Sportech PLC

Annual Report and Accounts 2017

THE INTERNATIONAL BETTING TECHNOLOGY BUSINESS

WELCOME TO OUR ANNUAL REPORT

Sportech is the international betting technology business. It provides technology solutions for gaming companies, sports teams, and racetracks in 37 countries and owns and operates gaming venues and digital gaming channels globally.

What's inside this report

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Highlights

Group Highlights

- Return of £75 million to shareholders in two tranches
- Repaid over £60 million of debt and now debt free with £12 million cash at bank at 31 March 2018
- Football Pools sale completed
- Opened prestigious new sports bar in Stamford, Connecticut
- Corporate restructuring and cost reduction programme completed, comprehensive financial review undertaken
- Well positioned for a liberalised US sports betting market opportunity
- Revenues at £66.3 million, 2% higher than reported for 2016 but 2% lower in constant currency
- Adjusted EBITDA at £6.7 million (2016: £8.5 million)
- Statutory loss before tax of £23.2 million (2016: profit, £63.6 million)
- Adjusted profit from continuing operations, £1.5 million, up from £0.7 million

	2017 £ millions	2016 £ millions
Revenue	**66.3**	64.8
Gross Profit	**47.7**	45.1
Contribution[1]	**45.6**	43.0
Adjusted EBITDA[2]	**6.7**	8.5
(Loss)/profit before taxation from continuing operations	**(23.2)**	63.6
Adjusted profit from continuing operations[3]	**1.5**	0.7
Cash, net of customer balances at 31 December	**15.9**	36.5

1. Contribution is defined as gross profits, less marketing and distribution costs.
2. Adjusted EBITDA is earnings before interest, taxation, depreciation and amortisation, share option charges and separately identifiable items as reported in notes 6 and 7 of the financial review.
3. Adjusted profit from continuing operations is the aggregate of adjusted EBITDA normalised share option charges, depreciation, amortisation (excluding amortisation of acquired intangibles), and finance charges (see note 17 of the financial review).

Current developments

- Appointment of new CEO
- Imminent appointment of new CFO
- Imminent Sportsbook partnership for the US
- Agreed disposal of Sportech Racing BV (Holland)

Financial Summary

The financial summary above excludes the results in the year from both the Football Pools which was sold in June 2017, and the profit from Sportech Racing BV, which has been accounted for as an asset held for sale. Their combined contribution to earnings, is shown in discontinued activities.

Directors and Officers

Richard McGuire ▲

Chairman and
Non-executive Director

Nationality and residence
UK

Date appointed to the Board
August 2016

Date appointed Chairman
May 2017

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

Andrew Gaughan

Chief Executive Officer

Nationality and residence
Canada

Date appointed to the Board
January 2017

Date appointed CEO
March 2018

Andrew serves as Chief Executive Officer and was appointed to the Board in January 2017. Andrew has extensive experience in the global gaming, technology and racing sectors, having previously held senior positions at Scientific Games Corporation, Magna Entertainment Corporation and Woodbine Entertainment Group. He is a qualified lawyer, and is based in Toronto, Canada.

Richard Cooper ● ■ ▲

Chairman of the Audit Committee

Nationality and residence
UK

Date appointed to the Board
May 2017

Date appointed Chairman of Audit Committee
May 2017

Richard Cooper joined the Sportech Board as a Non-Executive Director and Chairman of the Audit Committee in May 2017. From December 2008 to February 2017, Richard was the Group Finance Director of GVC Holdings PLC the multinational online sports betting and gaming group. He is a member of the Institute of Chartered Accountants in England and Wales, having trained and qualified with Saffery Champness in London. He is Chairman and non-executive director of VRE Holdings PLC, a Virtual Reality company whose shares were admitted to AiM on 12 March 2018.

