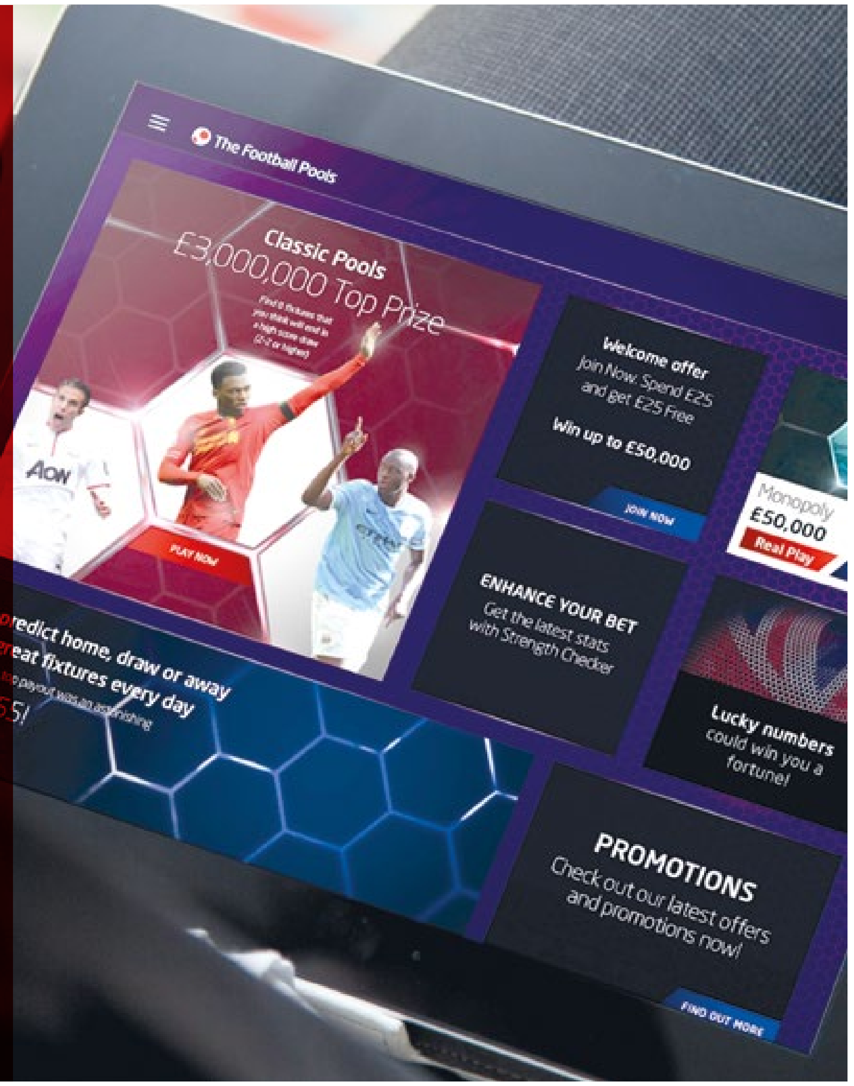


**Leading the way**
in football pool betting

**In 2014, we launched a new online platform and acquired record new customer numbers**

**"The Pools has been one of the world's favourite gaming companies for over 90 years. It's inspiring to be able to work with The Football Pools and provide a fully integrated offering for the UK market. The Football Pools now have a great product with which to gain online market share in the UK.**

*David Flynn, EVP Business Development, NYX Gaming Group*




Over 23,000 new customers were recruited, compared to 15,000 in 2013, through a combination of online and telemarketing leading to a reduction in the rate of decline of overall players. In December 2014, Classic Pools had 240,000 direct customers compared to 248,000 customers in the prior year, a net reduction of 8,000 players, which compares to a net reduction of 17,000 players in 2013, with approximately half playing via Direct Debit.

Our new footballpools.com website offers a wide range of innovative content, including Premier 10, Jackpot 12 pools games, together with MatchXtra, which offers fixed-odds style betting opportunities on Premier League and televised football matches. This is complemented by a wide variety of slots including branded titles such as Judge Dredd, together with fixed odds games such as Lucky Clover.

# Principal risks
# Effective risk management

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

## The importance of measuring risk

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

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

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

| Risk description | Mitigating activities | Change |
|---|---|---|
| **Regulatory**<br>The Group operates under a number of licences across worldwide jurisdictions, including the UK and US. The loss or inadvertent breach of any such licence could have a significant impact on the Group's ability to continue to trade within that and other jurisdictions and therefore on the Group's trading and results. In addition, such loss or inadvertent breach would potentially lead to the imposition of fines and penalties on the Group and could lead to substantial legal costs. In certain jurisdictions, personal liability rules could lead to imprisonment of Group personnel. There would also be the threat of reputation damage, hindering the expansion of the business into other jurisdictions. | The Group considers that its licences to operate around the world are a key asset to the business and as such looks to mitigate the inherent risk within this area as follows:<br>- the Group employs a Director of Corporate Affairs, one of whose primary roles is to ensure compliance with the requirements of our licences worldwide;<br>- a key aspect of this is monitoring the territories from which business is accepted, to ensure that the threat of legal action against the Group is minimised, and that territories presenting criminal/terrorist money laundering risk are avoided;<br>- the Group employs a Group General Counsel in the UK to aid compliance issues and also employs a General Counsel within its key US subsidiary, Sportech Inc.;<br>- the Group employs third-party specialist legal counsel as appropriate to ensure relationships with regulatory bodies are maintained at the highest level;<br>- regular updates and training are provided to those employees involved in areas of the business that have inherent regulatory risk. Policies and procedures are in place to which staff adhere; and<br>- where commercially realistic insurance policies are available, they are purchased. | **Level**<br>The Group continues to operate in the same jurisdictions and monitors the changing gaming environment. There have been no detrimental changes during the period of note. |



| Risk description | Mitigating activities | Change |
|---|---|---|
| **Operational – Economy**<br>A significant proportion of the Group's annual income is derived from consumer-facing activities and is thus subject to the impact of economic downturns. Any significant downturn in the economy could lead to a negative impact on the results of the Group and its cash flows. | Management has taken and continues to take mitigating actions to protect the Group from current and potential operational and commercial risks in respect of economic and currency downturn:<br>- operating cost bases within the key operational divisions are structured to offset potential declines in revenue;<br>- revenue channels have been and continue to be expanded in terms of both product and territory by the acquisition of a broader base of revenue streams for the Group;<br>- where possible, fixed income contracts (in respect of Sportech Racing and Digital) have been entered into with our customers limiting downside risk; and<br>- management reviews performance against budget on a regular basis which would highlight the need to implement change. | **Level**<br>World economies in which the Group operates continue to steadily recover from the recent economic downturns. However the horseracing industry worldwide, from which the Group derives a significant proportion of its revenues, has seen declining handle which has impacted financial performance. |
| **Operational – Technology**<br>A significant proportion of the Group's annual income is dependent on technology-led products. | Management ensures that the risk posed by technology is mitigated where possible as follows:<br>- the Group has two world-class data centres established in its key trading jurisdictions which host the Group's key technology solutions;<br>- the Group continues to invest heavily in upgrading its technology solutions to ensure compliance with best practice;<br>- Group systems, principally in the USA and in the Netherlands, are subject to annual third-party audit to provide assurances to our customers that our systems are robust and complete;<br>- where third-party software is utilised, leading technology providers are chosen as suppliers of choice; and<br>- comprehensive disaster recovery procedures and infrastructure are in place and are regularly reviewed and tested. Insurance cover is obtained to mitigate the cost of business interruption. | **Reducing**<br>The Group has continued to invest significantly during the period in upgrading technology thus continuing to reduce this risk. |
| **Financial**<br>The Group has historically been relatively highly leveraged and dependent on the provision of debt financing. | The Group:<br>- has three principal lenders, Bank of Scotland Plc, Barclays Bank PLC and Royal Bank of Scotland Plc. We maintain very close relationships with each finance lender;<br>- continues to be focused on cash generation to improve its financial position;<br>- maintains relationships with potential future finance partners and keeps abreast of changing credit market conditions; and<br>- monitors its performance against covenants on a regular basis. | **Increasing**<br>In the event that performance materially worsens from 2014 level, the risk of breaching banking covenants will increase. |
| **Health and safety**<br>The Group runs a number of venues offering pari-mutuel wagering, principally in the state of Connecticut, USA, and the Netherlands. These operations involve the handling of significant sums of cash. In addition, the venues are used by a high number of customers on a daily basis. The Group therefore has a significant health and safety risk in respect of both its employees and its customers. | The Group takes the following actions to ensure the health and safety of its employees and customers:<br>- suitably qualified health and safety managers are employed by the Group to ensure compliance with Group policies;<br>- security processes and procedures are in place to ensure excess cash is stored in time-delay safes and then removed from venues as soon as possible;<br>- appropriate insurance cover is maintained; and<br>- there is a continual investment programme to refresh and update venues. Health and safety requirements are addressed accordingly. | **Level**<br>There have been no changes in the Group's operations and thus no change in the level of the risk. |

# Corporate social responsibility report
# Operating responsibly

## Customers

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

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

## Society

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

In 2013, The Football Pools partnered charity StreetGames in a two-year funding arrangement worth £1.7m, to create "StreetGames Football Pools Fives".

In 2014, The Football Pools worked closely with StreetGames to enhance the lives of young people in disadvantaged areas and promote change for good in local communities across the UK. Former England player and current England under-21 manager, Gareth Southgate took a role as ambassador for the programme.

## Environment

The Group recognises its responsibility to achieve good environmental practice and continues to strive for improvement in its environmental impact. The nature of its business results in the principal impact arising from energy and paper consumption. Wherever possible, waste consumable materials are recycled or disposed of in a manner most suitable to reduce any impact on the natural environment. The Group's business practices also encourage environmental good practice and the increasing use of technology to facilitate information, data collection and dissemination, has led to reduced demand for paper resources. All employees are encouraged to participate in the implementation of this policy and suppliers of consumable products are encouraged to be environmentally friendly, wherever practical.

In compliance with the Companies Act 2006 the Group is reporting on greenhouse gas emissions (see table opposite). The Group believes that the approach it has taken, incorporating the use of relevant audited costs and data sourced from highly regarded public bodies, is robust. As well as providing a summary of the Scope 1 and Scope 2 $CO_2$ emissions produced, an intensity ratio using Group revenue at constant currency is also included, showing a reduction in intensity of 6.1% over the base year (2012) performance.

## 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.



**"Working with Sportech has allowed us to take a national programme of grassroots football to communities that need it most. In just two years, our partnership has reached over 28,000 young people, seen participation opportunities across the UK and taken disadvantaged young people from their doorstep to the National Football Centre!**

*Jane Ashworth, CEO StreetGames*

Employee representatives are consulted regularly on a wide range of matters affecting their interests. The Group's Investors in People accreditation reflects the progressive training and development programmes that are in place within the business.

The Group is committed to equality of opportunity and dignity at work for all, irrespective of race, colour, creed, ethnic or national origins, gender, marital status, sexuality, disability, class or age. It ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job. Information on gender diversity is contained in the Corporate governance report on page 34.

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

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

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

## Human rights

Following a review, the Board considers that it is not necessary for the Group to operate a specific human rights policy at present. Our policies operate within a framework to comply with relevant laws, to behave in an ethical manner and to respect the human rights of our employees and other stakeholders in the business.

On behalf of the Board

**Cliff Baty**
Director
4 March 2015

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| $CO_2$ (metric tonnes) | **6,202** | 6,521 | 6,655 |
| Group revenues, at constant currency (£m) | **104.1** | 106.2 | 104.9 |
| Intensity ratio | **59.6** | 61.4 | 63.4 |
| Reduction (%) | **6.1** | 3.2 | — |

# Chairman's statement
# Delivering value for our shareholders

## Dear Shareholder

It has been an extremely busy year for the Group. We have faced many challenges which have impacted our annual results but have made progress towards our long-term strategic goals.

## Performance

Our Sportech Racing and Digital division has grown EBITDA through delivery of a new system and software to Danske Spil, the Danish state monopoly, together with the commencement of delivery of a new system for Totepool, a deal worth £9.0m in revenue over ten years. Sportech Venues in Connecticut had a difficult year as a result of the severe East Coast weather and the loss of higher staking player revenues. The amounts wagered across the entire US thoroughbred horseracing market declined by more than 2.5% over the year showing the tough operating environment faced by these businesses. We opened a flagship sports bar and restaurant within our existing facility at Bradley. This venue has received excellent customer feedback and revenues and profitability is improving. The Football Pools had a solid year, continuing with its modernisation of systems, successfully launching a new online platform and increasing the number of new customers. Following a revision to the underlying assumptions, to reflect a stable earnings profile, an impairment was applied to The Football Pools goodwill during the year.

Other strategic achievements included: securing a contract with Resorts Casino in New Jersey, through our joint venture with NYX Gaming Group, to supply the online casino platform and support services; and securing approvals to build a betting venue, restaurant and sports bar in Stamford, Connecticut as well as two betting venues and sports bars in California. The difficulty in obtaining such approvals should not be underestimated and, as such, the value of these assets to the Group. The Board and Executive management are focused on expanding our US footprint and maximising the potential opportunities.

## Shareholder value

Our task is to deliver value to our shareholders and we hold this goal in mind in all our deliberations. Our earnings have been impacted this year by factors I describe above, but strategic progress has also been made towards achieving the Company's long-term goals which will deliver enhanced value to our shareholders.

As the Board continues to implement its strategy of growing the Group's presence and opportunities in the US, resources are being diverted to this goal. As such, no dividend is proposed for the year to 31 December 2014. The Board continues to assess the appropriate time to commence dividend payments.

## VAT claim

It was disappointing that the Upper Tribunal upheld HMRC's appeal in September 2014, in relation to the £96m VAT repayment claim regarding the Spot the Ball game, following the First-tier Tax Tribunal finding in the Group's favour in March 2013. The Group has now been granted permission to appeal to the Court of Appeal and the hearing will take place in November this year.

## Governance

As Chairman, I am responsible for ensuring your Board remains effective. I work closely with Ian Penrose, Sportech's Chief Executive, to ensure your Board provides the appropriate support and guidance to the Executive team. This Annual Report as a whole is considered by the Board to be "fair, balanced and understandable" as is required by the Combined Code.

## Board and employees

Rich Roberts was appointed President: Sportech Digital on 14 July 2014, after being with the Group seven months as an Independent Non-executive Director. Rich brings with him extremely valuable industry experience, having been CEO of Slingo Inc., the New Jersey-based gaming and mobile social gaming business. Rich lives in New Jersey, and has many years' experience developing businesses in the digital, mobile, social and iGaming markets in the US. In April 2014, Lorne Weil stepped down from the Board following three and a half years with the Group. Lorne's contribution to the Board since the acquisition of the racing division of Scientific Games Inc. has been invaluable and I thank him for his support and insight. Ian Hogg resigned from the Board in September 2014 after four years as a Board member. I wish him well for the future and thank him for his contribution to the Group.

Sportech is a geographically diverse business which places significant demands upon Executives and employees, and the Board would like to thank them for their continued dedication and commitment to the business.

## Outlook

It has been a challenging year but looking ahead, I believe the Group can make significant progress towards achieving its long-term objectives during 2015 and I look forward to working with the Board and Executive team to deliver the valuable returns the opportunities present.

## Corporate governance report

The following report is intended to outline the Group's corporate governance structure, policies and procedures and inform shareholders of the activities of the Board and its Committees during the year to 31 December 2014. I trust the report is informative and insightful for shareholders and demonstrates the Board's commitment to high standards of governance and I welcome any feedback or comment from shareholders or other stakeholders.

Our report to you on corporate governance explains how we approach and implement the principles of good governance across Sportech and the level of importance we give to each area. The effectiveness of our Board is a key priority, as we believe this to be fundamental in order to deliver on business objectives and ultimately to deliver shareholder value, whilst operating in an ethical way.

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

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

**Roger Withers**
Non-executive Chairman
4 March 2015

# Board of Directors

**Roger Withers** (72)
Non-executive Chairman

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

Roger was appointed Chairman in February 2011. Roger has over 40 years' experience in the leisure and gaming industries. He was appointed as Non-executive Chairman of AIM listed Safecharge International Group Limited in March 2014 and has previously held a number of non-executive Directorships, including Chairman of Playtech Ltd, Chairman of Arena Leisure PLC and Executive Chairman of Bass Leisure South Africa. Roger has also held senior management and board positions in market leading companies including Ladbrokes, Bass, BLMS and Coral Racing, as well as Directorships with a number of substantial privately held companies in the property, technology, publishing and exhibitions sectors.

**Ian Penrose** (49)
Chief Executive

Date of appointment:
October 2005

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

**Cliff Baty** (44)
Chief Financial Officer

Date of appointment:
May 2013

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

**Rich Roberts** (50)
President: Sportech Digital

Date of appointment:
July 2014

Rich was appointed as President of Digital in July 2014. He has over 20 years of game and gaming experience across senior business development and C-level positions. As Chief Executive Officer of Slingo, Inc. from 2010 to 2013, Rich led the three-year turnaround of the company to profitability and acquisition by Real Networks. At Real Networks, he was responsible for the Slingo Studio and Global Storefront businesses. Prior to that, Rich was VP (Chief Revenue Officer) of Playfirst, Inc. and previously led Hasbro Interactive/Atari into the digital game industry.

**Peter Williams** (61)
Senior Independent
Non-executive Director

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

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

**David McKeith** (63)
Independent Non-executive Director

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

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

R Remuneration Committee
A Audit Committee
N Nomination Committee
ID Independent Directors Committee

Note:
Red icon indicates Chairman of committee



# Senior management

## Sportech PLC

**Luisa Wright**
Group General Counsel and Company Secretary

**Mickey Kalifa**
Corporate Development Director

**Richard Boardley**
Director of Corporate Affairs

**Nicola McCabe**
Group Financial Controller

## The Football Pools

**Conleth Byrne**
Managing Director

**Carl Lynn**
Finance Director

**Nick Mounteer**
Director of Marketing and Operations

**Kevan Woodcock**
Director of Technology

## Sportech Racing and Digital

**Andrew Gaughan**
President

**Bob Mercer**
Finance Director

**Louis Skelton**
Vice President of Technical Services

**Frank J. Chesky III**
Executive Vice President and General Counsel

## Sportech Venues

**Ted Taylor**
President – Connecticut Venues

**Phil Balderamos**
Managing Director – California Venues

**James D Birney**
Vice President of Finance

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

# Corporate governance report

## Compliance with the UK Corporate Governance Code

Sportech is committed to a high standard of corporate governance. The Financial Reporting Council published in 2012 a revised version of the UK Corporate Governance Code (the "Code"), which took effect for financial years beginning on or after 1 October 2012. As such, Sportech has complied throughout the financial year ended 31 December 2014 with the provisions of the revised Code. A copy of the Code is publicly available from www.frc.org.

It is the policy of the Board to manage the affairs of the Company in accordance with the principles of the Code so far as the Board believes it is practical. This report, together with the Remuneration report on pages 36 to 55, describes how the Company has applied the main principles of corporate governance as set out in the Code.

## Board of Directors

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

| | |
|---|---|
| **Roger Withers** | Non-executive Chairman |
| **Ian Penrose** | Chief Executive |
| **Cliff Baty** | Chief Financial Officer |
| **Rich Roberts** | President: Sportech Digital |
| **Peter Williams** | Senior Independent Non-executive Director |
| **David McKeith** | Independent Non-executive Director |

On 28 April 2014, and 25 September 2014, Lorne Weil and Ian Hogg respectively resigned from the Board.

Rich Roberts was appointed to the Board on 3 December 2013 as an Independent Non-executive Director, and was subsequently appointed as an Executive Director on 14 July 2014.

Biographies of the Board members appear on page 26. These illustrate the wide-ranging business experience of Board members, which is essential to manage effectively a business of the size and complexity of Sportech.

The Board considers Peter Williams and David McKeith to be Independent Directors. In light of his previous roles as Chairman of Playtech Limited, from which he resigned on 10 October 2013 (although he was retained as an industry adviser through to September 2014) and his capacity as a retained adviser to Scientific Games Corporation Inc. ("SGC"), a position that came to an end on 30 September 2013, which were held upon his appointment as Chairman of the Board, Roger Withers cannot be deemed to be independent.

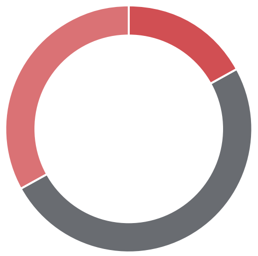
## Conflicts of interest

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

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

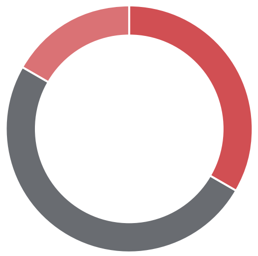
**Board composition**

| | |
|---|---|
| Chairman | 17% |
| Executive Directors | 50% |
| Independent Non-executive Directors | 33% |



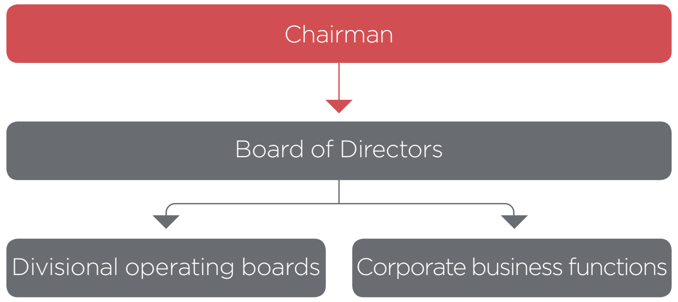
**Length of service**

| | |
|---|---|
| Up to two years | 2 |
| Two to six years | 3 |
| More than six years | 1 |





## Board responsibility




## Board effectiveness

**Division of responsibilities, information and professional development**

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

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

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

Luisa Wright, the Company's Group General Counsel and Company Secretary, provides in-house legal advice to the Board and management. During Luisa's maternity leave period in 2015, the Board will engage and retain various advisers in order to continue to receive counsel where and when this is necessary. In addition, the Company takes external legal advice where appropriate to ensure compliance with best practice. As Company Secretary, Luisa Wright also advises the Chairman and the Board on all governance matters.