Giles Vardey ● ■ ▲

Chairman of the Remuneration Committee

Nationality and residence
UK

Date appointed to the Board
December 2017

Date appointed Chairman of Remuneration Committee
February 2018

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

● Audit Committee ■ Remuneration Committee ▲ Nomination Committee

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

Advisors and Corporate Information

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

Principal bankers
Bank of Scotland PLC
10 Gresham Street
London EC2V 7AE

Royal Bank of Scotland PLC
280 Bishopsgate
London EC2M 4RB

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

Lawyers as to US law
Duane Morris LLP
1940 Route 70
East suite 100
Cherry Hill, New Jersey, 08003-2171

Statutory Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place,
London WC2N 6RH

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

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

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

Registered office
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Edinburgh EH1 2AA

Head Office and correspondence address
Sportech PLC
20 Balderton Street
London W1K 6TL

USA Operational Centres
Sportech Inc. and Venues
600 Long Wharf Drive
New Haven, Connecticut, 06511

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

Company registration number
SC69140

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. The Group's press releases and announcements can be found on the site.

Business Model and Strategy

The Group's strategy is to focus on fully regulated sports betting opportunities. In the past, these have been primarily "pari-mutuel" in nature. The Group is now pursuing opportunities to leverage existing gaming licences, technologies, and customer relationships to achieve long-term tangible shareholder returns.

In some cases, this might be through the expansion of the Venues network in Connecticut where there are 16 existing sites with a licence to expand to 24 and through the expansion of the intra-state web and mobile pari-mutuel betting channels in Connecticut.

The Group seeks to broaden the product offering and become a betting operator able to offer the full suite of gaming products (as regulation develops) in an omni-channel environment, including at venues where bets can be placed watching sport, eating and drinking.

The Group has an international focus with the majority of operations in USA (Connecticut, New Jersey, Georgia), Canada (Toronto), Ireland and United Kingdom (Bristol). The majority of the Group's underlying earnings are now in USD, followed by GBP. The Group does not hedge against its USD earnings, but will report translation differences.

Racing and Digital

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

The Division's proprietary Quantum™ System software, which is extensively used by many of the world's tote operators, and its Global Quantum™ Data and Operations Centre, keystone of a global service delivery network, together form the foundation from which Sportech pursues key initiatives including international expansion, growth in global commingling, and the extension of digital technologies crucial to long-term reduction in capital and operational costs.

Included within Racing and Digital is the nascent Bump 50:50 business. Acquired in June 2014, Bump supplies in-stadia and, beginning in 2017, online electronic lotteries to some of North America's best-known major league sports teams and entertainment venues. Bump 50:50 strategy calls for continued aggressive customer acquisition activities and leveraging of online and mobile platforms to drive organic growth and reach new markets of non-sports customers.

Venues

Sportech Venues operates all legal betting on horseracing, greyhound racing and jai alai under an exclusive and in perpetuity licence for retail, telephone, internet and mobile in the State of Connecticut.

Having secured the rights to open a total of 24 venues in Connecticut, and having engaged actively with respect to the passage of new legislation for sports betting, Venues is well positioned to act quickly to expand should sports betting in-venue and online become permitted.

Venues is taking a much more aggressive competitive stance with regard to its web and mobile channels. The Division is also implementing strategies to maximise return on investments made in the new Bobby V's location in the areas of food and beverage, betting, and group sales through effective management and more aggressive marketing activities.

Chairman's Statement

2017 was a year of significant achievement for Sportech PLC. Following a positive litigation ruling and the sale of our core UK business, the Group repaid £60 million of debt and returned £75 million to shareholders, whilst having sufficient cash to facilitate immediate growth prospects during the year.

Your Board has also undergone some change during the year and I'm delighted to have welcomed Richard Cooper and Giles Vardey, who bring leading gaming and business experience, and Andrew Gaughan, now CEO, to the PLC Board. These appointments bring significant incremental expertise and skills to the Group.

The Board wishes to acknowledge Directors who departed the Board in 2017: Roger Withers (who had served as Chairman), Ian Penrose (Chief Executive) and Mickey Kalifa (CFO).

In March 2017 the Group announced a conditional agreement to sell the Football Pools business, which was subsequently passed by shareholders in April 2017. The Football Pools represented the mainstay of the Group's EBITDA and in particular, the bulk of the UK earnings stream. The sale completed in June 2017 and now the Group's earnings are around 80% denominated in USD, with GBP representing around 10%, Euro's 8%, and CAD 2%. The Board anticipates further growth in USD contributions going forward and the Board will be evaluating whether the reporting currency for the Group should become the US dollar.