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

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

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

**Board performance evaluation**

The Board is satisfied that each Director continues to show the necessary commitment, allocates sufficient time to discharge their duties and continues to be an effective member of the Board due to their skills, expertise and business acumen. During the year, Roger Withers was appointed as Non-executive Chairman of AIM listed Safecharge International Group Limited. Roger maintains attendance at Sportech PLC Board and Committee meetings, and continues to have regular discussions with Executive management and Company stakeholders. This additional commitment of the Chairman with an external party is therefore not thought to impact his ability to effectively discharge his duties as Chairman of Sportech PLC.

Full-scale Board and Committee review processes are performed annually towards the end of each financial year. All Board members are invited to complete an online self-assessment and evaluation of the effectiveness of the Board. Amongst other things, Directors are asked for their views on Company strategy; key challenges for the business; the mix of skills, experience, independence, knowledge and diversity on the Board (including gender); effectiveness of the Board's engagement with shareholders; and how well the Board operates. The output of the confidential questionnaires completed in February 2015 was discussed with the Board at the March 2015 Board meeting. The Board found the performance of each Director to be effective and concluded that the Board provides the effective leadership and control required for a listed company. The evaluation found the Board Committees were working well. The Board will continue to review its procedures, its effectiveness and development in the financial year ahead.

# Corporate governance report continued

## Board meetings

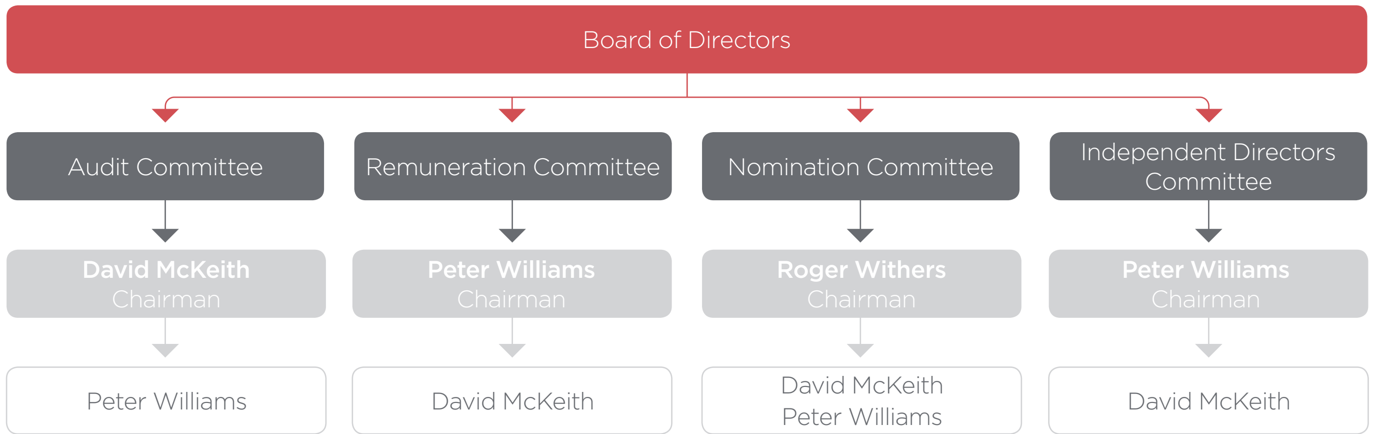
The Board meets at least six times a year. Certain matters are considered at all Board meetings including the Chief Executive's report; the latest available Group consolidated accounts and Chief Financial Officer's report; divisional reports and the strategic developments report. Directors unable to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

**Attendance at scheduled meetings of the Board and its Committees in 2014**

| | Main Board | Audit Committee | Remuneration Committee | Nomination Committee | Independent Directors Committee |
|---|---|---|---|---|---|
| Number of meetings held in year | 7 | 3 | 3 | 1 | — |
| **Executive Directors** | | | | | |
| Ian Penrose | 7 | — | — | — | — |
| Ian Hogg (resigned 25 September 2014) | 5 (6) | — | — | — | — |
| Cliff Baty | 7 | — | — | — | — |
| Rich Roberts (appointed 14 July 2014) | 3 (3) | — | — | — | — |
| **Non-executive Directors** | | | | | |
| Roger Withers | 7 | — | — | 1 | — |
| Peter Williams | 7 | 3 | 3 | 1 | — |
| Rich Roberts (resigned 14 July 2014) | 4 (4) | 1 (1) | 1 (1) | — | — |
| Lorne Weil (resigned 28 April 2014) | 0 (3) | — | — | — | — |
| David McKeith | 7 | 3 | 3 | 1 | — |

The figures in brackets indicate the number of meetings held in the period in which the individual was a Board member. There are six scheduled Board meetings for 2015.

## Board committees




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

**Chairman and financial expert**
David McKeith

## The Audit Committee

**Members**
Peter Williams, Rich Roberts (from 27 January 2014 to 14 July 2014).

The Audit Committee of the Board comprises the Independent Non-executive Directors and is currently chaired by David McKeith, who is considered to have recent, relevant financial experience. Biographies of the members of the Audit Committee appear on page 26. The Committee is scheduled to meet at least three times a year. The Committee's main responsibilities include reviewing the Annual Report and Accounts and Interim Report, including considering significant financial reporting issues and judgements that they contain. The Committee reviews, and challenges where necessary, the consistency and changes to accounting policies, methods used to account for significant and unusual transactions, whether the Company has followed appropriate accounting standards and the clarity of disclosure in the Company's financial statements. Further to this, the Committee is delegated from the Board the responsibility for review of the effectiveness of internal controls, the Company's whistleblowing procedures and the need for an internal audit function as well as the scope, extent and effectiveness of such a function. The Chief Financial Officer and other senior management are invited to attend the Committee as appropriate.

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

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

During the year, the Committee received presentations from the Finance Directors of the Racing and Digital, Connecticut Venues and Football Pools divisions on the control environment of their respective businesses. The Committee also considered internal reports from the Chief Financial Officer and the Group Financial Controller, together with the external Auditors report in their half-year review and annual audit, in reviewing the Group's financial reporting function.

The primary areas of judgement considered by the Committee in relation to the 2014 financial statements were:

- the assumptions underlying impairment testing of the Group's goodwill and intangible assets, particularly in relation to the Football Pools goodwill, Sportech Venues perpetual licence and eBet goodwill and acquired intangibles;
- revenue recognition for significant contracts; and
- the assessment and disclosure of the going concern concept.

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

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

# Corporate governance report continued

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

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

The Auditors are also subject to professional standards that safeguard the integrity of their auditing role. The Committee remains confident that the objectivity and independence of the external Auditors are not in any way impaired by reason of the audit and non-audit services which they provide to the Group. Moreover, the Committee is satisfied that such work is best handled by them, either because of their knowledge of the Group or because they have been awarded it through a competitive tendering process. In addition, the independence of the Auditors is safeguarded by the use of separate teams for individual assignments such as acquisition due diligence and the audit being subject to internal PricewaterhouseCoopers LLP quality control procedures. A breakdown of non-audit fees charged by the Auditors is disclosed in note 5 in the notes to the financial statements. A significant proportion of the non-audit fees charged by the Auditors in 2014 relates to work undertaken in respect of ongoing issues in relation to indirect taxes, advice on accounting and tax treatment of the Spot the Ball VAT claim and other advisory services. It was concluded by the Committee that it was in the interest of the Company to purchase these services on a single tender basis from PricewaterhouseCoopers LLP due to the cumulative historical knowledge already gained, the timing of the work, the tie-in to the financial statements and confidentiality.

During 2014, the Group conducted a tender process for the US tax compliance work which PricewaterhouseCoopers LLP have carried out since the acquisition of the US businesses in October 2010. A thorough process was carried out by the Chief Financial Officer, Group Financial Controller and Vice President of Finance in Connecticut which resulted in KPMG LLP being appointed tax compliance advisors for the US businesses. The Committee was kept informed of the process and tender bids and approved the appointment following briefings from the Chief Financial Officer.

**Effectiveness**
The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle we receive from PricewaterhouseCoopers LLP a detailed audit plan ("Audit Strategy Memorandum"), identifying their assessment of these key risks. For 2014 the significant risks identified were in relation to asset impairment, management override of controls and revenue recognition due to the inherent management judgement required in these areas.

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

**Appointment and reappointment**
The Committee considers the reappointment of the external Auditors, including the rotation of the audit partner each year, and also assesses their independence on an ongoing basis. The external Auditors are required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner, Nigel Reynolds, replaced Martin Heath during the financial year following Martin's tenure as lead audit partner of four years.

PricewaterhouseCoopers LLP have been the Company's external Auditors since 1998, 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 2014. The Committee will continue to assess the appropriate time at which an audit tender process should be conducted and continues to assess the effectiveness, independence and value for money of PricewaterhouseCoopers LLP.

The Audit Committee provided the Board with its recommendation to the shareholders on the reappointment of PricewaterhouseCoopers LLP as external Auditors for the year ending 31 December 2015 and as a result, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the reappointment of PricewaterhouseCoopers LLP as our Auditors will be put to the shareholders at the 2015 AGM. There are no contractual obligations restricting the Committee's choice of external Auditors and we do not indemnify our external Auditors. The Committee will keep the appointment of the external Auditors under annual review.

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

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

The Audit Committee reviews the effectiveness of the internal control environment of the Group, excluding that of the Group's joint ventures. It receives reports from the external Auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. Significant risk issues are referred to the Board for consideration. Risk registers are produced and maintained at a divisional level and the significant key risks relevant at a Group level selected from these registers are presented to the Board. The principal risks facing the Group and the mitigating actions taken by the Board and management are included on pages 20 and 21 of the Strategic report. The Group separately employs an India-based accountant as a consultant who is responsible for ensuring the integrity of results and robustness of internal controls and procedures in the Group's Indian joint venture. Similarly, as and when the operations of the Group's newly formed US-based joint ventures become material, resources will be deployed to ensure integrity of results and that the Group's high standard of internal control is replicated.

To manage lower-level risks, a risk management programme is in place, supported by a business control and risk self-assessment process and a business continuity plan. The risk management programme places responsibility on managers to identify risks facing each business unit and for implementing procedures to mitigate these risks. The risk appraisal process is regularly reviewed by the Board and accords with the Turnbull Guidance. The Audit Committee and Board have reviewed the effectiveness of the internal controls of the Group for the year ended 31 December 2014 and up to the date of approval of the Annual Report and Accounts. This review covered financial, operational, risk management and compliance controls.

The Group does not have an internal audit function. The Audit Committee has considered the use of an internal audit function during the year but considers that due to the size and nature of the Group there is not a requirement for such an internal function. The central Group Finance function continues to undertake certain work of an internal audit nature and reports findings to the Audit Committee. During the year, the Audit Committee engaged Grant Thornton LLP to perform a review over IT security and controls at the Group's data centre in New Jersey. Grant Thornton LLP reported their findings to the Committee with no significant weaknesses identified. The Committee will continue to assess the need for specific internal audit reviews and an ongoing internal audit strategy during the coming months.

**Whistleblowing policy**
The Company is committed to providing a safe and confidential avenue for all employees within the Group to raise concerns about serious wrongdoings. The Company also acknowledges the requirements of the UK Corporate Governance Code in this regard, which states that the Audit Committee should review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Further to this, an appropriate policy so as to encourage and enable staff to raise any such concerns is in place and has been throughout the year. No instances of serious wrongdoing have been reported to the Audit Committee during the period.

**David McKeith**
Chairman of the Audit Committee
4 March 2015

# Corporate governance report continued

## The Remuneration Committee

The Remuneration Committee of the Board comprised the three Independent Non-executive Directors, until the resignation of Rich Roberts on 14 July 2014 and his appointment as an Executive Director, and is chaired by Peter Williams. Biographies of the members of the Remuneration Committee appear on page 26. The purpose of the Committee is to ensure that the remuneration of Executive Directors and Senior Executives, together with their terms and conditions of employment, is sufficient to recruit and retain individuals of the calibre required to ensure profitable growth of the business. The Remuneration report is set out on pages 36 to 55.

## The Nomination Committee

The Nomination Committee comprised the two Independent Non-executive Directors and the Chairman of the Board, who also chairs this Committee. Biographies of the members of the Nomination Committee appear on page 26.

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

The Committee, in its recommendations to the Board, acknowledges that diversity extends beyond the boardroom and supports management in their efforts to build a diverse organisation throughout the Group. Out of a workforce of approximately 1,000 employees, 42% are female and out of 15 members of senior management 13% are female. The Committee endorses the Company's policy to attract and develop a highly qualified and diverse workforce; to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. Although at present there are no female Board members, the Committee acknowledges the importance of diversity, including gender, to the effective functioning of the Board. Furthermore, the Board acknowledges the recommendations of the Davies Report, and supports the principle of improving, in particular, gender imbalance, both at a Board level and throughout its businesses. Subject to securing suitable candidates, when recruiting additional Directors and/or filling vacancies that arise when Directors do not seek re-election, we will seek to appoint new Directors who fit the skills criteria and gender balance that is in line with the Company's policy. We continue to focus on encouraging diversity of business skills and experience, recognising that Directors with diverse skill sets, capabilities and experience gained from different geographic and cultural backgrounds enhance the Board.



## The Independent Directors Committee

The Independent Directors Committee comprised the two Independent Non-executive Directors and is responsible for dealing with matters where conflicts of interest might arise due to the Board's previous composition and shareholder representation. The Committee did not meet formally during the year, and only meets when circumstances of conflicts of interest are considered to have arisen that require review.

## Investor relations

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

All resolutions at the 2014 AGM were voted by way of a manual poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were indicated at the meeting and the final results were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

The Board recognises the withholding of votes to resolutions 2 and 5 at the 2014 AGM, (approval of Directors' Remuneration report and reappointment of Roger Withers respectively). The relevant Board Committees continue to review the appropriateness of the Group's remuneration policy and Board nominations taking into account feedback from shareholders as appropriate.

The appointment of PricewaterhouseCoopers LLP as external Auditors is also subject to regular review by the Audit Committee. 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

**Cliff Baty**
Director
4 March 2015

# Report of the Remuneration Committee

## Letter from the Remuneration Committee Chairman

## Dear shareholder

I am pleased to present the Remuneration report (the "Report") for the year ended 31 December 2014.

This Report sets out the remuneration paid to Directors over the year under review and details the remuneration policy for the forthcoming year.

The Directors on the Remuneration Committee (the "Committee") are mindful of balancing the increased focus and guidance from stakeholders on remuneration issues with the need of the Company to attract and retain the best available talent. The Committee is comfortable that in 2014 it achieved an appropriate balance in this regard. More generally, the Committee believes that the policy outlined in this Report continues to achieve its overriding objective of establishing a stable remuneration platform, enabling the recruitment, retention and motivation of a talented executive management team that is fully incentivised to maximise shareholder value and capable of taking the business forward through its next phase of strategic development.

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

In determining remuneration levels, the Committee has taken account of market conditions, the performance of the Company, responsibility to shareholders and good corporate governance. Accordingly, basic salaries of Executive Directors for 2015 have increased by 1%, with no increases taking place in the other elements of remuneration vis-à-vis 2014.

## Performance and reward in relation to 2014

As set out in detail in the Strategic report, the Company delivered against a number of strategically important objectives during the year under review in its three divisions (e.g. reaching agreement with Betfred to provide new systems and digital technology to Totepool and the launch of Connecticut's only legal online betting site) and delivered EBITDA of £24.0m. As a result of the above, bonuses of between 5.0% and 21.25% of salary were achieved based on delivery against personal and strategic objectives, with bonus of 0% of salary earned based on performance against EBITDA targets. Overall bonuses earned were between 5.0% and 21.25% of salary.

Two-thirds of the Performance Share Plan ("PSP") awards granted in 2011 were eligible to vest subject to two independent performance conditions. The relative TSR performance condition had a performance period ending in December 2014 and vested at 0%. The three-year TSR to the end of the period of 35% resulted in the Company being ranked below the median ranking position on a relative basis. As a result there was no vesting of this part of the award. The absolute TSR performance condition had a performance period ending December 2014 and the formulaic calculation of the highest TSR over the last year of the performance period would have resulted in full vesting of this element of the award. However, the Committee was mindful of financial performance over the three-year period and determined that the absolute TSR award vesting should be scaled back by 23% to reflect this. The remaining one-third of the PSP awards vested based on EPS growth over the three-year period ending 31 December 2013 with this element of the awards vesting at 47.5% of the maximum based on EPS growth of 9.45% p.a. over three financial years.

One-third of the PSP awards granted in 2012 is eligible to vest subject to an earnings per share ("EPS") performance measure ending 31 December 2014. This part of the award will not meet the performance requirements given EPS decline of 1.26% p.a. over the performance period. The remaining two-thirds of the 2012 awards vest based on relative and absolute TSR performance which will be measured over a three-year period ending in March 2015.

The Committee has reviewed the variable incentive payouts based on the financial period ended 31 December 2014 and is satisfied that having used its discretion to scale back the absolute TSR element of the PSP award, the overall reward reflects the performance delivered.

## Policy for 2015

The Committee has reviewed the remuneration policy in line with the current business strategy and considers it to remain fit for purpose. As such, no material changes have been proposed for 2015 and beyond.

## Shareholder feedback

The Committee has not proposed any significant changes to the remuneration policy for 2014 or 2015 that necessitated any direct consultations with shareholders during the year. However, the Committee welcomes any feedback on this Report and the remuneration policy in general and hopes for your continued support at the AGM.

**Peter Williams**
Senior Independent Non-executive Director and
Chairman of the Remuneration Committee
4 March 2015



# Remuneration report

## for the year ended 31 December 2014

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

The Directors' Remuneration Policy report 2013 was subject to a binding shareholder vote at the 2014 AGM with an effective date of 13 May 2014, with the intention being that the policy is applied for the three-year period to 13 May 2017. It is re-presented in this report for information purposes only, with some minor changes to page references, updating references to former/new Directors where necessary and the graph illustrating pay scenarios removed. The full original report can be viewed at www.sportechplc.com/investors/results/2013. Of the votes cast on approval of the Directors' Remuneration Policy at the 2014 AGM, 99.43% were in favour of the policy. Less than 1% of the total votes available on this resolution were withheld. The 2013 Directors' remuneration report was approved by 98.63% of the votes cast, with 6.7% of the total votes available being withheld.

The policy detailed in the 2013 report and repeated within this report, has operated for the entire current financial year. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2015 AGM. This report is intended to be in full compliance with the requirements of the Regulations and the UK Corporate Governance Code 2014 issued by the Financial Reporting Council (the "Code"). PricewaterhouseCoopers LLP has audited the contents of the Report to the extent required by the Regulations.

## Directors' Remuneration Policy

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

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

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

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

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

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

**Remuneration for Executive Directors**

The main component parts of the remuneration packages for Executive Directors are detailed in the table on pages 38 to 41, which should be read in conjunction with the recruitment/promotion policy on page 44, and the "Detailed remuneration policy for 2015" section of the Annual report on remuneration, which starts on page 46.

# Remuneration report continued
for the year ended 31 December 2014

## Policy table

| Remuneration element and purpose | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Base salary**<br>To attract and retain key individuals.<br>Reflects the relevant skills and experience in role. | – Salaries are set on 1 January each year and reviewed annually against performance, experience, responsibilities, relevant market information and the level of workforce pay increases. | – The current salaries are set out in the Annual report on remuneration on page 48.<br>– Annual increases will usually be commensurate with those of the wider workforce.<br>– If there are significant changes in responsibility or a change in scope, increases may exceed this level.<br>– New joiners, where pay is initially set below market levels, may experience larger increases as their salary is progressed towards the market rate, based on their development in the role. | A broad-based assessment of individual and Company performance is considered as part of any salary review. |
| **Pension**<br>To provide cost-effective, yet market competitive, retirement benefits. | – Contribution to a personal pension arrangement or cash in lieu of pension by way of a salary supplement. | – 8% of salary for UK Executive Directors. Only basic annual salary is pensionable. | Not applicable. |
| **Benefits**<br>To provide cost-effective, yet market competitive, benefits. | – A car allowance for certain UK Executive Directors, private health insurance and life insurance cover.<br>– The Committee may offer Executive Directors other employee benefits on broadly similar terms to those of the wider workforce. | – Car allowance of £16,000 for the Chief Executive.<br>– Family cover private health insurance.<br>– Life insurance cover of four times salary.<br>– The value of insured benefits may vary from year to year based on the third-party costs of supplying the benefits.<br>– Where Executive Directors are recruited from overseas, benefits more tailored to their geographical location may be provided. | Not applicable. |
| **Annual bonus plan**<br>To motivate Executive Directors and incentivise the achievement of key financial and strategic goals and targets over the financial year. | – Bonus is paid wholly in cash.<br>– Based on the achievement of performance metrics with a sliding scale from a threshold to maximum level of performance.<br>– Clawback may be applied in the event of material misconduct and/or an error in the calculation of the bonus payable. | – Maximum bonus potential is 100% of salary for the Chief Executive and 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 EBITDA targeted performance of the Group (and operating divisions as appropriate), which takes into account market forecasts, and a minority of the bonus will be based on Group strategic objectives and/or personal objectives tailored to the achievement of the Group strategic goals.<br>The proportion of the maximum bonus that may become payable at the threshold performance level where financial targets are set will be 0% of that part of the bonus. Bonuses above this level are earned on a graduated basis to the maximum performance level. Where strategic targets are set, it is not always practicable to operate targets that can be assessed using a graduated scale.<br>The performance measures used for the 2014 annual bonus and those proposed for 2015 are described in the Annual report on remuneration starting on page 45. |

# Remuneration report continued
for the year ended 31 December 2014

| Remuneration element and purpose | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Long term incentive plan**<br>To motivate Executive Directors and incentivise delivery of performance over the long term.<br>To encourage greater shareholder alignment by rewarding TSR outperformance.<br>To facilitate share ownership. | – Annual awards of performance share awards which vest subject to performance after three years.<br>– Directors may be entitled to dividends which accrue on vested awards. | – Performance share awards of up to 100% of salary can be granted for a normal annual grant, with up to 200% of salary used in exceptional circumstances.<br>– The policy is to grant awards of up to 100% of salary for Directors. | Awards will be granted subject to a combination of relative TSR and financial measures (such as EPS) over a three-year period.<br>The Committee will review the appropriateness of the performance conditions on an annual basis and may make changes to the weightings or introduce new measures which are aligned to the Company strategy at that time.<br>A minority (25%) of the award will vest for threshold levels of performance, rising on a straight-line basis to full vesting for outperformance.<br>The performance measures used for the 2014 PSP award and those proposed for the 2015 PSP award are described in the Annual report on remuneration. |
| **All Employee Share Plans**<br>To promote wider employee share ownership. | – All employees (including Executive Directors) may be invited periodically to participate in a Company Sharesave plan.<br>– Participants would have the right to commit to a savings contract whereby the proceeds can be used towards the exercise of an option granted at the time they participate. The exercise price can be discounted by up to 20% of the share price on grant. | – Monthly savings limits are based on HMRC rules which currently limit monthly savings towards share purchases under three-year savings contracts to £500. | Not applicable. |
| **Executive share ownership**<br>To align Executive Directors' and shareholders' interests. | – All Executive Directors are expected to hold an investment of at least 100% of base salary in the Company, using 50% of net awards under the Company's LTIPs to achieve the shareholdings, if required. | – 100% of salary for all Executive Directors. | Not applicable. |
| **Non-executive fees**<br>To attract and retain high-calibre Non-executive Directors.<br>To set remuneration by reference to the responsibilities and time commitment undertaken by each Non-executive Director. | – Fee levels are reviewed on a regular basis and are set based on expected time commitments, responsibilities and in context of the fee levels in companies of a comparable size and complexity, and reflecting the onerous obligations of international racing regimes. | – The Non-executive Chairman's fee and Non-executive fees are set out in the Annual report on remuneration on page 48.<br>– Any increase in fees may be above those of the wider workforce (in percentage terms) in any particular year, reflecting the periodic nature of any review and changes to time commitments and/or responsibilities. | Not applicable. |

# Remuneration report continued
for the year ended 31 December 2014

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

- timing of awards and payments;
- the size of an award (within the limits noted in the table on pages 38 to 41), and when and how much should vest;
- who receives an award or payment;
- dealing with a change of control or restructuring of the Group;
- determining whether a participant is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest;
- any adjustments required to awards in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- the weightings, measures and targets for the annual bonus plan and LTIP from year to year.