The current Board recognises stakeholder concern regarding previous investment venture returns and a track record of impairing investments, which unfortunately continued in 2017 as the book valuations of various historic investments have yet again had to be revalued downwards. Given an absence of an investment strategy in early 2017, to provide tangible growth opportunities, the Board elected to return capital to shareholders thus de-risking investor capital.

Indeed, the Group made two significant returns of capital to shareholders during the year. This was the first time in its recent history that capital has been returned to shareholders. £21 million was returned in March 2017 via a Tender Offer and, following a required Court approved capital reduction, a further £54 million was returned by way of a special dividend in December 2017.

Following the sale of the Football Pools and significant capital returns to shareholders, it became inevitable that having a UK-based executive management team was not an appropriate structure for the Group going forward. Following the announced decisions by UK-based senior executives to leave the now US-focused Group, a cost reduction exercise commenced to streamline the UK cost base. I am pleased to report that the Board has executed on this plan and has reduced the UK corporate cost base significantly going forward.

At all times during this process, consent has been sought, and been given, by the regulatory authorities where change in management is a condition precedent. The Group continues to enjoy excellent relationships with these regulators.

Formal Sale Process

In October 2017, after a number of unsolicited external approaches, the Board decided that it would consider formal offers for the Group and commenced a Formal Sale Process. The Board and senior management invested considerable time over many months in diligently managing this initiative; meeting numerous interested parties and presenting the business capabilities and potential. However, the Board, together with its advisors, concluded that none of those approaches were likely to result in an offer for all or a material part of the Group that the Board would be able to recommend to shareholders, and the termination of this process was therefore announced on 14 March 2018.

Strategic Review

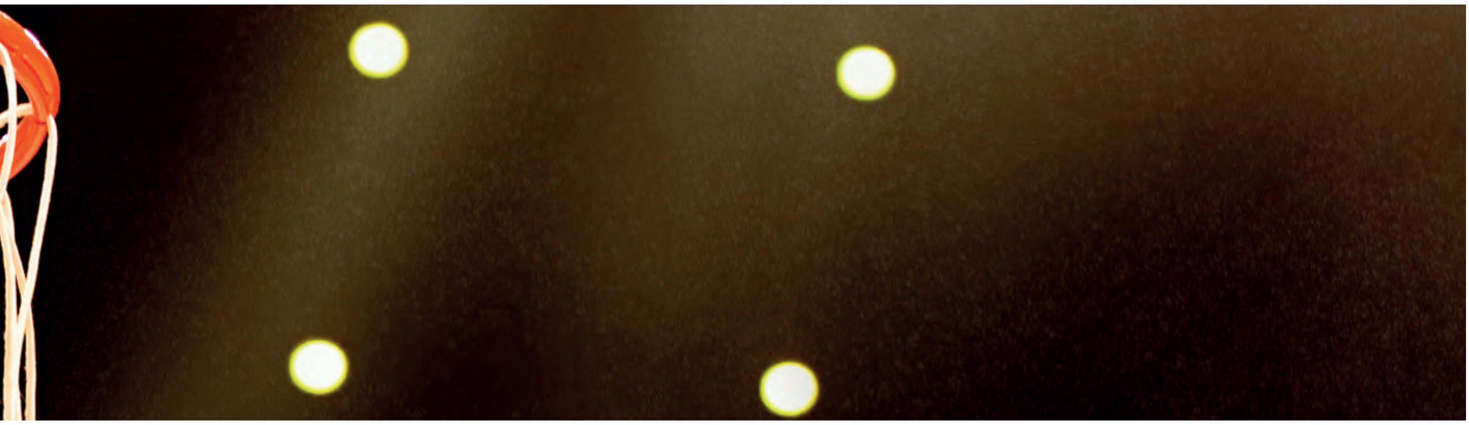
The Strategic Review, announced on 18 September 2017, concluded that Sportech has significant potential for long-term value creation through a combination of: growing its core businesses; diversification; and benefitting from the possible liberalisation of sports betting in a number of US states.