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

### Variable remuneration
The maximum level of variable remuneration which may be granted to the Executive Directors, based on salaries applying from 1 January 2015, is £1,444,000.

**Existing awards**
The Committee intends to honour any commitments, including outstanding PSP awards, on the terms applicable at the time each such commitment was made. The relevant outstanding awards are described in more detail on pages 50 to 53.

**Policy on contracts of service**
All Directors have rolling contracts with notice periods of no more than twelve months.

| | Date of appointment | Notice period |
|---|---|---|
| Roger Withers | 07.02.11 | 3 months |
| Ian Penrose | 01.10.05 | 12 months |
| Cliff Baty | 14.05.13 | 12 months |
| Ian Hogg* | 05.10.10 | 12 months |
| Rich Roberts** | 14.07.14 | 12 months |
| Peter Williams | 07.02.11 | 3 months |
| David McKeith | 25.08.11 | 3 months |
| Lorne Weil*** | 05.10.10 | 3 months |

* Ian Hogg resigned on 24 September 2014. On this date he held 285,911 shares in the Company.

** Rich Roberts had been appointed a Non-executive Director on 3 December 2013 and was subsequently appointed as an Executive Director on 14 July 2014.

*** Lorne Weil resigned on 28 April 2014. On this date, he held 3,027,450 shares in the Company.

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

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

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

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

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

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

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

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

Base salary increases across the Group were in the range of 1% to 2% for 2015, reflecting the RPI prevailing in the country in which the individual is employed. The Executive Directors are employed in the UK and therefore their increase of 1% is consistent with the general pay award for UK-based employees.

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

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

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

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

# Remuneration report continued
for the year ended 31 December 2014

**Policy on Executive Director recruitments/promotions**
In relation to an external executive recruitment or an internal promotion the Committee will follow the principles outlined in the table below:

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



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

## Annual report on remuneration

The Committee's Terms of Reference are available from the Company Secretary and can be found on the Company's website at www.sportechplc.com/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 annual awards under the PSP in the year under review;
- review of the PSP performance conditions and approval to retain both challenging financial growth conditions and Total Shareholder Return ("TSR") conditions;
- in March 2015, approval of bonus awards, paid out in line with the 2014 bonus policy and approval of bonus policy for 2015;
- review of base salaries for the Executive team;
- approval of vesting of 2011 PSP awards; and
- review and approval of terms of employment for Rich Roberts.

The Committee's recommendations in 2014 and early 2015 were all accepted and implemented by the Board.

**Compliance with best practice**
During 2014, the Committee has, with the assistance of its independent remuneration consultants, New Bridge Street ("NBS") (a trading name of Aon Plc), reviewed its practices and policies to ensure they are in line with what it perceives to be best practice and the Company's strategic objectives. The Committee continues to be committed to the principles of good governance as set out in the Code.

**Composition of the Remuneration Committee**
During the year the Committee consisted of Peter Williams (Chairman), David McKeith and until his appointment as an Executive Director on 14 July 2014, Rich Roberts. Peter and David are both Independent Non-executive Directors. None of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest from cross-Directorships or day-to-day involvement in the running of the business.

The Chief Executive and Chairman are invited to attend meetings although neither is present when matters affecting his own remuneration are discussed. The Company Secretary or their nominee acts as secretary to the Committee.

The Committee retains independent remuneration consultants, NBS, to advise on aspects of Executive remuneration. NBS is a member of the Remuneration Consultants Group and has signed up to its Code of Conduct. NBS has no connection with Sportech other than in the provision of advice on Executive remuneration. The terms of engagement with NBS are available from the Company Secretary on request. The fees of the independent remuneration consultants in relation to the services provided by them to the Company during the financial year were £35,000.

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

# Remuneration report continued
for the year ended 31 December 2014

**Detailed remuneration policy for 2015**

Basic annual salary

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

- Ian Penrose, Chief Executive, was awarded a salary increase of 1%, which is consistent with the general pay award for all UK-based employees. He is paid a salary of £389,000 per annum with effect from 1 January 2015.
- Cliff Baty, Chief Financial Officer, is paid a salary of £247,000 per annum with effect from 1 January 2015, an increase of 1%, which is consistent with the general pay award for all UK-based employees.
- Rich Roberts, President: Sportech Digital, is paid a salary of $303,000 per annum with effect from 1 January 2015, an increase of 1% from the salary set on appointment.

Performance related bonus

The maximum bonus potential for the Chief Executive for 2015 is 100% of basic salary, for the Chief Financial Officer, 75% of basic salary and for the President, Sportech Digital is 50% of basic salary.

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

Pension arrangements

The Company will contribute into a defined contribution scheme for the Executive Directors at a rate of 8%. Only basic annual salary is pensionable. In addition, the Company matches the contribution into a 401(k) pension scheme for Rich Roberts being $6,750 per annum.

Other benefits

Executive Directors are entitled to the following other main benefits:

- Chief Executive – 29 working days' holiday per annum in addition to normal bank and public holidays. Other UK Executive Directors – 25 working days' holiday per annum in addition to normal bank and public holidays. US-based Directors are entitled to 20 working days' holiday per annum in addition to normal US public holidays;
- a car allowance of £16,000 for the Chief Executive;
- private health insurance for themselves, their spouse and children; and
- life insurance of four times salary (UK Directors only).

Long Term Incentive Plan ("LTIP")

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

It is the Committee's intention to grant awards in 2015 at 100% of salary to the Chief Executive and 75% of salary to the other Directors. The targets to apply to the 2015 awards will be the same as those applied to the 2014 awards being, 50% based on the Company's relative TSR performance (Part A) and 50% based on performance against a challenging range of EPS growth targets (Part B).

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



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

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

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

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

EPS performance will be tested from a base year ended 31 December 2014 with EPS being calculated on such adjusted basis as the Remuneration Committee determines appropriate. Adjusted EPS for such purposes will be disclosed in due course at the time of vesting in the Remuneration report.

**Policy on Executive share ownership**

The Board has adopted a formal policy in respect of Executive share ownership, pursuant to which all Executives are expected to invest in the Company to a level of at least 100% of annual salary over time, save that under such policy Executives may build to this level using 50% of net awards under the Company's long term incentive plans. Current share ownerships are set out on page 53.

**Non-executive Directors' fees and incentives**

The fees of the Non-executive Directors are set by the Board following a review against fee levels operated in companies of a comparable size and after taking into account the anticipated time commitment of each role. The Non-executive Directors do not participate in any incentive, pension or benefit schemes of the Company.

The fees set for 1 January 2015 are £120,000 for the Chairman and a set fee of £47,500 (with a further £5,000 for each Committee they sit on) for UK-based Non-executives and a set fee of $100,000 for US-based Non-executives. The fees set for Non-executives are at the top end of the upper quartile for comparable companies, reflecting the onerous international regulatory environment for Sportech and the fact that Board meetings will be held in both the US and the UK, necessitating additional travel and time commitments.

Details of each Director's remuneration for the year ended 31 December 2014 are given in the table on page 48.

**Directors' remuneration for the year ended 31 December 2014**

Basic annual salary

- Ian Penrose, Chief Executive, £385,000 per annum, with effect from 1 January 2014.
- Cliff Baty, Chief Financial Officer, £245,000 per annum with effect from 1 January 2014.
- Ian Hogg, Chief Operating Officer, Consumer Facing Business, £256,000 per annum with effect from 1 January 2014.
- Rich Roberts, President: Sportech Digital, $300,000 per annum with effect from the date of his appointment as an Executive Director, 14 July 2014.

# Remuneration report continued
for the year ended 31 December 2014

### Directors' remuneration for 2014 (audited)

| | Year of appointment | Fees/salary £000 | Taxable benefits[1] £000 | Pension £000 | Bonuses £000 | Long term incentives £000 | 2014 Total £000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Ian Penrose | 2005 | 385 | 17 | 31 | 82 | 158 | 673 |
| Cliff Baty | 2013 | 245 | 1 | 20 | 25 | — | 291 |
| Ian Hogg (resigned 25 September 2014)[2] | 2010 | 256 | 14 | 20 | 14 | 32 | 336 |
| Rich Roberts (appointed 14 July 2014) | 2014 | 78 | 5 | 1 | 5 | — | 89 |
| **Non-executive Directors** | | | | | | | |
| Roger Withers | 2011 | 120 | — | — | — | — | 120 |
| Peter Williams | 2011 | 58 | — | — | — | — | 58 |
| David McKeith | 2011 | 58 | — | — | — | — | 58 |
| Lorne Weil (resigned 28 April 2014) | 2010 | 20 | — | — | — | — | 20 |
| Rich Roberts (resigned 14 July 2014) | 2013 | 37 | — | — | — | — | 37 |
| **Aggregate emoluments** | | 1,257 | 37 | 72 | 126 | 190 | 1,682 |

1 Taxable benefits comprise various medical insurance policies and car allowances.

2 Ian Hogg resigned from the Board on 25 September 2014, however his full salary for the year to 31 December 2014 is included in the above table, see section with regard to payments for loss of office in this report on page 53.

### Directors' remuneration for 2013 (audited)

| | Year of appointment | Fees/salary £000 | Taxable benefits[1] £000 | Pension £000 | Bonuses £000 | Long term incentives £000 | Compensation for loss of office £000 | 2013 Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Ian Penrose | 2005 | 377 | 17 | 30 | 151 | 836 | — | 1,411 |
| Cliff Baty | 2013 | 154 | — | 10 | 63 | — | — | 227 |
| Ian Hogg (resigned 25 September 2014) | 2010 | 251 | 14 | 20 | 40 | 497 | — | 822 |
| Steve Cunliffe (resigned 6 March 2013) | 2006 | 38 | — | — | — | 527 | 141 | 706 |
| **Non-executive Directors** | | | | | | | | |
| Roger Withers | 2011 | 65 | — | — | — | — | — | 65 |
| Peter Williams | 2011 | 45 | — | — | — | — | — | 45 |
| David McKeith | 2011 | 45 | — | — | — | — | — | 45 |
| Lorne Weil (resigned 28 April 2014) | 2010 | 35 | — | — | — | 663 | — | 698 |
| John Barnes (resigned 3 December 2013) | 2005 | 45 | — | — | — | — | — | 45 |
| Mor Weizer (resigned 20 June 2013)[2] | 2011 | — | — | — | — | — | — | — |
| Rich Roberts (appointed 3 December 2013) | 2013 | 5 | — | — | — | — | — | 5 |
| **Aggregate emoluments** | | 1,060 | 31 | 60 | 254 | 2,523 | 141 | 4,069 |

1 Taxable benefits comprise various medical insurance policies and car allowances.

2 Mor Weizer did not receive any remuneration in his role as a Non-executive Director as he sat on the Board as a representative of Playtech Limited.



## Performance related bonus

The maximum bonus potential for the Chief Executive in the year under review was 100% of basic salary, and for each of the Chief Financial Officer and the Chief Operating Officer, Consumer Facing Business was 75% of basic salary. For the President: Sportech Digital, the maximum bonus potential was 50% of basic salary.

For each Executive Director their performance related bonus was based on (i) the EBITDA performance of the Group and (ii) strategic objectives aligned with Group strategic goals.

### *EBITDA performance*

The Committee considered the Group's EBITDA performance for these purposes and in this respect, achievement was determined to be 0% out of a maximum target of 70% of potential bonus.

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

### *Strategic objectives*

With regards to the Chief Executive, his strategic targets related to delivering against a number of growth focused initiatives primarily in relation to the Group's activities in the USA and delivering a successful contract win for the Racing and Digital division. These were considered to have been largely met, resulting in an award of 21.25% out of a maximum target of 30% of potential bonus. The strategic targets relating to the Chief Financial Officer were in relation to securing financing to meet the Group's strategy plans, supporting the achievement of wider Group strategic objectives and implementing new system and process developments. These targets were considered to have been partially met, resulting in an award of 13.75% out of a maximum target of 30% of potential bonus. The strategic targets of the President: Sportech Digital related to the Connecticut online business, the NYX joint venture plans in New Jersey and progressing fantasy sports initiatives. The targets relating to these objectives were considered to have been partially met, resulting in an award of 10.00% out of a maximum target of 30% of potential bonus. The award was then reduced by 50% as the role commenced at the half year. The strategic targets for the Chief Operating Officer, Consumer Facing Business related to the Connecticut online business and supporting the NYX joint venture plans. The targets relating to these objectives were considered to have been partially met, resulting in an award of 7.50% 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 | 21.25% of maximum (21.25% of salary payable) |
| Chief Financial Officer | 13.75% of maximum (10.31% of salary payable) |
| President: Sportech Digital | 10.00% of maximum (5.00% of salary payable) |
| Chief Operating Officer, Consumer Facing Business | 7.50% of maximum (5.63% of salary payable) |

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

## Pension arrangements

The Company contributed into a defined contribution scheme for the UK-based Executive Directors at a rate of 8%. Only basic annual salary was pensionable. Three Directors (2013: four Directors) were members of defined contribution schemes during the year. Contributions paid by the Company in respect of these Directors are as shown in the table on page 48. The Company pays a maximum of $6,750 per annum into a defined contribution scheme for Rich Roberts.

# Remuneration report continued
for the year ended 31 December 2014

## Long Term Incentive Plans ("LTIPs")

### Awards vested in relation to performance ending 2014

Part of the awards granted in 2011 and 2012 reached the end of their performance periods or were substantially complete in the year under review. This includes the two-thirds of the 2011 award and 2012 award subject to relative TSR and absolute TSR (performance period ended 1 December 2014) and one-third of the 2012 award subject to EPS (performance period ended 31 December 2014). Summary details of the full conditions applying to the 2011 and 2012 awards are included as a footnote to the PSP table on page 52.

In terms of the 2011 and 2012 award, the assessment of the TSR measures was made independently by NBS who advised that Sportech's absolute TSR achieved a maximum TSR growth of 126% (as measured during the final year of the performance period) for the 2011 award and 83% for the 2012 award which was greater than the 15% p.a. maximum absolute target, thereby indicating full vesting for this element of these awards. In addition, this element of the award is subject to the Committee being satisfied that the level of vesting indicated is reflective of the Company's underlying financial performance over the performance period. When considering this underpin the Committee reviewed various financial performance metrics over the performance period, and concluded that the 100% vesting result for this element of the award should be scaled back. The Committee considered that the VAT claim had resulted in the underlying financial performance not being reflected in the share price prior to 16 September 2014. As a consequence, the scale back reflected the highest six week average performance remaining in the period after 16 September 2014 as this was felt to be more reflective of the underlying financial performance of the Company. Based on these deliberations the Committee determined that this element of the 2011 award should be scaled back by 23% whilst the 2012 is scaled back by 33%. The relative TSR performance measured to the end of the three-year period was 35% for the 2011 award and 33% for the 2012 award which resulted in the Company being ranked below the median ranking position on a relative basis for both awards. As a result there was no vesting of this part of the awards.

In terms of the 2012 award, the EPS decline over the three-year period to 31 December 2014 was 1.26% p.a. thereby triggering 0% vesting of this element of the award.

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

### Performance Share Plan – 2014 Vesting

| Measure | Condition | Threshold | Maximum | Actual | Vesting |
|---|---|---|---|---|---|
| Relative TSR (2011) | TSR measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over the three years from date of grant | Median rank (77) | Upper quartile rank (38.75) | TSR 35% rank (96.1) | 0% |
| Absolute TSR (2011) | Average annual growth in TSR | 6% p.a. | 15% p.a. | 126% | 100% Scaled back by Committee to 77.3% |
| Relative TSR (2012) | TSR measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over the three years from date of grant | Median rank (75.5) | Upper quartile rank (32.75) | TSR 35% rank (85.7) | 0% |
| Absolute TSR (2012) | Average annual growth in TSR | 6% p.a. | 15% p.a. | 83% | 100% Scaled back by Committee to 77.3% |
| EPS (2012) | Annualised adjusted EPS growth measured against RPI over three financial years | RPI + 4% p.a. | RPI + 10% p.a. | (1.26)% | 0% |

| Executive | Award | Number of awards granted | Vesting | Number of shares vesting | Value of awards* |
|---|---|---|---|---|---|
| Ian Penrose | 2011 (Part A and B) | 310,272 | 38.6% | 119,920 | 65,716 |
| | 2012 (Part C) | 250,423 | 0% | — | — |
| Ian Hogg | 2011 (Part A and B) | 150,943 | 38.6% | 58,340 | 31,970 |

* For Ian Penrose and Ian Hogg, as the 2011 awards have not yet vested due to the Company being in a close period, the value of the awards is based on the three-month average share price to 31 December 2014 of 54.8p. For 2012 awards which have yet to vest, the value is also based on a three-month average share price to 31 December 2014 of 54.8p.



## LTIP awards granted during 2014

### Share option scheme

A share option scheme is in place, the details of which are described in note 25. The last award under such a scheme was made in 2005.

## Performance Share Plan ("PSP")

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

The Committee had previously approved the introduction of an annual award policy from 2012 at up to 100% of salary to Executive Directors.

### Performance Share Plan – 2014 Award

| Executive | Type of award | Number of awards granted | Basis of award | Share price on grant Pence | Face value* | Percentage which vests at threshold |
|---|---|---|---|---|---|---|
| Ian Penrose | Performance share | 432,525 | 100% of salary | 89 | £384,947 | 25% |
| Cliff Baty | Performance share | 206,292 | 75% of salary | 89 | £183,600 | 25% |
| Rich Roberts | Performance share | 349,650 | 150%** of salary | 78 | £272,727 | 25% |

* This is based on the closing share price on the day before the date of grant. In respect of Ian Penrose and Cliff Baty, the date of grant was 7 March 2014 and, in respect of Rich Roberts, the date of grant was 4 September 2014.

** Rich Roberts was granted an exceptional award on his appointment as an Executive Director in part to reflect the lower bonus opportunity of 50% of salary.

### 2014 awards – targets

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

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

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

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

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

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

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

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

# Remuneration report continued
for the year ended 31 December 2014

## Directors' share-based incentives
Aggregate emoluments disclosed on page 48 do not include any amounts for the value of share-based incentives to acquire ordinary shares in the Company granted to or held by the Directors. The share-based incentives held by the Directors are as follows:

*Sportech Share Option Scheme*

| | As at 1 January and 31 December 2014 Number |
|---|---|
| Ian Penrose | 505,050 |

Details of the option are as follows:

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

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

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

The market price of the ordinary shares at 31 December 2014 was £0.670 and the range during the year was £0.480 to £0.923.

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

*PSP*

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

| | Date of grant | As at 1 January 2014 Number | Awarded during the year Number | Vested during the year Number | Lapsed during the year Number | **As at 31 December 2014 Number** | Vested but not exercised Number | Market price on date of grant Pence | Date from which exercisable | Award expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| Ian Penrose | 02.12.11[1] | 465,408 | — | (193,610) | (271,798) | **—** | 193,610 | 39.75 | 02.12.14 | 02.12.15 |
| | 08.03.12[1] | 751,269 | — | — | — | **751,269** | — | 51.52 | 08.03.15 | 08.03.16 |
| | 21.03.13[2] | 377,400 | — | — | — | **377,400** | — | 100.00 | 21.03.16 | 21.03.17 |
| | 07.03.14[2] | — | 432,525 | — | — | **432,525** | — | 89.00 | 07.03.17 | 07.03.18 |
| Total | | 1,594,077 | 432,525 | (193,610) | (271,798) | **1,561,194** | 193,610 | | | |
| Cliff Baty | 21.03.13[2] | 276,000 | — | — | — | **276,000** | — | 90.00 | 21.03.16 | 21.03.17 |
| | 07.03.14[2] | — | 206,292 | — | — | **206,292** | — | 89.00 | 07.03.17 | 07.03.18 |
| Total | | 276,000 | 206,292 | — | — | **482,292** | — | | | |
| Rich Roberts | 04.09.14[2] | — | 349,650 | — | — | **349,650** | — | 78.00 | 04.09.17 | 04.09.18 |
| Ian Hogg | 02.12.11[1] | 226,415 | — | (94,189) | (132,226) | **—** | 94,189 | 39.75 | 02.12.14 | 02.12.15 |
| | 08.03.12[1] | 374,619 | — | — | (374,619) | **—** | — | 51.52 | 08.03.15 | 08.03.16 |
| | 21.03.13[2] | 188,190 | — | — | (188,190) | **—** | — | 100.00 | 21.03.16 | 21.03.17 |
| Total | | 789,224 | — | (94,189) | (695,035) | **—** | 94,189 | | | |
| Total PSP awards | | 2,659,301 | 988,467 | (287,799) | (966,833) | **2,393,136** | 287,799 | | | |

1 2011 and 2012 awards were subject to relative TSR, absolute TSR and EPS growth performance targets each applying to one-third of the awards. The performance targets for the 2011 and 2012 awards operated under the same structure with the specific details outlined on pages 108 and 109.

2 2013 and 2014 awards were subject to relative TSR and EPS growth performance targets each applying to one-half of the awards the structure for which is outlined on page 51.



The number of ordinary shares that may be issued under the PSP and any other share plan may not exceed 10% in any ten-year period. As at 31 December 2014 the Company's potential dilution was 4.2%.

**Recruitment Terms**

On 14 July 2014, Rich Roberts was appointed as President: Sportech Digital. His remuneration terms were set in accordance with the approved policy and included a salary set at $300,000, benefits in line with those provided to other US-based employees, a pension contribution of $6,750 per annum, a maximum bonus opportunity of 50% of salary and a performance shares award (made shortly after appointment) of $450,000 being 150% of salary. The performance share award made on appointment was above the ongoing policy to reflect that a lower than normal bonus opportunity (i.e. 50% of salary rather than 75% of salary) was set for Rich Roberts. Annual performance share awards from 2015 onwards will be in line with other Executive Directors at a maximum of 75% of salary.

**Payments for loss of office**

Ian Hogg tendered his notice of resignation as COO, International Consumer Facing Division, to the Company on 4 March 2014 and resigned from the Sportech PLC Board on 25 September 2014. He was subject to a twelve-month contractual notice period, however, by agreement with the Company, his employment terminated on 31 December 2014 and he forgave any payment in lieu of the remainder of his notice period. From 25 September 2014 to 31 December 2014, Ian Hogg continued to receive his normal salary and contractual benefits. He is eligible for a bonus in respect of the 2014 financial year at 7.5% of his maximum entitlement of 75% of base salary being a total bonus payment of £14,000, this is in line with treatments of "good leavers" and is partly compensatory for waiving his remaining contractual notice. The bonus will be paid on the normal bonus payment date in 2015. Long-term incentive awards granted in 2011 have, where the relevant performance periods have completed, vested at the normal vesting date. Awards granted in 2012, 2013 and 2014 lapsed in full at cessation. No payments for loss of office have been made to Ian Hogg.

**Payments to past directors**

Details of payments received by Ian Hogg in 2014 are as set out above, such payments being included in the single total figure.

Steve Cunliffe and Brooks Pierce were treated as good leavers under the rules of the PSP following restructurings of the Board, which resulted in their roles effectively being made redundant. As such, subject to satisfaction of applicable performance criteria, they retained each of their 2010, 2011 and 2012 awards under the PSP (for Brooks, pro rated according to his termination date of 10 May 2012 and for Steve, 100% of the 2010 award and one-third of each of the 2011 and 2012 awards). Further to this, in early 2015, Brooks received a total payment under the 2011 award of £6,000 and Steve received a total payment under the 2011 award of £17,000. No other payments were made in 2014 to past Directors.

**Director interests and shareholding guidelines**

The following table shows Director interests in the Company:

| Director | Total shareholding at 31 December 2013 | **Total shareholding at 31 December 2014** | Share option scheme vested | Share option scheme unvested | PSP award held unvested | PSP award vested but not exercised | Share ownership guideline expected to be achieved by third anniversary of employment | % of guideline met by 31 December 2014 |
|---|---|---|---|---|---|---|---|---|
| Ian Penrose | 500,000 | **850,000** | 151,515 | 353,535 | 1,561,194 | 193,610 | 100% | 100% |
| Cliff Baty | — | **33,000** | — | — | 482,292 | — | 100% | 12% |
| Ian Hogg* | 197,140 | **285,911** | — | — | — | — | — | — |
| Rich Roberts | — | **—** | — | — | 349,650 | — | 100% | 0% |
| Roger Withers | 112,079 | **112,079** | — | — | — | — | N/A | N/A |
| Peter Williams | 100,000 | **100,000** | — | — | — | — | N/A | N/A |
| David McKeith | 30,000 | **30,000** | — | — | — | — | N/A | N/A |
| Lorne Weil** | 2,000,000 | **3,027,450** | — | — | — | — | N/A | N/A |

* Ian Hogg resigned on 25 September 2014 and the number of shares for 2014 are as at the date of resignation.

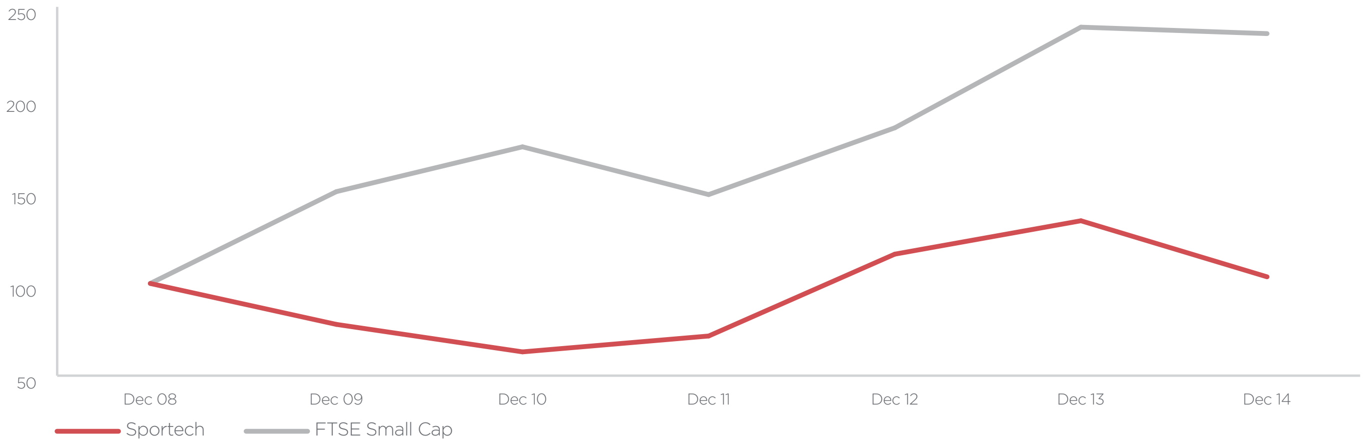
** Lorne Weil resigned on 28 April 2014 and the number of shares for 2014 are as at the date of resignation.

# Remuneration report continued
for the year ended 31 December 2014

All Executive Directors are expected to hold an investment of at least 100% of base salary in Company shares. This requirement can be achieved over a period of time using 50% of net awards which vest under the Company's LTIPs. The table on page 53 shows shareholdings as at 31 December 2014 and the percentage of the guideline currently met.

Total shareholding which counts towards the measurement of the guideline is calculated on the basis of legally owned shares plus vested PSP awards. The percentage of guideline met is based on the annual base salary and the higher of the acquisition cost of the total shareholding or the current market value of the total shareholding. Once an Executive Director meets the required holding, the Executive Director is only required to purchase additional shares equivalent to the value of any increase in base salary.

**Performance graph and Chief Executive six-year pay chart**
The following graph demonstrates the value of £100 invested in Sportech PLC as at 31 December 2008 compared with the same investment in a fund mirroring the make-up of the FTSE Small Cap Index:




This graph shows the value, by 31 December 2014, of £100 invested in Sportech plc on 31 December 2008 compared with the value of £100 invested in the FTSE Small Cap Index. The other points plotted are the values at intervening financial year ends.

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

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

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



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

| | 2014 | 2013 | % change |
|---|---|---|---|
| **Chief Executive (£000)** | | | |
| – Salary | **385** | 377 | 2.0% |
| – Bonus and benefits | **99** | 168 | (41.1)% |
| **Average of Group full-time employee (£000)** | | | |
| – Salary | **72** | 63 | 14.3% |
| – Bonus and benefits | **2** | 2 | — |

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)**

| | 2014 | 2013 | % change |
|---|---|---|---|
| Staff costs (£m) | **31.0** | 33.0 | (6.1)% |
| Distributions to shareholders | **Nil** | Nil | — |

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

**Peter Williams**
Senior Independent Non-executive Director
and Chairman of the Remuneration Committee
4 March 2015

# Directors' report
for the year ended 31 December 2014

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2014. General information of the Company can be found in the Accounting Policies on page 71.

The Strategic report and Corporate governance report are set out on pages 2 to 35. This Directors' report does not include information on trading in the year or principal risks as this information is included in the Strategic report instead under section 414C(11) of the Companies Act 2006, on pages 20 and 21.

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

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

Details of share options and performance share plan ("PSP") awards granted during the year ended 31 December 2014 are set out in the Remuneration report on pages 36 to 55.

| | At 4 March 2015 and 31 December 2014 Number | 31 December 2013 Number |
|---|---|---|
| Roger Withers | **112,079** | 112,079 |
| Ian Penrose | **850,000** | 500,000 |
| Ian Hogg (resigned 25 September 2014) | **285,911*** | 197,140 |
| Cliff Baty | **33,000** | — |
| Peter Williams | **100,000** | 100,000 |
| David McKeith | **30,000** | 30,000 |
| Rich Roberts | **—** | — |
| Lorne Weil (resigned 28 April 2014) | **3,027,450*** | 2,000,000 |

* Shares held at date of resignation.

## Directors' third-party indemnity provisions

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

## Employees

Details of the Company's policy on equal opportunities for disabled employees and on employee involvement are set out in the 'Responsibilities towards employees' section of the Corporate social responsibility report on page 22.

## Substantial shareholdings

| | 4 March 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| Holder | Ordinary shares of 50p | % of issued share capital | Ordinary shares of 50p | % of issued share capital |
| Henderson Global Investments Limited | **57,508,224** | **28.02** | 53,643,460 | 26.14 |
| Newby Manor Limited | **35,593,010** | **17.34** | 35,593,010 | 17.34 |
| Richard Griffiths and Controlled Undertakings | **14,421,350** | **7.03** | 14,421,350 | 7.03 |
| AXA S.A. | **11,150,306** | **5.43** | 11,150,306 | 5.43 |
| Schroder Investment Management Limited | **11,095,332** | **5.41** | 11,095,332 | 5.41 |
| Aviva PLC | **10,815,102** | **5.27** | 10,815,102 | 5.27 |
| **Total of substantial shareholdings** | **140,583,324** | **68.50** | 136,718,560 | 66.62 |

On 4 March 2015, interests representing 3% or more of the issued share capital of the Company had been notified to the Company as shown above.

As at 31 December 2014 there are no restrictions on the transfer of securities in the Company or on voting rights.



## Dividend

No dividend is proposed (2013: £nil) and no dividend has been paid during the year (2013: £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 22. Greenhouse gas emissions are monitored closely by management, and disclosure of those emissions can be found in the Strategic report on page 23.

## Corporate governance

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

## Significant agreements

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

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

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

## Takeover Directive

The Company has only one class of ordinary shares and these shares have equal voting rights. The nature of individual Director's holdings and individually significant shareholders are disclosed on page 56. There are no restrictions on the transfer of shares following the end of the Lock-Up Agreement with Scientific Games Corporation Inc. on 5 October 2013 as described in the prior year Directors' report.

As part of the resolutions approved at the 2014 AGM, shareholders' authority was given to the Company's Directors for the allotment of up to 68,303,704 ordinary shares of 50p each if the authority is not utilised in connection with a rights issue, representing 33.3% of the issued share capital of the Company as at the date of the 2014 AGM. During the year, the Directors did not exercise the authorities given to them (to allot shares). As at 31 December 2014, the Directors have the power to allot up to 136,567,410 ordinary shares of 50p each, representing 66.7% of the issued share capital as at the date of the 2014 AGM in connection with a rights issue, subject to a reduction of any amount of shares issued in accordance with the preceding reference.

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

## Going concern

The Group has committed revolving credit banking facilities totalling £80m in place with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc until August 2018. The Group's forecasts and projections, which have been prepared for the period to 30 June 2016 and taking into account reasonably possible changes in performance, show that the Group will be able to operate within the level of its current facilities and comply with its banking covenants. Sensitivities were applied to the Group's forecasts which resulted, in total for a reasonable downside scenario, in a fall in EBITDA (assumed to directly affect net debt) of 14%. Even at this level of performance the forecasts showed that the Group would stay in compliance with its most sensitive covenant, being leverage, at all testing dates in the period under review. The sensitivities applied included affects of changes to player acquisition assumptions in Football Pools, handle levels in Venues and system sales achieved in Racing and Digital.

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

## Financial risk management

The Group's activities expose it to a variety of financial risks: fair value and cash flow interest rate risk; liquidity risk; credit risk; and foreign exchange risk. Where appropriate the Group uses derivative financial instruments to hedge certain risk exposures. The policy for each of the above risks is described in more detail in note 24.

# Directors' report continued

## for the year ended 31 December 2014

## Disclosure of information to Auditors

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

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

## Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company (the "Company") financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Each of the Directors whose names and functions are listed in the Board of Directors section on page 26 confirm that, to the best of each person's knowledge and belief:

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

## Annual General Meeting ("AGM")

The Notice convening the AGM of the Company on 12 May 2015 is being sent to shareholders with this report.

In accordance with the Articles of Association of the Company, Ian Penrose and David McKeith retire by rotation and offer themselves for reappointment at the AGM. Profiles of these Directors appear on page 26.

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 36 to 55, to reappoint the Auditors and to authorise the Directors to fix their remuneration.

On behalf of the Board

**Cliff Baty**
Director
4 March 2015



# Independent Auditors' report

## to the members of Sportech PLC

## Report on the financial statements

**Our opinion**
In our opinion:

- Sportech PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's loss and the Group's and the Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

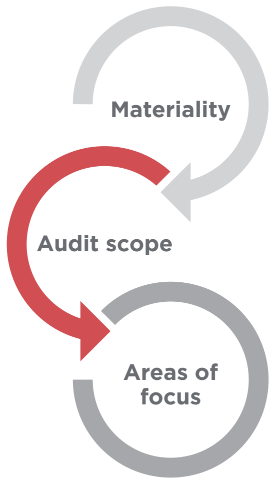
**What we have audited**
Sportech PLC's financial statements comprise:

- the balance sheets as at 31 December 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

**Our audit approach**
Overview




Overall Group materiality: £592,000 which represents 2.5% of adjusted EBITDA (as defined on page 63).

The Group consists of 39 statutory entities (excluding dormant entities). Our audit focused on the most significant of these entities in terms of materiality to the Group financial statements. The components within the scope of our work accounted for 79% of Group revenue and 76% of Group adjusted EBITDA.

- Goodwill and intangible asset impairment.
- Revenue recognition on complex multiple element arrangements.
- Going concern – financial covenants on banking facilities of the Group.

# Independent Auditors' report continued

to the members of Sportech PLC

## The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

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

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

Area of focus

### Goodwill and intangible asset impairment

*Refer to page 31 (Audit Committee report), page 76 (Accounting policies) and pages 88 to 91 (Notes).*

The Group has goodwill and intangible fixed assets with carrying value of £167.1m on the Group balance sheet as at 31 December 2014. Our work focused on the following balances, where there was a higher level of judgement involved because of key assumptions made by the Directors in assessing their carrying values:

- Goodwill in relation to The Football Pools Limited has a carrying value of £119.5m, following an impairment that has been recognised in the year of £28.1m (see note 11). In arriving at the remaining carrying value the Directors have assumed that the business will arrest its prolonged declining profitability, and that EBITDA will stabilise, and remain flat, from the end of the next financial year onwards. The Directors believe this will be achieved through the stabilisation of revenue, primarily as a result of the expected continued improvement in spend per player from core customers and the introduction of new online customers.

We have focused on the Directors' assumptions regarding EBITDA growth given the ongoing downturn in profitability.

- Goodwill arising on the acquisition of eBet has a carrying value of £5.5m. In assessing the carrying value of this asset, the Directors have assumed that there will be 3% growth in profitability levels over the course of the next five years, in spite of the fact that in the current year underlying profitability fell. We therefore have focused on the Directors' assumptions regarding growth of profits.
- Intangible assets associated with the gaming licence held within Sportech Venues Inc. ("Venues") have a carrying value of £16.3m.

In assessing the carrying value of the Venues licence the Directors have assumed that the level of net handle (the total amount of bets taken) at each venue will improve by 3.5% on the current year, and then remain at those levels into perpetuity, such that forecast EBITDA levels can be met. We have focused on the Directors' assumptions around the growth of these levels in the next financial year and the feasibility of maintaining these levels in future periods.

- Software development intangible assets in relation to the Group's Indian joint venture, have a carrying value of £0.5m. The venture will not commence trading until a gaming licence is granted by the Sikkim government to the Group's joint venture partner. Currently this licence is still pending, and we have therefore focused on the Directors' assumption as to the likelihood that it will be granted.

The Directors' projections in relation to impairment of goodwill and intangibles balances are also dependent on a range of other judgemental assumptions. We focused on the discount rate in particular given the significant amount of judgement involved in establishing an appropriate rate and the material sensitivity of the carrying values to small changes in this assumption.

How our audit addressed the area of focus

We evaluated and challenged the Directors' future cash flow forecasts, and the process by which they were drawn up, and tested the underlying value-in-use calculations. We noted no material inconsistencies between the forecasts and our understanding of the Board's approved future plans for the business gained from other areas of our audit.

We performed the following to address the specific risks in each of the areas:

In respect of The Football Pools Limited goodwill we assessed the reasonableness of the Directors' estimate for future EBITDA levels through comparison of forecast revenue against the run rate within the current year. Further we have performed a detailed assessment on the historical accuracy of the Directors' forecasts against actual outturn. Based on this work we found that the assumptions used within the forecasts appear within a range which we consider to be reasonable.

In respect of the eBet goodwill we evaluated the key assumption of expected growth in profitability over the next five years. This has been achieved through understanding and assessing the causes of the current year performance, and critically assessing, through comparison trends in their market, the likelihood of a return to growth occurring in the future. We found the assumptions used to be supportable based on our audit work.

In respect of the Venues gaming licence we evaluated the key assumptions surrounding the improvement in net handle at each venue in future years when compared with the current year by comparing the recent historic performance of the underlying trade prior to the current year, and a critical assessment of the likelihood of the forecast increases in net handle occurring, through reference to events in the current year. Management's assumptions are supported by information currently available.

The likelihood of the Sikkim government approving the licence application is the key assumption in respect of the software development intangible asset. Our work noted that the level of successful applications to the Sikkim government for licences by similar businesses did not contradict the Directors' assumptions regarding the likelihood of the Group's joint venture partner being granted its licence.

In addition we have evaluated the discount rate utilised within the above impairment reviews to assess whether it was appropriate. This was done primarily via comparison of the cost of capital of the Group with other comparable companies within the same industry or with a similar business model. The discount rate used is supportable.

While inherent uncertainty exists around many of the key assumptions used by the Directors in the above impairment reviews, our procedures indicated that the key assumptions were supportable and reasonable within the context of the evidence we obtained and we did not identify any material inconsistencies in the Directors' estimation technique and forecasting in these areas.

Furthermore, we performed sensitivity analysis around all of the above assumptions to assess the extent of change in those assumptions that either individually or collectively would be required for the goodwill and intangibles to be impaired. We determined that, while the Directors' assumptions are not inappropriate, reasonably possible changes in the key assumptions would be likely to lead to a material impairment, and hence have determined that the Directors' disclosures (see notes 11 and 12) appropriately reflected this fact and are consistent with the requirements of accounting standards.



Area of focus

### Revenue recognition on complex multiple element arrangements

*Refer to page 31 (Audit Committee report) and page 73 (Accounting policies).*

The Group has entered into long-term sales contracts, in relation to its Tote software, for which revenue accounting is complex because of the following:

- the contracts contain multiple elements, and the allocation of consideration to the different elements involves significant judgement and complexity, particularly when assessing the fair value of these elements; and
- revenue is recognised on a percentage of completion basis over the life of the contracts. Percentage of completion can be a complex judgement and can lead to revenue being recorded in the wrong accounting period.

How our audit addressed the area of focus

We evaluated the Directors' allocation of total consideration between the different elements of the relevant contracts and challenged the fair value assessment of each element within the contracts through benchmarking the assigned fair values with other similar contracts agreed with third parties.

We found that the Directors' assessments in respect of the Tote software contracts were consistent with those in respect of other sales contracts.

We tested the appropriateness of the estimate of the percentage of completion on these contracts as at 31 December 2014 through testing of costs incurred to date to purchase invoice, and testing of forecast costs to complete to project managers' schedules, purchase orders, and the use of look back tests on similar projects to obtain evidence over management's forecasting ability.