Following the departure of the previous senior executives, Richard Cooper (a Non-Executive Director and Chair of the Audit Committee) and I commenced a thorough review of the financial and contractual affairs of the Group. The Group views "exceptional items" as simply that, items that are exceptional in nature and size (the de minimis being the materiality threshold applied by the auditors) and which if to recur, are not, therefore, exceptional, or separately reported items which we understand to be the preferred usage of the FRC.

Chairman's Statement continued

A number of provisions have been made for onerous contracts or potential bad debts as this process unfolded. Some of the significant project and investment cessations have been as follows:

- In January 2010, the Group announced a joint venture ("JV"), launching a sports gaming business in India. £3.1 million was invested in that JV up to 31 December 2016, which by that date had all been expensed. The JV was almost dormant in 2017, and by February 2018, the JV was terminated as minimal revenues were recognised, and the JV had ongoing costs with limited potential for returns.
- In December 2013, the Group announced plans to build a proposed 10,000 sq.ft. sports bar, restaurant and betting facility in the town of Norco, Southern California. This site had not been developed, currently lies vacant and during 2017 a further provision of £1.2 million was made for the onerous lease and other associated liabilities. Alternative use options are currently being reviewed.
- In October 2015, the Group opened its first branded sports bar ("Striders"), restaurant and betting facility in downtown San Diego, California. This operation was a joint venture with local operators. The venue has not been as successful as the previous executive team had originally forecasted and the Group is in dispute with its partners and accordingly a provision of £1.3 million has been made for onerous contracts. The Board are reviewing its options in relation to this investment.
- Additionally, the Group undertook a review of non-core assets and, in the Netherlands, following the award of a new five-year licence in June 2017 to provide the exclusive right to conduct tote betting on horseracing, the Board decided to revisit the potential sale of that business. I am pleased to report that in March 2018 we executed a sale and purchase agreement, subject to certain regulatory conditions and anticipate completing on this disposal in H1 2018. This business has been included in these accounts as an asset held for sale.
- The Board are further examining the value of surplus real-estate in North America, to assess all options to extract further value for shareholders. The Group owns two freehold sites in Connecticut; a nine-acre site in New Haven and a seven-acre site adjacent to the airport in Bradley. However, the Group does operate a significant venue onsite at each of these locations, which therefore restricts its flexibility.



Regulatory framework and US Sports Betting

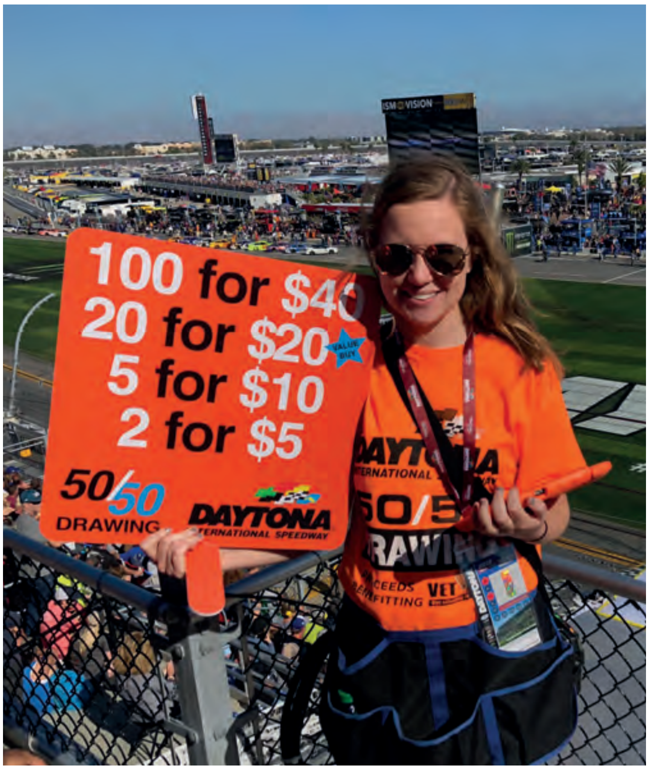
The possibility of the US market moving towards a broader regulation of sports gaming continues at pace with a number of states preparing to enact legislation if the US Supreme Court permits.