# Independent Auditors' report continued

## to the members of Sportech PLC

| Area of focus | How our audit addressed the area of focus |
| --- | --- |
| Accordingly, our audit work focused on:<br>– the Directors' fair value assessment of the consideration attributable to the separable elements within the contract; and<br>– the Directors' estimates for percentage of completion on such contracts as at 31 December 2014. | Based on our audit work we found that the Directors' recognition practices were in line with the requirements of IAS 18 "Revenue" in respect of both allocation of consideration to the respective elements, and the percentage of completion revenue recognition estimate. |
| **Going concern – financial covenants on banking facilities of the Group**<br>*Refer to page 31 (Audit Committee report) and page 71 (Accounting policies).*<br>The Directors have concluded that it is appropriate for them to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that Directors intend it to do so, for at least one year from the date the financial statements were signed.<br>In adopting this basis, the Directors have assumed that the Group will continue to comply with a variety of financial and non-financial covenants over its £80m revolving credit banking facilities. As at 31 December 2014, a total of £70.1m was drawn down from these facilities, which expire in August 2018.<br>The financial covenants attached to the borrowings are leverage (being the ratio of EBITDA to net bank debt) and interest cover (being the ratio of EBITDA to senior finance charges).<br>The Directors monitor their cash flow and profit forecasts against these covenants regularly to assess the likelihood of a breach, and establish mitigating actions should a potential breach be identified. While the Group's forecasts and projections, which have been prepared for the period to 30 June 2016, show that it will be able to operate within the level of its current facilities and comply with its banking covenants, the level of headroom against those covenants, when reasonable downside sensitivities are applied, remains relatively low.<br>As such, we identified a heightened risk in this area and focused our work on the Directors' cash flow and profit forecasts, in particular on the assumptions around projected EBITDA, net bank debt and senior finance charges. | We evaluated the Directors' conclusion around going concern and critically assessed the Group's short-term future cash flow forecasts, to assess the likely availability of funds to meet liabilities as they fall due, and its profit forecasts to assess the likelihood of a breach of covenants.<br>We obtained and read the Group's finance agreements to understand the financial and non-financial covenants contained therein and assess whether they had been considered in the Directors' forecasts.<br>We tested the mathematical accuracy of the forecasts and the process by which they were drawn up, and agreed the covenant ratio calculations to the definitions in the finance agreements.<br>Where the Directors' cash flow assumptions were not consistent with current performance, we challenged whether these differences were appropriate by comparing to growth rates seen in the current year, and by assessing the historic accuracy of the Directors' forecasts against actual outturn. We found that inconsistencies were supported by current growth trends and borne out by the Directors' history of forecasting.<br>We challenged the Directors on sensitivities applied to their forecasts to test the level of headroom against covenants by applying our own further sensitivities and discussing the impact of alternative assumptions.<br>We also assessed the mitigating actions proposed by the Directors should it appear that the Group may breach its covenants, and found them to be reasonable.<br>Finally we compared the relevant disclosures with the financial statements to our testing in this area and found that they appropriately reflected the future plans of the Company and Group and any uncertainties arising.<br>Our conclusions in relation to going concern are set out in the Going concern section on page 63. |



### 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, the accounting processes and controls, and the industry in which the Group operates.

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

While the Directors operate the Group divisionally we have scoped our audit at a statutory entity level. We performed full scope audits over four statutory entities, which we regarded as being financially significant components of the Group, and performed work in another six statutory entities on specific balances that we regarded to be significant to the 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.

The entities, specific balances and entries that were subject to audit work accounted for 79% of Group revenue and 76% of Group adjusted EBITDA.

### 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 and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

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

| | |
| --- | --- |
| Overall Group materiality | £592,000 (2013: £650,000). |
| How we determined it | 2.5% of adjusted EBITDA (as defined below). |
| Rationale for benchmark applied | We believe that earnings before interest, tax, depreciation and amortisation, adjusted also for exceptional items, goodwill impairment and share option charges ("Adjusted EBITDA"), provides us with a consistent year on year basis for determining materiality based on the underlying trading performance of the Group but eliminating one-off, non-recurring and non-cash items. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £30,000 (2013: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 57, in relation to going concern. We have nothing to report having performed our review.

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

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

# Independent Auditors' report continued

to the members of Sportech PLC

## Other required reporting

**Consistency of other information**

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| Information in the Annual Report is:<br>– materially inconsistent with the information in the audited financial statements; or<br>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or<br>– otherwise misleading. | We have no exceptions to report arising from this responsibility. |
| The statement given by the Directors on page 58, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit. | We have no exceptions to report arising from this responsibility. |
| The section of the Annual Report on page 31, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report arising from this responsibility. |

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

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

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

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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

**Corporate governance statement**

Under the Listing Rules we are required to review the part of the Corporate governance report relating to the Parent Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.



## Responsibilities for the financial statements and the audit

**Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' responsibilities set out on page 58, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

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

**Nigel Reynolds (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2015

**Notes:**

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

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

# Consolidated income statement
for the year ended 31 December 2014

| | Note | Group 2014 £m | Group 2013 £m |
|---|---|---|---|
| Revenue | | **104.1** | 110.3 |
| Cost of sales | | **(58.1)** | (61.2) |
| **Gross profit** | | **46.0** | 49.1 |
| Distribution costs | | **(0.9)** | (1.1) |
| Administrative expenses | | **(62.4)** | (39.1) |
| EBITDA before exceptional costs and share option expense | | **24.0** | 26.0 |
| Share option expense | | **(0.6)** | (1.5) |
| Depreciation and amortisation (excluding amortisation of acquired intangibles) | | **(6.2)** | (5.7) |
| Amortisation of acquired intangibles and impairment of goodwill | | **(32.2)** | (7.2) |
| Exceptional costs | 2 | **(2.3)** | (2.7) |
| **Operating (loss)/profit** | | **(17.3)** | 8.9 |
| Finance costs | 4 | **(2.8)** | (4.3) |
| Other finance income | 4 | **0.3** | 0.8 |
| Net finance costs | 4 | **(2.5)** | (3.5) |
| Share of loss after tax of joint ventures | 16 | **(0.2)** | (0.2) |
| **(Loss)/profit before taxation** | 5 | **(20.0)** | 5.2 |
| Adjusted profit before taxation* | | **14.4** | 14.5 |
| Taxation | 8 | **(1.3)** | (1.9) |
| **(Loss)/profit for the year from continuing operations** | | **(21.3)** | 3.3 |
| Profit for the year from discontinued operations** | | **—** | 0.1 |
| **(Loss)/profit for the year** | | **(21.3)** | 3.4 |
| **(Loss)/earnings per share from continuing operations attributable to owners of the Parent during the year** | | | |
| Basic | 10 | **(10.4)p** | 1.7p |
| Diluted | 10 | **(9.9)p** | 1.6p |
| **Adjusted earnings from continuing operations per share attributable to owners of the Parent during the year** | | | |
| Basic | 10 | **5.5p** | 5.3p |
| Diluted | 10 | **5.2p** | 4.9p |

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

** Discontinued operations reported in 2013 relate to the e-Gaming division which was disposed of in October 2013. There were no discontinued operations in 2014.



# Consolidated statement of comprehensive (expense)/income
for the year ended 31 December 2014

| | Note | Group 2014 £m | Group 2013 £m |
|---|---|---|---|
| (Loss)/profit for the year | | **(21.3)** | 3.4 |
| Other comprehensive (expense)/income: | | | |
| *Items that will not be reclassified to profit and loss* | | | |
| Actuarial (loss)/gain on retirement benefit liability | 31 | **(0.4)** | 0.3 |
| Deferred tax on movement on retirement benefit liability | 19 | **0.1** | (0.1) |
| | | **(0.3)** | 0.2 |
| *Items that may be subsequently reclassified to profit and loss* | | | |
| Currency translation differences | | **1.4** | (0.7) |
| Other comprehensive income/(expense) for the year, net of tax | | **1.1** | (0.5) |
| Total comprehensive (expense)/income for the year | | **(20.2)** | 2.9 |
| Attributable to the owners of the parent arises from: | | | |
| – Continuing operations | | **(20.2)** | 2.8 |
| – Discontinued operations | | **—** | 0.1 |
| | | **(20.2)** | 2.9 |

# Statements of changes in equity

## for the year ended 31 December 2014

| Group | Ordinary shares £m | Other reserves: Share option reserve £m | Other reserves: Pension reserve £m | Other reserves: Currency translation reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 99.4 | 3.8 | (0.5) | (0.8) | 33.5 | 135.4 |
| **Comprehensive income** | | | | | | |
| Profit for the year | — | — | — | — | 3.4 | 3.4 |
| **Other comprehensive income** | | | | | | |
| Actuarial gain on retirement benefit liability* (note 31) | — | — | 0.2 | — | — | 0.2 |
| Currency translation differences | — | — | — | (0.7) | — | (0.7) |
| Total other comprehensive income/(expense) | — | — | 0.2 | (0.7) | — | (0.5) |
| **Total comprehensive income/(expense)** | — | — | 0.2 | (0.7) | 3.4 | 2.9 |
| **Transactions with owners** | | | | | | |
| Share option credit (note 6) | — | 1.5 | — | — | — | 1.5 |
| Employment taxes paid on vestings in the year | — | (0.1) | — | — | — | (0.1) |
| Shares issued in relation to PSP | 3.0 | (3.0) | — | — | — | — |
| At 31 December 2013 | 102.4 | 2.2 | (0.3) | (1.5) | 36.9 | 139.7 |
| **Comprehensive income** | | | | | | |
| Loss for the year | — | — | — | — | (21.3) | (21.3) |
| **Other comprehensive income** | | | | | | |
| Actuarial loss on retirement benefit liability* (note 31) | — | — | (0.3) | — | — | (0.3) |
| Currency translation differences | — | — | — | 1.4 | — | 1.4 |
| Total other comprehensive (expense)/income | — | — | (0.3) | 1.4 | — | 1.1 |
| **Total comprehensive (expense)/income** | — | — | (0.3) | 1.4 | (21.3) | (20.2) |
| **Transactions with owners** | | | | | | |
| Share option credit (note 6) | — | 0.6 | — | — | — | 0.6 |
| Employment taxes paid on vestings in the year | — | (0.3) | — | — | — | (0.3) |
| Shares issued in relation to PSP | 0.2 | (0.2) | — | — | — | — |
| **At 31 December 2014** | **102.6** | **2.3** | **(0.6)** | **(0.1)** | **15.6** | **119.8** |

* Net of deferred tax (note 19).

| Company | Ordinary shares £m | Other reserve – share option reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|
| At 1 January 2013 | 99.4 | 3.8 | 27.3 | 130.5 |
| **Comprehensive expense** | | | | |
| Loss for the year | — | — | (10.9) | (10.9) |
| **Total comprehensive expense** | — | — | (10.9) | (10.9) |
| **Transactions with owners** | | | | |
| Share option credit | — | 1.5 | — | 1.5 |
| Employment taxes paid on vestings in the year | — | (0.1) | — | (0.1) |
| Shares issued in relation to PSP and reserve transfer | 3.0 | (3.0) | 3.0 | 3.0 |
| At 31 December 2013 | 102.4 | 2.2 | 19.4 | 124.0 |
| **Comprehensive expense** | | | | |
| Loss for the year | — | — | (6.5) | (6.5) |
| **Total comprehensive expense** | — | — | (6.5) | (6.5) |
| **Transactions with owners** | | | | |
| Share option credit | — | 0.6 | — | 0.6 |
| Employment taxes paid on vestings in the year | — | (0.3) | — | (0.3) |
| Shares issued in relation to PSP and reserve transfer | 0.2 | (0.2) | 0.2 | 0.2 |
| **At 31 December 2014** | **102.6** | **2.3** | **13.1** | **118.0** |

* Net of deferred tax (note 19).



# Balance sheets

## at 31 December 2014

| | Note | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 11 | **125.0** | 153.1 | **—** | — |
| Intangible fixed assets | 12 | **42.1** | 42.7 | **11.8** | 13.1 |
| Property, plant and equipment | 13 | **24.9** | 21.6 | **0.1** | 0.1 |
| Investments in subsidiaries | 14 | **—** | — | **203.7** | 203.7 |
| Net investment in joint ventures | 16 | **2.2** | 0.5 | **—** | — |
| Trade and other receivables | 17 | **1.2** | 0.3 | **—** | — |
| Deferred tax assets | 19 | **1.4** | 1.8 | **0.2** | 1.0 |
| | | **196.8** | 220.0 | **215.8** | 217.9 |
| **Current assets** | | | | | |
| Trade and other receivables | 17 | **10.4** | 9.0 | **20.6** | 15.3 |
| Inventories | 18 | **1.5** | 1.5 | **—** | — |
| Cash and cash equivalents | 20 | **6.3** | 2.6 | **0.1** | 0.2 |
| | | **18.2** | 13.1 | **20.7** | 15.5 |
| **TOTAL ASSETS** | | **215.0** | 233.1 | **236.5** | 233.4 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Derivative financial instruments | 24 | **(0.5)** | (1.3) | **(0.5)** | (1.3) |
| Financial liabilities | 23 | **—** | (0.7) | **—** | — |
| Trade and other payables | 21 | **(20.5)** | (21.1) | **(47.9)** | (42.1) |
| Provisions | 22 | **(0.2)** | (0.2) | **—** | — |
| Current tax liabilities | | **(0.8)** | (0.7) | **—** | — |
| | | **(22.0)** | (24.0) | **(48.4)** | (43.4) |
| **Net current liabilities** | | **(3.8)** | (10.9) | **(27.7)** | (27.9) |
| **Non-current liabilities** | | | | | |
| Financial liabilities | 23 | **(70.6)** | (66.6) | **(70.1)** | (66.0) |
| Retirement benefit liability | 31 | **(1.6)** | (1.3) | **—** | — |
| Provisions | 22 | **(0.4)** | (0.4) | **—** | — |
| Deferred tax liabilities | 19 | **(0.6)** | (1.1) | **—** | — |
| | | **(73.2)** | (69.4) | **(70.1)** | (66.0) |
| **TOTAL LIABILITIES** | | **(95.2)** | (93.4) | **(118.5)** | (109.4) |
| **NET ASSETS** | | **119.8** | 139.7 | **118.0** | 124.0 |
| **EQUITY** | | | | | |
| Ordinary shares | 25 | **102.6** | 102.4 | **102.6** | 102.4 |
| Other reserves | | **1.6** | 0.4 | **2.3** | 2.2 |
| Retained earnings | | **15.6** | 36.9 | **13.1** | 19.4 |
| **TOTAL EQUITY** | | **119.8** | 139.7 | **118.0** | 124.0 |

The financial statements on pages 66 to 115 were approved and authorised for issue by the Board of Directors on 4 March 2015 and were signed on its behalf by:

**Ian Penrose**
Chief Executive

**Cliff Baty**
Chief Financial Officer

Company Registration Number: SC69140

# Statements of cash flows

for the year ended 31 December 2014

| | Note | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations, before exceptional items | 26 | **20.4** | 24.4 | **1.1** | 14.5 |
| Interest paid | | **(3.0)** | (4.3) | **(3.0)** | (4.3) |
| Tax paid | | **(1.3)** | (1.7) | **—** | (0.2) |
| Net cash generated from/(used in) operating activities before cash exceptional costs | | **16.1** | 18.4 | **(1.9)** | 10.0 |
| Cash exceptional costs | | **(2.3)** | (2.7) | **(0.8)** | (1.4) |
| Net cash generated from/(used in) operating activities | | **13.8** | 15.7 | **(2.7)** | 8.6 |
| **Cash flows from investing activities** | | | | | |
| Investment in joint ventures | 16 | **(1.9)** | (0.2) | **—** | — |
| Capital contribution | 14 | **—** | — | **—** | (2.5) |
| Acquisition of Bump Worldwide Inc. inclusive of overdraft acquired | 15 | **(0.2)** | — | **—** | — |
| Acquisition of Datatote (England) Limited net of cash acquired | | **—** | (2.4) | **—** | — |
| Payment of deferred consideration for Sportech Racing | | **—** | (6.5) | **—** | (6.5) |
| Payment of deferred consideration for eBet Online Inc. | | **(0.7)** | (0.3) | **—** | — |
| Purchase of intangible fixed assets | 12 | **(5.1)** | (3.8) | **(0.1)** | (0.2) |
| Purchase of property, plant and equipment | 13 | **(4.9)** | (8.8) | **—** | — |
| Net cash used in investing activities | | **(12.8)** | (22.0) | **(0.1)** | (9.2) |
| **Cash flows from financing activities** | | | | | |
| Refinancing fee paid – exceptional cost | 4 | **(1.4)** | — | **(1.4)** | — |
| Net cash inflow from drawdown of borrowings | 23 | **4.1** | 6.0 | **4.1** | 6.0 |
| Net cash from financing activities | | **2.7** | 6.0 | **2.7** | 6.0 |
| **Net increase/(decrease) in cash and cash equivalents** | | **3.7** | (0.3) | **(0.1)** | 5.4 |
| Cash and cash equivalents at the beginning of the year | | **2.6** | 2.9 | **0.2** | (5.2) |
| **Cash and cash equivalents at the end of the year** | 20 | **6.3** | 2.6 | **0.1** | 0.2 |
| **Reconciliation of net bank debt** | | | | | |
| Increase/(decrease) in cash in the year | | **3.7** | (0.3) | | |
| Net cash inflow from drawdown of borrowings | | **(4.1)** | (6.0) | | |
| Movement in net bank debt for the year | | **(0.4)** | (6.3) | | |
| At 1 January | | **(63.4)** | (57.1) | | |
| **At 31 December** | | **(63.8)** | (63.4) | | |
| Net bank debt comprises: | | | | | |
| Cash and cash equivalents | 20 | **6.3** | 2.6 | | |
| Loans repayable after one year | 23 | **(70.1)** | (66.0) | | |
| **At 31 December** | | **(63.8)** | (63.4) | | |



# Accounting policies

for the year ended 31 December 2014

## 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 2014 comprise the Company, its subsidiaries and joint ventures (together referred to as the "Group"). The principal activities of the Group are pools betting, both B2B and B2C, and supply of wagering technology solutions.

## Going concern

The Group has committed revolving credit banking facilities totalling £80m in place with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc until August 2018. The Group's forecasts and projections, which have been prepared for the period to 30 June 2016 and taking into account reasonably possible changes in performance, show that the Group will be able to operate within the level of its current facilities and comply with its banking covenants. Sensitivities were applied to the Group's forecasts which resulted, in total for a reasonable downside scenario, in a fall in EBITDA (assumed to directly affect net debt) of 14%. Even at this level of performance the forecasts showed that the Group would stay in compliance with its most sensitive covenant, being leverage, at all testing dates in the period under review. The sensitivities applied included effects of changes to player acquisition assumptions in Football Pools, handle levels in Venues and system sales achieved in Racing and Digital.

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

## Basis of accounting

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

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

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

## Critical judgements

Critical judgements have been made in the following areas:

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

For the purposes of determining whether an impairment of goodwill and intangibles from the Littlewoods, Vernons and eBet Online Inc. acquisitions has occurred, and the extent of any impairment or its reversal, the key assumptions the Group uses in estimating future cash flows for value-in-use measures are spend per player, the impact of the introduction of new distribution routes in 2014, particularly the investment in online technologies and the cross sell opportunities this brings, revenue from customer contracts, and cost reductions from ongoing cost reviews. These assumptions, and the judgements of management that are based on them, are subject to change as new information becomes available. Changes in economic conditions and government policy can also affect the rate used to discount future cash flow estimates. The discount rate applied is reviewed annually. Changes in assumptions could affect the carrying amounts of assets and impairment charges and reversals will affect income. Further details are disclosed within notes 11 and 12.

### Value of other intangible fixed assets

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

# Accounting policies continued

for the year ended 31 December 2014

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

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

During the year, the Group acquired Bump Worldwide Inc. ("Bump"). Further details of the fair value of assets acquired and liabilities assumed, together with the judgements made, are disclosed within note 15.

### Share options

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

### Recognition of revenue of multi-element contract, including long-term contract accounting

The Group enters into material contracts to sell the Group's intellectual property ("IP"), Tote software, and customise the IP to the customer's preferences and requirements as well as selling hardware and ongoing services, all typically within one agreement. Such a sale, involving multiple component parts recognised by the customer as separate elements to the contract, is accounted for as a multi-element contract in accordance with IAS 18 "Revenue". The fair value of the revenue of each part is estimated based on the price which is regularly charged when that item is sold separately, or a value which is considered to be the fair value of that part. There is inherent judgement involved in allocating fair values to the elements of a multi-element contract. In addition, contract elements which span a long period of time are are accounted for on a percentage of completion basis per IAS 11 "Construction Contracts". Management uses judgement, its industry knowledge and past experience of similar sales to allocate fair values, determine the stage of completion, and record revenue accordingly.

### Taxation

Tax provisions are recognised when it is considered probable (more likely than not) that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in income in the period in which the change occurs. Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as the amounts recognised in income in the period in which the change occurs. Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognised in income both in the period of change, which would include any impact on cumulative provisions, and in future periods. Note 19 contains information on tax charges, on the deferred tax assets that are recognised, including periodic movements, and on the losses on which deferred tax is not currently recognised.

## Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with a share of the results, assets and liabilities of its joint ventures using the equity method of accounting, all of which have consistent reporting dates with the Company. The Company's accounting reference date is 31 December. Consistent with the normal monthly reporting process, the actual date to which the balance sheet has been drawn up is to 4 January 2015 (2013: 5 January 2014). For ease of reference in these financial statements, all references to the results for the year are for the year ended 31 December 2014 (2013: 31 December 2013) and the financial position at 31 December 2014 (2013: 31 December 2013).



## Accounting policies

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

**(a) Subsidiaries**

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

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

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

**(b) Joint ventures**

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

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

**(c) Revenue**

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

- the value of entry fees, net of winnings paid, receivable in respect of Football Pools recognised on the date of the event;
- the value of stakes, net of winnings paid, received in relation to fixed-odds betting activities recognised on the date of the event;
- the value of goods and services sold to external customers, including management fees to registered charities for the management of charity lotteries, is recognised when the goods and services are consumed;

# Accounting policies continued
for the year ended 31 December 2014

**(c) Revenue (continued)**

- sale of terminals and systems, recognised when significant risks and rewards of ownership have been transferred, which is when title passes to the customer, generally being at the point of customer acceptance. Sales which involve significant customisation are recognised on a percentage of completion basis in accordance with IAS 11; and
- the value of services delivered under service contracts generally based on either a percentage of amounts wagered or on a predetermined fixed amount depending on contract terms.

Although the value of entry fees net of winnings paid and the value of bets net of winnings paid is reported as revenue, both meet the definition of a gain under IAS 39 "Financial Instruments: Recognition and Measurement".

Under multiple element arrangements, revenue is allocated to the various elements based on fair value determined by the price charged when the same element is sold separately.

**(d) Accruals and deferred income**

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

**(e) Segmental reporting**

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

The Group has identified its business segments as outlined below:

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

**(f) Taxation**

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

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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



**(g) Foreign currencies**

Functional and presentation currency

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

Transactions and balances

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

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

Group companies

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

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

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

**(h) Property, plant and equipment**

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

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

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

**(i) Depreciation**

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

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

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

# Accounting policies continued

for the year ended 31 December 2014

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

Goodwill is carried at cost less accumulated impairment losses.

**(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.

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

- **eBet Online Inc.**
  four years from 19 December 2012
- **Datatote (England) Limited**
  four years from 27 September 2013
- **Bump Worldwide Inc.**
  two years from 12 June 2014

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

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

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

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

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

Other intangibles
Included within other intangibles are separately acquired licences recognised at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licences that have a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate cost of licences over their estimated useful lives of 15 to 20 years. Licences with an infinite life (licences granted in perpetuity) are held at cost or fair value at acquisition date and tested annually for impairment.

During 2012, the Group acquired eBet Online Inc., giving rise to the recognition of licences and a non-compete agreement. The non-compete agreement fair value was derived from a comparative income differential method and is amortised over the life of the agreement being three years.

**(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 income.

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

**(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.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the variability of cash flows (cash flow hedge). The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

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

# Accounting policies continued
## for the year ended 31 December 2014

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

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

**(p) Share-based payments**
The fair value of employee options awarded under the Sportech Share Option Scheme is calculated using the Black-Scholes model. The fair value of employee PSP awards is valued using a stochastic (Monte Carlo) valuation model. In accordance with IFRS 2, 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**
For the purposes of the cash flow statement, cash and cash equivalents represent cash in hand, operational cash held at trading venues and cash held in current accounts with banks, including overdrafts. Cash and cash equivalents shown on the balance sheet represent cash in hand, cash in vaults and cash held in current accounts; bank overdrafts are shown within current liabilities.

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

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

**(t) Trade receivables**
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, being the difference between the assets' carrying amounts and the present value of the estimated future cash flows, discounted at the original effective interest rate. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific customer will default or delinquency in payment will arise. Any subsequent recovery of amounts written off is credited to the income statement.

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

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

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



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

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

**(z) New standards, amendments and interpretations adopted by the Group**
The following new standards and amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2014 and have been adopted by the Group.

| Standard or interpretation | Content | Applicable for financial years beginning on or after |
|---|---|---|
| IFRS 10 | Consolidated financial statements | 1 January 2014 |
| IFRS 11 | Joint arrangements | 1 January 2014 |
| IFRS 12 | Disclosures of interests in other entities | 1 January 2014 |
| Amendment to IAS 32 | Financial instruments: Presentation | 1 January 2014 |
| Amendments to IAS 36 | Impairment of assets | 1 January 2014 |
| Annual improvements to IFRSs 2012 and 2013 | Various | 1 January 2014 |

**(aa) New standards, amendments and interpretations not yet effective and not adopted by the Group**
The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group.

| Standard or interpretation | Content | Applicable for financial years beginning on or after |
|---|---|---|
| Amendments to IFRS 9 | Financial instruments | 1 January 2018 |
| IFRS 15 | Revenue from contracts with customers | 1 January 2017 |
| Annual improvements 2014 | Various | 1 January 2016 |

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

# Notes to the financial statements

for the year ended 31 December 2014

## 1. Segmental reporting

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

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Football Pools £m | Sportech Racing and Digital £m | Sportech Venues £m | Corporate costs £m | Inter-segment elimination £m | Group £m |
| Revenue from sale of goods | **38.0** | **4.2** | **—** | **—** | **—** | **42.2** |
| Revenue from rendering of services | **—** | **30.3** | **32.5** | **—** | **(0.9)** | **61.9** |
| Total revenue | **38.0** | **34.5** | **32.5** | **—** | **(0.9)** | **104.1** |
| EBITDA before exceptional costs and share option expense | **16.6** | **8.1** | **3.2** | **(3.9)** | **—** | **24.0** |
| Share option expense | **—** | **—** | **—** | **(0.6)** | **—** | **(0.6)** |
| Depreciation and amortisation (excluding amortisation of acquired intangibles and impairment of goodwill) | **(1.5)** | **(3.5)** | **(1.2)** | **—** | **—** | **(6.2)** |
| Segment result before amortisation of acquired intangibles, impairment of goodwill and exceptional costs | **15.1** | **4.6** | **2.0** | **(4.5)** | **—** | **17.2** |
| Amortisation of acquired intangibles and impairment of goodwill | **(30.7)** | **(1.5)** | **—** | **—** | **—** | **(32.2)** |
| Exceptional costs | **(1.4)** | **—** | **(0.1)** | **(0.8)** | **—** | **(2.3)** |
| Operating (loss)/profit | **(17.0)** | **3.1** | **1.9** | **(5.3)** | **—** | **(17.3)** |
| Net finance costs | | | | | | **(2.5)** |
| Share of loss after tax of joint ventures | | | | | | **(0.2)** |
| Loss before taxation | | | | | | **(20.0)** |
| Taxation | | | | | | **(1.3)** |
| Loss for the year | | | | | | **(21.3)** |
| Segment assets | **179.6** | **78.2** | **35.2** | **34.2** | **(112.2)** | **215.0** |
| Segment liabilities | **(16.1)** | **(64.0)** | **(7.3)** | **(120.0)** | **112.2** | **(95.2)** |
| **Other segment items** | | | | | | |
| Capital expenditure (notes 12 and 13) | **3.0** | **5.7** | **1.3** | **—** | **—** | **10.0** |
| Depreciation (note 13) | **0.3** | **1.7** | **1.0** | **—** | **—** | **3.0** |
| Amortisation of intangible assets (including acquired intangibles) (note 12) | **3.8** | **3.3** | **0.2** | **—** | **—** | **7.3** |



| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Football Pools £m | Sportech Racing and Digital £m | Sportech Venues £m | Corporate costs £m | Inter-segment elimination £m | Group £m |
| Revenue from sale of goods | 41.3 | 4.1 | — | — | (0.1) | 45.3 |
| Revenue from rendering of services | — | 31.8 | 34.1 | — | (0.9) | 65.0 |
| Total revenue | 41.3 | 35.9 | 34.1 | — | (1.0) | 110.3 |
| EBITDA before exceptional costs and share option expense | 17.4 | 7.7 | 4.8 | (3.8) | (0.1) | 26.0 |
| Share option expense | — | — | — | (1.5) | — | (1.5) |
| Depreciation and amortisation (notes 12 and 13) | (1.4) | (2.9) | (1.4) | — | — | (5.7) |
| Segment result before amortisation of acquired intangibles and exceptional costs | 16.0 | 4.8 | 3.4 | (5.3) | (0.1) | 18.8 |
| Amortisation of acquired intangibles | (5.9) | (1.3) | — | — | — | (7.2) |
| Exceptional costs | (0.4) | (0.6) | (0.3) | (1.4) | — | (2.7) |
| Operating profit/(loss) | 9.7 | 2.9 | 3.1 | (6.7) | (0.1) | 8.9 |
| Net finance costs | | | | | | (3.5) |
| Share of loss after tax of joint ventures | | | | | | (0.2) |
| Profit before taxation | | | | | | 5.2 |
| Taxation | | | | | | (1.9) |
| Profit for the year from continuing operations | | | | | | 3.3 |
| Profit for the year from discontinued operations | | | | | | 0.1 |
| Profit for the year | | | | | | 3.4 |
| Segment assets | 193.4 | 39.0 | 29.2 | 22.9 | (51.4) | 233.1 |
| Segment liabilities | (13.4) | (9.7) | (19.0) | (102.4) | 51.1 | (93.4) |
| **Other segment items** | | | | | | |
| Capital expenditure (notes 12 and 13) | 2.4 | 6.4 | 3.6 | 0.2 | — | 12.6 |
| Depreciation (note 13) | 0.3 | 1.7 | 1.2 | — | — | 3.2 |
| Amortisation of intangible assets (including acquired intangibles) (note 12) | 7.0 | 2.5 | 0.2 | — | — | 9.7 |
| *Discontinued activities:* | | | | | | |
| Loss on disposal of tangible and intangible assets | 0.4 | — | — | — | — | 0.4 |

# Notes to the financial statements continued

for the year ended 31 December 2014

## 1. Segmental reporting continued

**Information by geographical area**

| | Revenues from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| United Kingdom | **41.1** | 43.6 | **142.2** | 173.7 |
| North America | **50.7** | 54.0 | **51.5** | 43.6 |
| Europe | **11.3** | 11.8 | **3.1** | 2.7 |
| Other | **1.0** | 0.9 | **—** | — |
| Total | **104.1** | 110.3 | **196.8** | 220.0 |

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

## 2. Exceptional costs

Exceptional charges of £2.3m (2013: £2.7m) are included within administrative expenses and exceptional charges of £0.6m (2013: income of £1.4m) are included within net finance costs in the income statement. Exceptional costs by type are as follows:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Included in administrative expenses: | | |
| Redundancy and restructuring costs in respect of the rationalisation and modernisation of the business | **1.1** | 1.0 |
| Compensation for loss of office | **—** | 0.3 |
| Costs and fees in relation to Spot the Ball VAT claim | **0.2** | 0.5 |
| Transaction costs in respect of the acquisition of subsidiaries | **0.1** | 0.2 |
| Licensing costs in New Jersey in respect of the acquisition of Sportech Racing | **0.1** | 0.3 |
| Costs in relation to the set up of US joint ventures | **0.6** | — |
| IFRS 3 employment costs in relation to Datatote (England) Limited and Bump Worldwide Inc. | **0.4** | 0.1 |
| Release of contingent consideration accrued for eBet Online Inc. | **(0.5)** | — |
| Other exceptional costs | **0.3** | 0.3 |
| | **2.3** | 2.7 |
| Included in net finance costs: | | |
| Refinancing fee | **1.4** | — |
| Movement on derivative financial instruments post designation as ineffective | **(0.8)** | (1.4) |
| | **0.6** | (1.4) |
| Total exceptional costs | **2.9** | 1.3 |



## 3. Expenses by nature

| | **2014 £m** | 2013 £m |
|---|---|---|
| Selling commissions | **2.6** | 3.2 |
| Betting and gaming duties | **6.4** | 6.9 |
| Track and tote fees | **14.4** | 15.7 |
| Marketing, printing and postage costs | **6.0** | 6.4 |
| Employment costs (note 6) | **30.4** | 31.5 |
| Share option expense (note 6) | **0.6** | 1.5 |
| Depreciation and amortisation (notes 12 and 13) | **10.3** | 12.9 |
| Impairment of goodwill (note 11) | **28.1** | — |
| Distribution costs | **0.9** | 1.1 |
| IT and telecommunications costs | **2.5** | 3.7 |
| Cost of inventories recognised as an expense (note 18) | **3.5** | 2.7 |
| Exceptional costs excluding redundancy and restructuring costs and compensation for loss of office (note 2) | **1.2** | 1.4 |
| Property related costs | **5.4** | 5.3 |
| Other costs | **9.1** | 9.1 |
| Total expenses of continuing operations | **121.4** | 101.4 |
| Expenses of discontinued operations | **—** | 5.3 |
| Total expenses | **121.4** | 106.7 |

Included in the above table are exceptional costs of £2.3m (2013: £2.7m).

## 4. Net finance costs

| | **2014 £m** | 2013 £m |
|---|---|---|
| Interest payable on bank loans, derivative financial instruments and overdrafts | **2.8** | 4.3 |
| Refinancing fee | **1.4** | — |
| Movement on derivative financial instruments post designation as ineffective | **(0.8)** | (1.4) |
| Non-cash finance charges* | **—** | 0.4 |
| Foreign exchange (gain)/loss on financial assets and liabilities denominated in foreign currency | **(0.9)** | 0.2 |
| Net finance costs | **2.5** | 3.5 |

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

The refinancing fee, the fair value movements on derivative financial instruments, the non-cash finance charges and the foreign exchange (gain)/loss on financial assets and liabilities denominated in foreign currency are all together shown as other finance income in the income statement. Included in the above table are exceptional charges of £0.6m (2013: income of £1.4m).

# Notes to the financial statements continued
for the year ended 31 December 2014

## 5. (Loss)/profit before taxation
(Loss)/profit before taxation is stated after charging:

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Employment costs | 6 | **31.0** | 33.0 |
| Depreciation of property, plant and equipment | 13 | **3.0** | 3.2 |
| Impairment of goodwill | 11 | **28.1** | — |
| Amortisation of acquired intangibles | 12 | **4.1** | 7.2 |
| Amortisation of other intangibles | 12 | **3.2** | 2.5 |

The fees of the Auditors in relation to their audit of the Company and consolidated accounts are £38,000 (2013: £38,000).

Fees paid to Auditors for other services comprise:

| | 2014 £m | 2013 £m |
|---|---|---|
| Audit of the Group's subsidiaries | **0.2** | 0.2 |
| Taxation compliance | **0.1** | 0.5 |
| Taxation advisory services | **0.2** | — |
| Other assurance services | **0.1** | — |
| Total fees | **0.6** | 0.7 |

## 6. Employment costs
Average number of monthly employees (full-time equivalents) including Executive Directors comprised:

| | 2014 Number | 2013 Number |
|---|---|---|
| Sales and marketing | **103** | 105 |
| Operations and distribution | **583** | 567 |
| Administration | **110** | 123 |
| Total employees | **796** | 795 |

Their aggregate remuneration comprised:

| | 2014 £m | 2013 £m |
|---|---|---|
| Wages and salaries | **25.6** | 26.8 |
| Social security costs | **3.9** | 3.8 |
| Pension costs – defined contribution scheme (note 31) | **0.7** | 0.7 |
| Pension costs – defined benefit scheme (note 31) | **0.2** | 0.2 |
| Share option expense | **0.6** | 1.5 |
| Total remuneration | **31.0** | 33.0 |



## 7. Directors and key management remuneration
**Directors**

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Short-term employee benefits | **1,420** | 1,345 |
| Share-based payments | **304** | 1,505 |
| Termination benefits | **—** | 141 |
| Post-employment benefits | **72** | 60 |
| Total remuneration | **1,796** | 3,051 |

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration report on pages 36 to 55. This information forms part of the financial statements. Retirement benefits are accruing under defined benefit pension schemes for nil Directors (2013: nil). Three Directors exercised share options in the year (2013: nil).

**Key management compensation**

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Short-term employee benefits | **1,803** | 1,780 |
| Termination benefits | **—** | 141 |
| Post-employment benefits | **83** | 66 |
| Share-based payments | **386** | 831 |
| Total | **2,272** | 2,818 |

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

## 8. Taxation

| | 2014 £m | 2013 £m |
|---|---|---|
| Current tax: | | |
| Current tax on (loss)/profit for the year | **1.5** | 1.8 |
| Adjustments in respect of prior years | **(0.2)** | — |
| Total current tax | **1.3** | 1.8 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **0.1** | (0.1) |
| Effect of changes in tax rates | **(0.1)** | 0.2 |
| Total deferred tax | **—** | 0.1 |
| Total taxation charge | **1.3** | 1.9 |

# Notes to the financial statements continued

for the year ended 31 December 2014

## 8. Taxation continued

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

| | 2014 £m | 2013 £m |
|---|---|---|
| (Loss)/profit before taxation | **(20.0)** | 5.2 |
| Add share of loss after tax of joint ventures | **0.2** | 0.2 |
| (Loss)/profit before taxation and share of loss after tax of joint ventures | **(19.8)** | 5.4 |
| Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries | **(4.6)** | 1.5 |
| Tax effects of: | | |
| – permanent differences | **6.2** | 0.3 |
| – deferred tax not previously provided | **—** | (0.1) |
| – effect of changes in tax rates | **(0.1)** | 0.2 |
| – adjustments in respect of prior years | **(0.2)** | — |
| Total taxation charge | **1.3** | 1.9 |

The weighted average applicable tax rate was 23.0% (2013: 26.8%). The decrease is as a result of a change in mix of profits/(losses) in jurisdictions with varying tax rates.

Included within permanent differences is the tax effect at 21.5% of the £28.1m impairment of goodwill in the Football Pools segment for which no tax relief is received.

As the Group's year end is after the substantive enactment date (2 July 2013) of the Finance Act 2013 and after the substantive enactment date of the March 2013 UK Budget Statement changes, these financial statements account for the change in UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and the change in tax rate from 21% to 20% with effect from 1 April 2015. Therefore the rate at which deferred tax is calculated has changed. Deferred tax in the UK is provided at a blended rate of 20.25% or at 20%, depending on when the deferred tax is expected to unwind.

## 9. Loss of holding company

Of the Group's loss for the year, a loss of £6.5m (2013: £10.9m) is dealt with in the accounts of Sportech PLC and the statement of changes in equity. The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement and statement of comprehensive income for the Company alone.

The individual income statement of Sportech PLC was approved by the Board on 4 March 2015.



## 10. Earnings per share

**(a) Basic**

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

| | 2014 £m | 2013 £m |
|---|---|---|
| (Loss)/profit from continuing operations attributable to the owners of the Parent | **(21.3)** | 3.3 |
| Profit from discontinued operations attributable to the owners of the Parent | **—** | 0.1 |
| **Total** | **(21.3)** | 3.4 |
| Weighted average number of ordinary shares in issue ('000) | **204,986** | 200,227 |
| Basic (loss)/earnings per share | **(10.4)p** | 1.7p |

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Certain employee options (707,070 in number; 2013: 707,070) have been excluded from the calculated diluted EPS as their exercise price is greater than the weighted average share price during the year and therefore would not be dilutive. The weighted average number of shares that have a dilutive effect on adjusted EPS is 9,005,000 (2013: 13,161,000). Diluted basic loss per share is 9.9p (2013: earnings per share 1.6p) and diluted adjusted EPS is 5.2p (2013: 4.9p).

**(c) Basic adjusted**

The calculations of adjusted EPS are based on the following profits attributable to ordinary shareholders, the weighted average number of shares and an estimated adjusted tax charge of 22.3% (2013: 27.7%). The adjusted tax charge is based on adjusted profit before tax which excludes exceptional items, other finance income and share option charges. Therefore the tax effect of these items is excluded.

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Profit £m | Weighted average number of shares '000 | Per share amount Pence | Profit £m | Weighted average number of shares '000 | Per share amount Pence |
| Operating profit before amortisation of acquired intangibles, impairment of goodwill and exceptional costs | **17.2** | **204,986** | **8.4** | 18.8 | 200,227 | 9.4 |
| Net finance costs (excluding other finance income) | **(2.8)** | **204,986** | **(1.4)** | (4.3) | 200,227 | (2.1) |
| Adjusted profit before taxation | **14.4** | **204,986** | **7.0** | 14.5 | 200,227 | 7.3 |
| Tax at 22.3% (2013: 27.7%) | **(3.2)** | **204,986** | **(1.5)** | (4.0) | 200,227 | (2.0) |
| Adjusted basic EPS | **11.2** | **204,986** | **5.5** | 10.5 | 200,227 | 5.3 |

# Notes to the financial statements continued

for the year ended 31 December 2014

## 11. Goodwill

| Group | 2014 £m | 2013 £m |
|---|---|---|
| **Cost** | | |
| At 1 January and at 31 December | **171.0** | 171.0 |
| **Accumulated impairment charges** | | |
| At 1 January | **(17.9)** | (17.9) |
| Impairment charge | **(28.1)** | — |
| At 31 December | **(46.0)** | (17.9) |
| Opening net book amount | **153.1** | 153.1 |
| **Closing net book amount** | **125.0** | 153.1 |

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 accumulated impairment charges brought forward relate to the goodwill in the Football Pools segment.

During the year the Group carried out its annual impairment review of the carrying value of its goodwill. The goodwill from the Littlewoods Leisure and Vernons acquisitions is attributed to the Football Pools segment. The recoverable amount of The Football Pools goodwill was estimated to be £119.5m and as a result an impairment charge of £28.1m has been expensed to the income statement in administration expenses.

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

- the cash flow forecasts used are based upon the budget approved by the Board for 2015 and on cash flow projections for 2016 to 2019 also approved by the Board, with a terminal value at 2019 calculated in accordance with IAS 36. Forecasts assume stabilisation of cash flows in 2015 from 2014 levels and zero growth thereafter through to 2019;
- revenue forecasts for the core Football Pools business reflect the continued improvement in spend per player from core customer numbers; the introduction of new customers and acquisition activities; the improvement in technology following the continued investment in 2014; and the benefits from operating the whole business from a new single customer facing, fully integrated platform. The Board believes that the impact of all of those factors will lead to a stabilisation of revenues within the core Football Pools business;
- the terminal value is based on a nil growth rate given the expected stabilisation of profit streams;
- cash flows have been discounted at 8.3% (2013: 8.3%), reflecting a market-based weighted average cost of capital appropriate for the Football Pools CGU; and
- there are no material adverse changes in legislation.

Management consider that the calculated recoverable amount is most sensitive to changes in the following assumptions and notes that the changes to the assumptions below, all other variables held constant, would cause the indicated further impairments:

| | Resulting impairment £m |
|---|---|
| Revenue decline of 2% from 2015 budgeted levels and no growth in online revenues from 2014 levels | **14.3** |
| WACC of 10% rather than 8.3% | **20.9** |

The goodwill from the eBet Online Inc. acquisition is attributed to the Sportech Racing and Digital segment and the recoverable amount is estimated to be £6.4m.

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



- EBITDA forecasts are in line with the approved 2015 budget and strategic plans which include a 3% growth rate per annum between 2016 and 2019;
- the terminal value is based on a nil growth rate given the expected maturity of the business by 2019;
- cash flows have been discounted at 8.3% (2013: 8.3%), reflecting a market-based weighted average cost of capital appropriate for the CGU; and
- there are no material adverse changes in legislation.

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

| | Resulting impairment £m |
|---|---|
| Negative growth in cash flows of 5% per annum into perpetuity | **5.4** |
| WACC of 10% rather than 8.3% | **0.5** |

Following the impairment review an impairment of £nil was charged to the income statement (2013: £nil).

## 12. Intangible fixed assets

| Group | Customer contracts and relationships £m | Software £m | Other £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2014 | 36.4 | 37.5 | 21.2 | 95.1 |
| Business combination | 0.1 | 0.2 | — | 0.3 |
| Additions | — | 4.4 | 0.7 | 5.1 |
| **At 31 December 2014** | **36.5** | **42.1** | **21.9** | **100.5** |
| **Accumulated amortisation** | | | | |
| At 1 January 2014 | 31.1 | 17.5 | 3.1 | 51.7 |
| Charged during the year | 3.9 | 3.2 | 0.2 | 7.3 |
| **At 31 December 2014** | **35.0** | **20.7** | **3.3** | **59.0** |
| Cumulative exchange differences | — | 0.2 | 0.4 | 0.6 |
| **Net book amount at 31 December 2014** | **1.5** | **21.6** | **19.0** | **42.1** |

**Customer contracts and relationships**
Customer contracts and relationships as at 1 January 2014 are in relation to the acquisition of Vernons, which have a useful life of five years from 1 July 2009; to eBet Online Inc., which have a useful life of four years from 19 December 2012, and to Datatote (England) Limited, which have a useful life of four years and eight months from 27 September 2013.