Furthermore, the governing bodies of certain significant US sports have lobbied hard for an opening-up of legislation. Through the Group's existing regulatory, commercial and customer network, the Board believe there are significant opportunities to leverage these relationships and as a result of this, significant time has been invested in assessing the optimal platform for Sportech's B2C and B2B businesses to capitalise on this potential momentous change. The Board anticipates announcing the launch of a Sportsbook utilising a reputable third-party vendor in H1-2018.

Shoreline Star LLC Agreement

As part of the acquisition of the US racing business from Scientific Games in 2010, the Group acquired a contract with Shoreline Star LLC ("Shoreline"). This contract provides a share of profits to Shoreline from new forms of gaming within the US state of Connecticut, for 25 years after the commencement of legalised new forms of gaming. The dominant clause of this contact reads:

> *"Under the terms of the amended contract, Shoreline Star shall now receive approximately 50% of profits after tax from these new forms of gaming for a 25-year period (with a ratchet downwards commencing after five years) following commencement. Any payments under this revised contract will only occur after Sportech fully recover any capital investment from additional cash flows generated."*



The "downward ratchet" provides for a reduction in profit share paid to Shoreline Star LLC, from 50% to end year five, then 40% to end year ten and 30% for remaining fifteen years.

I raise this now purely to ensure shareholders are fully aware of this material contract when assessing the potential net returns to Sportech PLC from the advent of US Sports Betting, or other forms of enhanced gaming that benefit the Group within the State of Connecticut.

Chairman's Statement continued

Outlook and Trading Update

Venues

Q1-2018 revenue growth in Venues has been higher than in Q1-2017, but below our expectations.

The Stamford location continues to build market positioning and financial momentum, but the pre-opening business plan was overly optimistic and the actual and now anticipated timeline for the business to reach revenues and profits, commensurate with targeted initial investment returns, will take well into 2019. However, in order to address certain opportunities, we are at an advanced stage of recruiting experienced F&B and Group Sales expertise to build that side of the business aggressively going forward and to bring it in line with revenues and profit levels that this high quality and well-located sports and wagering bar/restaurant should be producing. The output and results of these actions is unlikely to have a material impact until Q3/Q4 of 2018 due to the management recruiting, and rebuilding of local awareness for the facility.

Wagering revenues softness in the Venues business is primarily from our digital platform and at Stamford. This is being addressed through a renewed digital focused marketing plan that is concentrated on combating out-of-state digital Advanced Deposit Wagering ("ADW") operators that have recruited and taken our Connecticut resident customers into their own ADW digital platforms, all based in Oregon.

This business and revenue recapture and digital development will be further augmented and supported through the anticipated gaming bill SB 276 coming into force and effect, late this spring, for which the Group has led the lobby with our Connecticut General Assembly and Department of Consumer Protection regulatory offices. The gaming

bill, in essence, seeks to explicitly make illegal the taking of wagers from Connecticut residents within Connecticut unless being taken by the authorised pari-mutuel wagering operator; which of course is Sportech Venues. The Group will be aggressively enlisting the cease and desist actions of the Connecticut Attorney General's office in upholding this law when it comes into force. The Group will combine an aggressive marketing, advertising and customer rebate programme that messages and focuses around taking back customers from the businesses operating illegally from outside the State of Connecticut.

Racing and Digital

The component revenue parts of the Racing and Digital businesses, including one-time sales, core contracted and recurring tote services across all regions, digital B2B services and Bump 50:50, are broadly trading in line with our expectations.

Costs across all the businesses are broadly in line with management's expectations and our sales pipeline remains a key focus for the year. It will now be the key variant in achieving or exceeding our internal revenue and profits expectations for 2018.

Cash position

Net of customer balances, the Group's cash position at 31 March was £12 million. The initial net proceeds of the sale of the Venues business in the Netherlands are expected to be £2.6 million, receivable in June/July 2018.