During the year, the Group acquired Bump Worldwide Inc., giving rise to the further recognition of customer contracts and relationships. The useful life is two years from 12 June 2014.

**Software**
Included in software are assets under construction with a cost of £1.7m (2013: £1.0m). Accordingly, these assets are not currently amortised.

**Other intangibles**
The Group holds a licence in perpetuity to offer pari-mutuel off-track betting in the State of Connecticut in the USA. Given this licence is in perpetuity, the book value of the asset amounting to £16.3m (2013: £15.2m) is not amortised and the useful economic life allocated to the asset is indefinite. The asset is allocated to the Sportech Venues segment and has a estimated recoverable amount of £18.7m. The movement in net book value is as a result of movement in exchange rates given the asset value is denominated in US Dollars. As required by IAS 36 "Impairment of Assets" an impairment test has been carried out as at 31 December 2014.

# Notes to the financial statements continued

for the year ended 31 December 2014

## 12. Intangible fixed assets continued

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

- the CGU was determined to be the assets which require the licence in order to provide off-track betting to the public. Only the cash flows expected to be generated from these assets were included in the calculation;
- EBITDA forecasts are in line with the approved 2015 budget and 2016 to 2019 strategic plans which assume nil growth from the 2015 budget. The main assumptions include level of handle at each venue and content and take-out fee percentages;
- capital expenditure was included in the cash flows at management's best estimate of industry norm for re-investment in retail outlets of the kind under review;
- cash flows beyond the fifth year were extrapolated using a nil growth rate given the expected stabilisation of cash flows over time; and
- a post tax discount rate of 8.3% was used representing a market-based weighted average cost of capital appropriate for the Sportech Venues CGU.

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

| | **Resulting impairment £m** |
|---|---|
| Handle decline in 2016 to 2019 of 2% per annum | **4.1** |
| WACC of 10% rather than 8.3% | **2.4** |

Following the impairment review, an impairment of £nil was charged to the income statement (2013: £nil).

The remaining net book value of other intangible assets is predominantly spend on the proprietary Football Pools customer database and system, which has a remaining useful economic life of six years.

| Company | Software £m | Other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2014 | 15.7 | 0.8 | 16.5 |
| Additions | — | 0.1 | 0.1 |
| **At 31 December 2014** | **15.7** | **0.9** | **16.6** |
| **Accumulated amortisation** | | | |
| At 1 January 2014 | 3.4 | — | 3.4 |
| Charged during the year | 1.0 | 0.4 | 1.4 |
| **At 31 December 2014** | **4.4** | **0.4** | **4.8** |
| **Net book amount at 31 December 2014** | **11.3** | **0.5** | **11.8** |



The software held by the Company provides pari-mutuel services to customers in North America. Management has estimated the useful economic life of the asset to be 15 years. The net book amount at 31 December 2014 was £11.3m and the remaining life was ten years and nine months (2013: net book amount of £12.3m and the remaining life was eleven years and nine months).

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

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

Amortisation has been included within administrative expenses.

# Notes to the financial statements continued

for the year ended 31 December 2014

## 13. Property, plant and equipment

| Group | Short leasehold land and buildings £m | Long leasehold and owned land and buildings £m | Plant and machinery £m | Fixtures and fittings £m | Assets in the course of construction £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2014 | 0.1 | 9.5 | 12.7 | 1.0 | 10.0 | 33.3 |
| Additions | — | — | 0.9 | — | 4.0 | 4.9 |
| Disposals | — | (0.1) | (0.8) | (0.4) | — | (1.3) |
| Transfer | 0.1 | 2.0 | 7.5 | 0.2 | (9.8) | — |
| **At 31 December 2014** | **0.2** | **11.4** | **20.3** | **0.8** | **4.2** | **36.9** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2014 | 0.1 | 3.5 | 6.9 | 0.3 | — | 10.8 |
| Charged during the year | — | 0.6 | 2.2 | 0.2 | — | 3.0 |
| Disposals | — | (0.1) | (0.8) | (0.4) | — | (1.3) |
| **At 31 December 2014** | **0.1** | **4.0** | **8.3** | **0.1** | **—** | **12.5** |
| Cumulative exchange differences | — | — | 0.1 | (0.1) | 0.5 | 0.5 |
| **Net book amount at 31 December 2014** | **0.1** | **7.4** | **12.1** | **0.6** | **4.7** | **24.9** |

| Company | Short leasehold land and buildings £m | Plant and machinery £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January and 31 December 2014 | 0.1 | 0.2 | 0.3 |
| **Accumulated depreciation** | | | |
| At 1 January and 31 December 2014 | 0.1 | 0.1 | 0.2 |
| **Net book amount at 31 December 2014** | **—** | **0.1** | **0.1** |



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

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

## 14. Investments in subsidiaries

| | Group | | Company | |
|---|---|---|---|---|
| Investments in Group companies | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| At 1 January | **—** | — | **203.7** | 201.2 |
| Capital contribution | **—** | — | **—** | 2.5 |
| At 31 December | **—** | — | **203.7** | 203.7 |

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

# Notes to the financial statements continued
for the year ended 31 December 2014

## 14. Investments in subsidiaries continued

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

| Name of company | Holding | Proportion of voting rights | Country of incorporation | Nature of business |
|---|---|---|---|---|
| Sportech Gaming Limited* | Ordinary shares | 100% | England and Wales | Holding company |
| The Football Pools Limited | Ordinary shares | 100% | England and Wales | Pools, betting and gaming services |
| UK Lottery Management Limited | Ordinary shares | 100% | England and Wales | Management of charity lotteries |
| Football Pools 1923 Limited | Ordinary shares | 100% | England and Wales | Asset hiring |
| Football Pools Games Limited | Ordinary shares | 100% | England and Wales | Pools, betting and gaming services |
| Datatote (England) Limited | Ordinary shares | 100% | England and Wales | Pari-mutuel wagering totalisator services |
| Sports Hub Private Limited | Ordinary shares | 50% | India | Fantasy sports games services |
| Sportech Racing GmbH | Ordinary shares | 100% | Germany | Pari-mutuel systems provision |
| Sportech Racing B.V. | Ordinary shares | 100% | Netherlands | Off-track betting and venues management |
| Racing Technology (Ireland) Limited | Ordinary shares | 100% | Ireland | Pari-mutuel systems provision |
| Sportech Racing Limited | Ordinary shares | 100% | Turkey | Pari-mutuel systems provision |
| Sportech, Inc. | Ordinary shares | 100% | USA | Intermediate holding company |
| Sportech Racing Panama, Inc. | Ordinary shares | 100% | Panama | Pari-mutuel systems provision |
| Sportech Racing, LLC | Ordinary shares | 100% | USA | Pari-mutuel systems provision |
| Trackplay, LLC | Ordinary shares | 100% | USA | Pari-mutuel systems provision |
| Sportech – NYX Gaming, LLC | Ordinary shares | 50% | USA | Gaming software and services |
| Sportech Racing Canada, Inc. | Ordinary shares | 100% | Canada | Pari-mutuel systems provision |
| Sportech Venues, Inc. | Ordinary shares | 100% | USA | Off-track betting and venues management |
| S&S Venues California, LLC | Ordinary shares | 50% | USA | Sports bar owner and operator |
| eBet Technologies, Inc. | Ordinary shares | 100% | USA | Online pari-mutuel systems and services provision |
| Picklive USA, LLC | Ordinary shares | 51% | USA | Social gaming |
| Bump Worldwide, Inc. | Ordinary shares | 100% | Canada | Provision of software and services for 50:50 raffles |

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

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



## 15. Business combinations

**(a) Bump Worldwide Inc.**
On 12 June 2014, the Group acquired 100% of the issued share capital of Bump Worldwide Inc. ("Bump"), a provider of electronic charitable raffles conducted during professional sporting events, known as "50:50 raffles".

The customers of Bump are the charitable foundations of US professional sports teams across the NHL, NBA, NFL, MLS and NASCAR. It is a growing business that will benefit from the greater sales and technology resources available following its acquisition by Sportech.

Goodwill arising on the acquisition amounted to £nil.

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

| Provisional fair value of consideration at 12 June 2014 | £m |
|---|---|
| Cash | 0.1 |
| **Total fair value of consideration transferred** | **0.1** |

| Recognised provisional fair value amounts of identifiable assets acquired and liabilities assumed | £m |
|---|---|
| Intangible assets – software (note 12) | 0.2 |
| Intangible assets – customer contracts and relationships (note 12) | 0.1 |
| Bank overdraft | (0.1) |
| Trade and other payables | (0.1) |
| **Total identifiable net assets** | **0.1** |
| **Goodwill** | **—** |
| **Total fair value of consideration transferred** | **0.1** |

### Contingent consideration
There is potential for contingent consideration of up to £5.5m to be payable dependant on the Bump business' EBITDA for the period 1 January 2016 to 31 December 2016. This is split between the following two elements:

- an amount equivalent to the 2016 EBITDA earned by Bump, up to a maximum consideration payable of £4.7m; and
- if 2016 EBITDA earned by Bump exceeds £0.8m, an additional contingent consideration will be payable equivalent to that excess, up to a maximum of £0.8m.

The amount payable is due subsequent to the finalisation of the 2016 financial statements.

The Directors have reviewed the potential consideration payable on the above performance requirements. The expectation is that a sum of £0.3m will be payable in respect of these performance targets. This is treated as employment costs under IFRS 3 "Business Combinations" (revised) and will accordingly be accrued on a time apportioned basis to 31 December 2016. This expectation will be reviewed annually in accordance with IFRS 3 "Business Combinations" (revised).

### Acquisition costs
Acquisition related costs amounting to £0.1m have been recognised as an expense in the consolidated income statement as an exceptional item (see note 2).

### Provisional fair value amounts of identifiable assets acquired and liabilities assumed
The fair values of the identifiable assets acquired and liabilities assumed are considered provisional in nature due to the business combination occurring just six months prior to the year end. Management will continue to monitor the provisional values during the year ended 31 December 2015 to ensure any fair value amendments are identified as a hindsight adjustment.

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

# Notes to the financial statements continued

for the year ended 31 December 2014

## 15. Business combinations continued

### Bump contribution to the Group results

Bump has contributed revenues of £0.2m and a loss of £0.2m to the Group results from the acquisition date to 31 December 2014. Had the acquisition occurred on 1 January 2014, the Group's revenue for the period ended 31 December 2014 would have been £104.3m and the Group's loss for the year would have been £21.5m. These amounts have been determined by applying the Group's accounting policies and adjusting the results of Bump to reflect additional depreciation and amortisation that would have been charged, assuming the fair value adjustments to intangible assets had been applied from 1 January 2014.

**(b) Datatote (England) Limited**

On 27 September 2013, the Group acquired 100% of the issued share capital of Datatote (England) Limited ("Data Tote"). There were no changes to the fair value assumptions applied by management at acquisition during the hindsight period in relation to net assets acquired or consideration paid. EBITDA estimates for the business still indicate that the maximum payment of the contingent consideration will be due and payable in August 2016 and is being accrued accordingly.

**(c) eBet Online Inc.**

Management estimates that EBITDA targets required to be achieved for any contingent consideration to be paid on the acquisition of eBet Online Inc. to be remote, and as such the accrual recognised in the balance sheet at 31 December 2013 has been released in full (see note 2).

## 16. Investment in joint ventures

The Group has the following investments in joint ventures:

| Group | Description | Country of incorporation | Year of investment | % holding |
|---|---|---|---|---|
| Sportshub Private Limited | Provides a suite of prediction and fantasy games centred on cricket, football and Formula 1 | India | 2008 | 50 |
| Picklive USA, LLC | Distribution of Picklive's live fantasy sports game across the US | USA | 2013 | 51 |
| Sportech – NYX Gaming, LLC | Provides online products and services in the US for social and pay-to-play gaming | USA | 2013 | 50 |
| S&S Venues California, LLC | Sports bars with wagering facilities in California, USA | USA | 2013 | 50 |

| Group | 2014 £m | 2013 £m |
|---|---|---|
| At 1 January | 0.5 | 0.5 |
| Additions | 1.9 | 0.2 |
| Share of loss after tax | (0.2) | (0.2) |
| **At 31 December** | 2.2 | 0.5 |

Despite the Group's 51% ownership in Picklive USA LLC, the entity is considered to be jointly controlled. Therefore the investment is treated as that of a joint venture, and its results have been equity accounted in accordance with IFRS 11.



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

| | 2014 £m | 2013 £m |
|---|---|---|
| Non-current assets | 1.5 | 0.1 |
| Current assets | 0.9 | 0.4 |
| Total assets | 2.4 | 0.5 |
| Current liabilities | (0.2) | — |
| **Net assets** | 2.2 | 0.5 |
| Revenue | — | — |
| Expenses | (0.2) | (0.2) |

The Group's share of capital commitments amounted to £nil (2013: £nil).

## 17. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Trade receivables | 6.8 | 5.2 | — | — |
| Less provision for impairment of receivables | (0.3) | (0.3) | — | — |
| Trade receivables – net | 6.5 | 4.9 | — | — |
| Amounts owed by Group companies | — | — | 20.2 | 14.6 |
| Other receivables | 0.7 | 1.1 | 0.1 | 0.2 |
| Accrued income | 1.3 | 1.0 | — | — |
| Prepayments | 1.9 | 2.0 | 0.3 | 0.5 |
| Total | 10.4 | 9.0 | 20.6 | 15.3 |

Other classes of trade and other receivables are not impaired. Non-current trade receivables of £1.2m (2013: £0.3m) relate to accrued income due after more than twelve months.

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

Trade receivables that are less than three months past due are not considered impaired as management considers the amounts to be fully recoverable. As at 31 December 2014, £0.1m (2013: £0.1m) of trade receivables were past due and not impaired. Management also considers that these receivables are recoverable in full due to good credit quality.

As at 31 December 2014, trade receivables of £0.3m (2013: £0.3m) were impaired and fully provided for.

# Notes to the financial statements continued

for the year ended 31 December 2014

## 17. Trade and other receivables continued

There was no movement on the Group provision for impairment of trade receivables (2013: no movement).

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| Sterling | **2.8** | 1.5 | **3.1** | 6.3 |
| US Dollar | **5.8** | 5.3 | **16.4** | 8.2 |
| Euro | **0.7** | 1.2 | **1.1** | 0.8 |
| Other | **2.3** | 1.3 | **—** | — |
| Total | **11.6** | 9.3 | **20.6** | 15.3 |

## 18. Inventories

| | Group | |
|---|---|---|
| | **2014 £m** | 2013 £m |
| Work in progress | **0.2** | 0.1 |
| Spare parts | **1.1** | 1.2 |
| Finished goods | **0.2** | 0.2 |
| Total | **1.5** | 1.5 |

The cost of inventories recognised as an expense and included in cost of sales amounted to £3.5m (2013: £2.7m).

Provisions for obsolescence held against inventories at 31 December 2014 amounted to £0.1m (2013: £nil).

## 19. Deferred tax

The movement on the deferred tax account is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 £m** | 2013 £m | **2014 £m** | 2013 £m |
| Net deferred tax asset at 1 January | **0.7** | 1.3 | **1.0** | 1.3 |
| Income statement charge | **—** | (0.1) | **(0.8)** | (0.3) |
| Business combination | **—** | (0.4) | **—** | — |
| Tax credited/(charged) directly to equity | **0.1** | (0.1) | **—** | — |
| Net deferred tax asset at 31 December | **0.8** | 0.7 | **0.2** | 1.0 |

The tax credited/(charged) directly to equity is the deferred tax on the retirement benefit liabilities.



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

**Deferred tax assets**

| Group | Pension £m | Capital allowances £m | Losses and foreign tax credits £m | Temporary differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2013 | 0.5 | (1.2) | 1.1 | 0.9 | 1.3 |
| Income statement (charge)/credit | — | (1.0) | 0.6 | 1.0 | 0.6 |
| Tax charged directly to equity | (0.1) | — | — | — | (0.1) |
| At 31 December 2013 | 0.4 | (2.2) | 1.7 | 1.9 | 1.8 |
| Income statement (charge)/credit | — | (2.6) | 3.5 | (1.4) | (0.5) |
| Tax credited directly to equity | 0.1 | — | — | — | 0.1 |
| **At 31 December 2014** | **0.5** | **(4.8)** | **5.2** | **0.5** | **1.4** |

Deferred tax of £nil is expected to be recovered within twelve months (2013: £nil) with £1.4m expected to be recovered after more than twelve months (2013: £1.8m).

The deferred tax asset in the Company consists of temporary differences of £0.2m and capital allowances of £nil (2013: temporary differences of £0.8m and capital allowances of £0.2m).

The losses in the Company have been fully surrendered as Group relief. In addition to the deferred tax asset which has been recognised, the Group has not recognised further deferred tax assets of £3.0m (2013: £3.1m) arising from unutilised trading losses. The Directors do not consider there will be sufficient future profits against which these losses can be offset due to the low level of trading in these particular business units.

Expiry of these losses is as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| Gross losses | **Provided £m** | **Unprovided £m** | Provided £m | Unprovided £m |
| In more than four years | **15.0** | **13.3** | 1.0 | 14.0 |

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

**Deferred tax liabilities**

| Group | Temporary differences £m |
|---|---|
| At 1 January 2013 | — |
| Business combination | (0.4) |
| Income statement charge | (0.7) |
| At 31 December 2013 | (1.1) |
| Income statement credit | 0.5 |
| **At 31 December 2014** | **(0.6)** |

# Notes to the financial statements continued
for the year ended 31 December 2014

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

Cash balances of £2.3m (2013: £2.1m) are held on behalf of customers in respect of certain online and telephone betting activities and on behalf of registered charities relating to the sale of charity scratchcards and lotto products. These balances are excluded from Group cash and are netted against a corresponding payable within accruals and deferred income (note 21).

## 21. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Trade payables | 6.6 | 7.6 | 0.3 | 0.5 |
| Amounts owed to Group companies | — | — | 46.7 | 40.4 |
| Other taxes and social security costs | 0.6 | 0.8 | — | — |
| Accruals and deferred income | 13.3 | 12.7 | 0.9 | 1.2 |
| Total | 20.5 | 21.1 | 47.9 | 42.1 |

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

## 22. Provisions

| Group | Onerous contracts £m | Other provisions £m | Total £m |
|---|---|---|---|
| At 1 January 2013 | 0.4 | 0.4 | 0.8 |
| Utilised during the year | (0.1) | (0.1) | (0.2) |
| At 31 December 2013 | 0.3 | 0.3 | 0.6 |
| Utilised during the year | — | — | — |
| **At 31 December 2014** | **0.3** | **0.3** | **0.6** |

Provisions have been recognised where the Group has contractual obligations to provide services where the estimated unavoidable costs to carry out the obligation exceed the expected future economic benefits to be received. Other provisions include provisions for obligations to reinstate property to its original condition at the start of the lease term. Of the provisions included in the above table, £0.2m is expected to be utilised within twelve months (2013: £0.2m) and £0.4m is expected to be utilised after twelve months (2013: £0.4m).



## 23. Financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Current | | | | |
| Deferred consideration due within one year | — | 0.7 | — | — |

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Non-current | | | | |
| Drawn revolving credit facility due after one year | 70.1 | 66.0 | 70.1 | 66.0 |
| Deferred consideration due after one year | 0.5 | 0.6 | — | — |
| Total non-current financial liabilities | 70.6 | 66.6 | 70.1 | 66.0 |

**Bank loans and revolving credit facility**

On 12 May 2014, the Group refinanced its multi-currency, revolving credit facility of £75.0m to an £80.0m revolving credit facility bearing interest of LIBOR plus a bank margin dependent on leverage levels, initially 3.0%. The borrowings are secured by a composite debenture incorporating fixed and floating charges over all assets (excluding monies standing to credit of trust accounts) and undertakings of Sportech PLC, all UK trading companies, UK holding companies of overseas entities, and Racing Technology Ireland Limited. In addition, share charges have been entered into in respect of shares in Sportech Inc., Sportech Venues Inc., Sportech Racing LLC, Trackplay LLC and eBet Technologies Inc. (all are US companies).

During the year ended 31 December 2014, the Group obtained proceeds from borrowings of £4.1m.

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

**Deferred consideration and contingent consideration**

Deferred consideration and contingent consideration totalling £1.1m (2013: £1.8m), £1.0m (2013: £1.0m) and £5.5m (2013: £nil) in relation to the acquisitions of eBet Online Inc. Datatote (England) Limited, and Bump Worldwide Inc. respectively represent the maximum amounts payable in acquiring these entities. The amounts disclosed as due after one year of £0.5m represent management's best estimate of the consideration that is likely to be paid in acquiring those entities, recognising the known contractual amounts outlined in note 15, and the amounts accrued to date as employment costs under IFRS 3 "Business Combinations" (revised).

# Notes to the financial statements continued
for the year ended 31 December 2014

## 24. Financial instruments

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

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

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

The Group's interest rate risk arises from its long-term bank borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's bank borrowings are a multi-currency, revolving credit facility with Bank of Scotland plc, Barclays Bank PLC and Royal Bank of Scotland plc until August 2018 and at variable interest rates (a debt margin payable of between 200 and 350 basis points per annum) dependent on leverage ratio. The Group's policy is to hedge interest rate risk where appropriate using interest rate swaps at contract lengths consistent with the expected levels of the long-term bank borrowings. This policy is a cash flow hedge and is approved by the Board and the Board receives updates on a regular basis in respect of the hedging position.

The Group has entered into a number of swap agreements with terms remaining of between one month and two years, on a total of £20.0m, at an average swap rate before any lending margin of 4.80%. The hedges comprise two £10.0m hedges with expiry dates on January 2015 and January 2016. The contracts are not designated effective hedges and, as a result, gains and losses are recognised in the income statement within finance costs.

As at 31 December 2014 the fair value of these interest rate swaps was a liability of £0.5m (2013: £1.3m).

At 31 December 2014, if interest rates on borrowings had been 50 basis points higher/lower with all variables held constant, post tax loss for the year would have been £0.1m (2013: £0.2m) higher/lower as a result of higher/lower interest expense on unhedged variable rate borrowings. This sensitivity is considered a reasonable assumption based on current economic conditions.

### Liquidity risk
Cash flow forecasting is performed on a weekly basis in the operating entities of the Group and is aggregated by Group Finance. This weekly forecasting recognises committed short-term payables of the Group which are monitored and managed through regular discussions with suppliers. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure each operating entity has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Group Finance monitors the level of excess cash over and above that required for working capital management and ensures the excess is loaned to the UK to minimise the facility required to be drawn. Bank facilities have been agreed at appropriate levels having regard to the Group's operating cash flows and future development plans. The Group's derivative financial instruments are managed by Group Finance, and the risks of loss on those instruments are mitigated through review and regular discussions with external advisors.

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

The Group continually monitors the foreign currency risk and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level, inter alia, by using foreign exchange forward contracts designed to fix the economic impact of forecasted profitability. At 31 December 2014, the notional principal amounts of foreign exchange forward contracts outstanding were $nil (2013: $2.0m). At 31 December 2014, the fair value of these forward contracts was £nil (2013: £nil). No charge or credit has thus been recognised in profit and loss arising from fair value movement (2013: £nil).

The average rate of the US Dollar during the year was 1.65 and the Euro was 1.24; if the US Dollar had averaged at 1.6 and the Euro at 1.2, loss after tax would have been £21.2m and net assets would have been £113.6m at 31 December 2014.

### Hedging instruments

| | Group | | Company | |
|---|---|---|---|---|
| Current liabilities | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Interest rate swaps – cash flow hedges | 0.5 | 1.3 | 0.5 | 1.3 |

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

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

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

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

# Notes to the financial statements continued
for the year ended 31 December 2014

## 24. Financial instruments continued

### Capital risk management

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

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

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

The Group's strategy has been to target a reasonable level of gearing for a group of Sportech's size and industry presence. The Board considers gearing of between 20% and 40% to be appropriate. During 2014, net debt (including deferred consideration) reduced by £0.4m (0.6%) (2013: increased by £0.1m (0.2%)). Gearing has remained relatively static as the cash generated by the Group from operations during the year has been offset by cash used to purchase tangible and intangible assets, invest in joint ventures, and to fund the costs incurred in refinancing the Group's borrowings. The total net debt and gearing ratios at 31 December 2014 and 2013 were as follows:

| | Note | 2014 £m | 2013 £m |
|---|---|---|---|
| Total financial liabilities | 23 | **70.6** | 67.3 |
| Less cash and cash equivalents | 20 | **(6.3)** | (2.6) |
| Net debt | | **64.3** | 64.7 |
| Total equity | | **119.8** | 139.7 |
| Total capital | | **184.1** | 204.4 |
| Gearing ratio | | **35%** | 32% |

### Fair value of non-current borrowings

| As at 31 December 2014 | Group Book value £m | Group Fair value £m | Company Book value £m | Company Fair value £m |
|---|---|---|---|---|
| Bank borrowings due after one year | **70.1** | **65.0** | **70.1** | **65.0** |

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

The fair values are based on cash flows discounted at a rate of 8.3% (2013: 8.3%) and are within level 2 of the fair value hierarchy. Future interest payments are £3.0m payable within one year (2013: £3.0m), £3.0m payable between one and two years (2013: £2.0m) and £5.0m payable between two and five years (2013: £nil).

### Maturity of bank borrowings

Bank borrowings are repayable as follows:

| Contractual undiscounted amount | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| Between one and two years | **—** | 66.0 | **—** | 66.0 |
| Between two and five years | **70.1** | — | **70.1** | — |
| Total | **70.1** | 66.0 | **70.1** | 66.0 |



The maturity analysis of derivative financial liabilities is as follows:

| Contractual undiscounted amount | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| Within one year | **0.9** | 3.0 | **0.9** | 3.0 |
| Between one and two years | **—** | 0.5 | **—** | 0.5 |
| Between two and five years | **—** | — | **—** | — |
| Total | **0.9** | 3.5 | **0.9** | 3.5 |

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

| Contractual undiscounted amount | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| Within one year | **23.8** | 23.1 | **47.9** | 42.1 |
| Between one and two years | **0.8** | 0.4 | **—** | — |
| Between two and five years | **70.1** | 68.1 | **70.1** | 66.0 |
| Total | **94.7** | 91.6 | **118.0** | 108.1 |

### Borrowing facilities

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Floating rate: | | |
| – expiring beyond one year | **9.9** | 9.0 |
| Total | **9.9** | 9.0 |

### Financial asset and liabilities

The Group had the following categories:

| | 2014 £m | 2013 £m |
|---|---|---|
| Loans and receivables | **8.5** | 7.0 |
| Financial liabilities at fair value through profit or loss: | | |
| – designated post refinancing | **0.5** | 1.3 |
| Financial liabilities measured at amortised cost | **70.6** | 67.3 |

# Notes to the financial statements continued

for the year ended 31 December 2014

## 25. Ordinary shares

**Authorised, issued and fully paid**

| Ordinary shares of 50p each (2013: 50p) | 2014 '000 | 2014 £m | 2013 '000 | 2013 £m |
|---|---|---|---|---|
| At 1 January | **204,851** | **102.4** | 198,810 | 99.4 |
| New shares issued to satisfy PSP vesting | **370** | **0.2** | 6,041 | 3.0 |
| At 31 December | **205,221** | **102.6** | 204,851 | 102.4 |

**Potential issue of ordinary shares**

Sportech share option schemes

Certain Directors and Senior Executives hold options to subscribe for shares in the Company at prices ranging from £0.817 to £1.064 (2013: £0.817 to £1.064) under Sportech share option schemes approved by the shareholders. Share options at the end of the period had a weighted average exercise price of £0.888 (2013: £0.888). The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. There were no movements in the year.

| Year of grant | Exercise price | Exercise period | Outstanding at 31 December 2014 and 2013 Number |
|---|---|---|---|
| 2005 (September) | £0.817 | 2008–2015 | **505,050** |
| 2006 (March) | £1.064 | 2009–2016 | **202,020** |
| Total | | | **707,070** |

The options are exercisable at any time during the seven-year period commencing three years from the date of the grant. The Company has no legal or constructive obligation to settle the options in cash. The weighted average remaining contractual life of outstanding share options under the Sportech Share Option Scheme at 31 December 2014 was eleven months (31 December 2013: one year and eleven months).

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

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

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

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

The market price of the ordinary shares at 31 December 2014 was £0.670 (2013: £0.815) and the range during the year was £0.923 to £0.480 (2013: £1.080 to £0.690).



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

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

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

The Performance Share Plan ("PSP")

Certain Executive Directors and Senior Executives have been awarded grants to acquire shares in the Company under the PSP, subject to performance conditions. During the year ended 31 December 2014, 2,329,000 shares have been awarded (2013: 2,406,000), 1,095,000 awards lapsed due to failure to meet the performance conditions (2013: 1,649,000), 732,000 awards lapsed due to employees ceasing to be employed by the Group (2013: 674,000) and no awards were cancelled during the year (2013: nil). 811,000 shares vested during the period of which 583,000 remain unexercised as at 31 December 2014. 7,229,000 (2013: 8,608,000) share awards remained outstanding (unvested) at 31 December 2014.

*Performance conditions*

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

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

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

# Notes to the financial statements continued
for the year ended 31 December 2014

## 25. Ordinary shares continued

*2014 and 2013 grants*

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

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

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

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

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

*2012 and 2011 grants*

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

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

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

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

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



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

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

For employees who are responsible for the management of "Sportech Racing" (Sportech Racing and Digital, and Sportech Venues) the above performance criteria are applicable in the following fractions:

Part A – two-ninths

Part B – two-ninths

Part C – two-ninths

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

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

*All PSP grants*

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

| Grant date | Sep 2014 | Mar 2014 | May 2013 | March 2013 | March 2012 | December 2011 | February 2011 |
|---|---|---|---|---|---|---|---|
| Exercise price | **£nil** | **£nil** | £nil | £nil | £nil | £nil | £nil |
| Number of employees issued awards | **1** | **23** | 1 | 70 | 47 | 22 | 3 |
| Share price at award date | **£0.780** | **£0.888** | £0.900 | £1.000 | £0.513 | £0.399 | £0.425 |
| Expected term (fixed) | **3 years** | **3 years** | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected volatility | **28.2%** | **28.2%** | 29.6% | 29.6% | 33.1% | 33.9% | 39.5% |
| Dividend yield | **0%** | **0%** | 0% | 0% | 0% | 0% | 0% |
| Fair value of award | **£0.704** | **£0.704** | £0.844 | £0.844 | £0.407 | £0.301 | £0.346 |

The weighted average remaining contractual life of outstanding awards under the PSP at 31 December 2014 was one year and one month (2013: one year and five months). The weighted average exercise price of awards granted during the period was £nil (2013: £nil).

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

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

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

# Notes to the financial statements continued

for the year ended 31 December 2014

## 26. Cash generated from operations

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

| | Note | Group 2014 £m | Group 2013* £m | Company 2014 £m | Company 2013* £m |
|---|---|---|---|---|---|
| (Loss)/profit before taxation | | **(20.0)** | 5.3 | **(7.5)** | (11.9) |
| **Adjustments for:** | | | | | |
| Exceptional costs | 2 | **2.3** | 2.7 | **0.8** | 1.4 |
| Share of loss after tax of joint ventures | 16 | **0.2** | 0.2 | **—** | — |
| Depreciation | 13 | **3.0** | 3.2 | **—** | — |
| Amortisation of acquired intangibles and impairment of goodwill | 11, 12 | **32.2** | 7.2 | **—** | — |
| Amortisation of other intangibles | 12 | **3.2** | 2.5 | **1.4** | 1.0 |
| Net finance costs | 4 | **2.8** | 4.3 | **3.9** | 4.9 |
| Other finance income | 4 | **(0.3)** | (0.8) | **(0.3)** | (0.8) |
| Share option expense | 6 | **0.6** | 1.5 | **0.6** | 1.5 |
| Movement in retirement benefit liability | 31 | **(0.2)** | 0.2 | **—** | — |
| Movement in provisions | 22 | **—** | (0.2) | **—** | — |
| Loss on disposal of property, plant and equipment | 13 | **—** | 0.1 | **—** | — |
| Loss on disposal of intangible assets | 12 | **—** | 0.3 | **—** | — |
| Gift of shares to EBT | | **—** | — | **0.2** | 3.0 |
| **Changes in working capital:** | | | | | |
| Increase in trade and other receivables | | **(2.1)** | (0.4) | **(5.3)** | (5.7) |
| Decrease in inventories | | **—** | 0.2 | **—** | — |
| (Decrease)/increase in trade and other payables | | **(1.3)** | (1.9) | **7.3** | 21.1 |
| Cash flows from operating activities, before exceptional costs | | **20.4** | 24.4 | **1.1** | 14.5 |

* 2013 balances include cash flows attributable to discontinued operations.

**Non-cash transactions**

There were no significant non-cash transactions during the year (2013: £nil).



## 27. Contingent assets and liabilities

**Contingent assets**

The Board has previously announced that the Group had submitted a claim for in excess of £40.0m to HMRC for the repayment of VAT overpaid in respect of the "Spot the Ball" game from 1979 to 1996. Interest may also be added to the principal sum claimed, which, if successful, given the timeframe of the claim, could increase the sum claimed to approximately £96.0m. Following a successful outcome at the First-tier Tax Tribunal an appeal by HMRC was heard at the Upper Tribunal in April 2014 and the Group was informed in September 2014 that HMRC's appeal had been successful. The Group has appealed this verdict and the appeal will be heard at the Court of Appeal in the week commencing 2 November 2015. Accordingly, the claim has not been recognised in the Group's financial statements.

**Contingent liabilities**

The Group has contingent liabilities in respect of legal claims in the ordinary course of business; it is not considered that any material liabilities will arise from these.

In respect of the acquisitions of eBet Online Inc. on 19 December 2012, Datatote (England) Limited on 27 September 2013, and Bump Worldwide Inc. on 12 June 2014, additional consideration is payable under certain circumstances as outlined in note 15.

## 28. 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 £2.0m (2013: £2.0m).

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

| | Group 2014 £m | Group 2013 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|
| No later than one year | **2.0** | 1.9 | **0.1** | 0.1 |
| Later than one year and no later than five years | **4.6** | 4.1 | **0.7** | 0.7 |
| Later than five years | **6.5** | 0.2 | **—** | 0.1 |
| Total | **13.1** | 6.2 | **0.8** | 0.9 |

## 29. Other financial commitments

In December 1996, an incentive scheme to reward Football Pools collectors was established by a subsidiary company.

Under the terms of the scheme, the collectors earn points on the basis of their sales. These points can be converted into vouchers to purchase items from high street shops. On the basis of similar schemes, a redemption rate attributable to these points has been established and an appropriate charge made in these accounts. The potential liability in respect of these points not provided for in these financial statements is £0.2m (2013: £0.4m). This liability has not been provided for as it is the judgement of management that it will never crystallise.

The Group was required to enter into a performance guarantee bond in October 2010, which is reviewed annually, for 15% of the contract value, being $180,000 at 31 December 2014, in relation to a contract to provide and maintain pari-mutuel betting terminals to a customer in Turkey.

# Notes to the financial statements continued

for the year ended 31 December 2014

## 30. Related party transactions

The extent of transactions with related parties of Sportech PLC and the nature of the relationships with them are summarised below:

a. Key management compensation is disclosed in note 7.

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Management charges received | 1.4 | 1.3 |
| Royalty income received | 1.5 | 1.6 |
| Management charges paid | 0.1 | 0.1 |
| Interest received on inter-company loan balances | 0.4 | 0.2 |
| Interest paid on inter-company loan balances | 1.6 | 1.0 |

The amount outstanding in relation to management charges at the balance sheet date was £0.1m (2013: £0.1m) and the net amount outstanding for interest receivable on inter-company loan balances was £0.7m (2013: £0.2m). All inter-company transactions are on an arm's-length basis.

c. The Company had no transactions during the year and therefore no amounts outstanding at year end with any of its joint ventures (2013: £nil and £nil respectively). The Group invested the following amounts into each of its joint ventures during the year:

| | 2014 £m | 2013 £m |
|---|---|---|
| Sports Hub Private Limited | 0.2 | 0.2 |
| Sportech – NYX Gaming LLC | 0.9 | – |
| S&S Venues California LLC | 0.6 | – |
| Picklive USA LLC | 0.2 | – |
| Total invested in joint ventures (note 16) | 1.9 | 0.2 |

d. Scientific Games Corporation ("SGC") was a 19.99% shareholder in Sportech PLC until the disposal of 100% of its holding on 9 January 2014. SGC is therefore considered to be a related party until this date. There were no transactions with SGC from the previous year end date to the date of disposal.

## 31. Pension schemes

The Group operates four pension schemes in the UK: for employees other than those employed by Data Tote, a defined contribution scheme, a funded defined benefit scheme and, from April 2014, an auto-enrolment scheme for qualifying employees who are not members of the first two schemes. Data Tote operates a defined contribution scheme. The Group operates a further funded defined benefit scheme in the USA, two defined contribution schemes in the USA, a defined contribution scheme in the Netherlands and a defined contribution scheme in Ireland.

**Summary of pension contributions paid**

| | 2014 £m | 2013 £m |
|---|---|---|
| Defined contribution scheme contributions | 0.7 | 0.7 |
| Defined benefit scheme contributions | 0.3 | 0.2 |
| Total pension contributions | 1.0 | 0.9 |

**Defined contribution schemes**

In the UK, those employees who joined the Group consequent to the acquisition of Littlewoods Gaming (formerly Littlewoods Leisure) and who were aged under 50 on 4 September 2000 and all other UK employees of Sportech PLC (apart from Data Tote – see below) can join either a stakeholder pension scheme established on 6 April 2001 or alternate defined contribution arrangements, or the auto-enrolment scheme. Group contributions are made at a maximum rate of 8% of pensionable salaries. Data Tote contributions are made at a maximum rate of 6% of pensionable salaries.



A defined contribution scheme for non-unionised employees, including eBet, is operated in the USA, into which the Group contributes 37.5% of the first 6% of participant contributions. A further defined contribution scheme is available for unionised employees; the Group does not make contributions into this scheme.

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

The Group contributes 7.5% of salary less state pension allowance, which is currently €12,000 per annum, into a defined contribution scheme for employees in Ireland.

In Germany, the approach adopted resembles life insurance cover rather than pension provision. Gross salary is reduced by a specified amount which is transferred to the insurance provider. This is tax-efficient for the employee.

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

**Defined benefit schemes**

Pursuant to the sale agreement between Littlewoods PLC and Sportech PLC, a defined benefit scheme was set up for those employees who joined the Group consequent to the acquisition of Littlewoods Gaming (formerly Littlewoods Leisure) and who were aged 50 or over on 4 September 2000, the date of the acquisition. The scheme was formed on 6 April 2001 and is governed by a Definitive Trust Deed and Rules. It is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004. The scheme is contracted out of the State Second Pension Scheme. The scheme is currently not open to new members.

The US defined benefit scheme is administered by an insurance company in the USA and provides retirement benefits to employees who are members of a collective bargaining unit represented by the International Brotherhood of Electrical Workers. Benefits are based on value times credited service.

The amounts recognised in the balance sheet were as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Fair value of plan assets: | | |
| – UK | 2.0 | 1.8 |
| – USA | 2.8 | 2.5 |
| Total fair value of assets | 4.8 | 4.3 |
| Present value of the schemes' liabilities | (6.4) | (5.6) |
| Deficit in the schemes | (1.6) | (1.3) |
| Included in: | | |
| – non-current liabilities | (1.6) | (1.3) |

# Notes to the financial statements continued
for the year ended 31 December 2014

## 31. Pension schemes continued

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

| | USA 2014 | UK 2014 | USA 2013 | UK 2013 |
|---|---|---|---|---|
| Discount rate | **3.75%** | **3.4%** | 4.5% | 4.4% |
| Rate of increase in salaries | **N/A** | **0%** | N/A | 5.0% |
| Rate of increase in pensions in payment: | | | | |
| – 5% LPI | **N/A** | **3.15%** | N/A | 3.5% |
| – rate of inflation | **N/A** | **3.15%** | N/A | 3.5% |
| – mortality table | **2014 IRS Static Mortality Table** | **S1NxA CMI 2012 projections 1.5% per annum long-term rate of improvement** | 2013 IRS Static Mortality Table | S1NxA CMI 2012 projections 1.5% per annum long-term rate of improvement |

For the USA scheme, under the adopted mortality tables, if the future life expectancy were to be plus/minus one year the liabilities would increase/decrease by £15,000.

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 £30,000.

For the UK, if the discount rate were to be increased to 3.65% the liabilities would decrease by £70,000. For the US, if the discount rate were to be increased to 4.25% the liabilities would decrease by £191,000.

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

| | Present value of obligation £m | Fair value of plan asset £m | Total £m |
|---|---|---|---|
| At 1 January 2013 | 5.9 | (4.3) | 1.6 |
| Current service cost | 0.2 | — | 0.2 |
| Interest expense/(income) | 0.2 | (0.2) | — |
| Income statement expense/(income) | 0.4 | (0.2) | 0.2 |
| Remeasurements: | | | |
| – Currency exchange movements | (0.1) | — | (0.1) |
| – Gain from change in actuarial assumptions | (0.3) | — | (0.3) |
| | (0.4) | — | (0.4) |
| Contributions: | | | |
| – Employer's | — | (0.1) | (0.1) |
| Payments from plans: | | | |
| – Benefit payments | (0.3) | 0.3 | — |
| At 31 December 2013 | 5.6 | (4.3) | 1.3 |



| | Present value of obligation £m | Fair value of plan asset £m | Total £m |
|---|---|---|---|
| At 1 January 2014 | 5.6 | (4.3) | 1.3 |
| Current service cost | 0.2 | — | 0.2 |
| Interest expense/(income) | 0.2 | (0.2) | — |
| Income statement expense/(income) | 0.4 | (0.2) | 0.2 |
| Remeasurements: | | | |
| – Currency exchange movements | 0.2 | (0.2) | — |
| – Loss from change in actuarial assumptions | 0.4 | — | 0.4 |
| | 0.6 | (0.2) | 0.4 |
| Contributions: | | | |
| – Employer's | — | (0.3) | (0.3) |
| Payments from plans: | | | |
| – Benefit payments | (0.2) | 0.2 | — |
| **At 31 December 2014** | **6.4** | **(4.8)** | **1.6** |

**Effect of change of assumptions on liability values**
Changes in the financial assumptions used would have the following approximate effect on the schemes' liabilities and hence the deficit at the end of the year:

| Change | 2014 Increases liability by £m | 2013 Increases liability by £m |
|---|---|---|
| Increase inflation by 0.25% (2013: 0.25%) | **0.1** | 0.1 |

The assets of the UK scheme are held in an independent Trustee administered fund. The Trustee of the scheme is Sportech Trustees Limited. The Directors of Sportech Trustees Limited include Carl Lynn, a Sportech employee, who also acts as Chair of the Trustee company. The assets of the US scheme are held by an insurance company.

The actuarial method for calculating the liabilities of the scheme is the projected unit method.

The expected employer annual contributions to the schemes for the financial year ending 31 December 2015 amount to £0.2m (year ended 31 December 2014: £0.4m).

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

| At 31 December 2014 | Less than a year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Pension benefits | 0.1 | 0.3 | 0.7 | 4.8 | 5.9 |

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

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

| At 31 December 2014 | Less than a year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Pension benefits | 0.1 | 0.1 | 0.2 | — | 0.4 |

The weighted average duration of the UK Scheme obligation is approximately twelve years.

# Shareholder and corporate information

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

**Company registration number**
SC069140

**Company Secretaries**
Luisa Wright
Cliff Baty

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

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

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

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

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

**Joint stockbroker**
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

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

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Royal Bank of Scotland plc
280 Bishopsgate
London EC2M 4RB

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

Olswang LLP
90 High Holborn
London WC1V 6XX

**Statutory Auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London WC2N 6RH

**Registrars**
Capita Registrars Ltd
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

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

Tel: 0871 664 0300

E-mail: ssd@capitaregistrars.com

**Investor relations**
Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the UK Head Office.

Tel: 020 7268 2400

E-mail: ir@sportechplc.com

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101 Wigmore Street
London W1U 1QU
www.sportechplc.com

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