This is both an exciting and challenging time for the Group as it continues to navigate through certain historic issues and present a transparent and realistic overview of the Company.

The Board and core management, led by Andrew Gaughan, the new CEO, remain focused on executing a strategy to capitalise on the significant potential a US Supreme Court repeal of the Professional and Amateur Sports Act ("PASPA") could deliver.

The senior management team remain resolute in its proactive campaign with the Connecticut General Assembly and associated stakeholders in positioning Sportech as the obvious licensee to conduct sports betting within that state.

The Group is well advanced in securing a Sportsbook partner in anticipation of regulatory easing and the Board assures shareholders that the core management team continues to provide testimony, evidence and insight to the political debate on this critical topic. In addition, the senior management team have commenced discussions with their business clients and others across the US in preparing them for the opportunities and challenges ahead.

Finally, I would urge you to visit our revised corporate website, www.sportechplc.com, which in addition to stock exchange regulated news, provides regular, non-regulatory updates to shareholders about your Company.

Richard McGuire
Non-Executive Chairman
23 April 2018

Operating Review of the Business by the CEO

Andrew Gaughan, CEO

I am pleased to address the Sportech shareholders as the Group's new Chief Executive Officer, having been appointed to that position on 14 March 2018, although I joined the Board in January 2017.

Since then, there have been a number of significant changes in the Group: firstly, the sale of the Football Pools, which post completion saw two existing Directors move on; and secondly, the Formal Sale Process which followed a number of unsolicited approaches for the Group as a whole.

The Group emerged from this period leaner and more invigorated, executing strategies that include the continued expansion of our international footprint in Racing and Digital, and the ongoing development of the Bump 50:50 product focused on the charitable foundations of tier-one professional sports teams. We are also pursuing further deployment of online and mobile platforms to drive growth and reduce operational costs, and diversification into new forms of gaming, including sports wagering, as and when regulations permit, both in the Venues business and in the US Racing and Digital business.

The Group now has two operating divisions: Racing and Digital (including Bump 50:50), and Venues.

Racing and Digital

Description and financial performance summary

Racing and Digital provides pari-mutuel betting technologies and services to 293 racetracks, off-track betting network, casino, lottery, and online pari-mutuel operator customers, plus an additional 145 commingling customers, in 37 countries and 37 US states. We have approximately 27,000 betting terminals, 26 white-label betting websites, and 23 white-label mobile apps deployed worldwide and our pari-mutuel systems annually process nearly USD12 billion in betting handle.

£'000s	2017	2016 Reported
Service revenue	**1,389**	5,789
Sales revenue	**34,080**	30,248
Total revenues	**35,469**	36,037
Contribution	**30,380**	28,977
Contribution margin	**85.7%**	80.4%
Adjusted operated expenses	**(22,672)**	(19,601)
Adjusted Ebitda	**7,708**	9,376
Internal software capitalised	3,026	3,022
Purchase of other intangibles	865	113
Purchase of PPE	1,281	2,885
Total capex in year	**5,172**	6,020

Despite missing our 2017 international sales targets, the Racing and Digital division's core recurring tote technology service and Bump 50:50 revenues have progressed well, providing a clear indication of longer term sustained earnings growth and value creation emanating from the technology and business investments already made.

The sales anticipated in 2017 that did not come to fruition have not yet been closed and continue to be considered realistic opportunities. Some of these have been rolled into our 2018 pipeline, including multiple projects in Asia and Europe such as our recently-announced Quantum™ System upgrade sale to Royal Sabah Turf Club of Malaysia. After four years of strong sales revenues, with annual average sales exceeding USD6.5million and contribution margins of 45%, 2017 is considered an unusually low sales year. However, continued strong growth in recurring commingling service revenues helped offset this one-time relatively soft year in sales.

Developments

In 2017, key technology advances in the core Quantum™ System software were realised and the global commingling business grew significantly through high-value connections between the UK, Asia, Europe, and North America, facilitated by the global network of Quantum™ Data and Operations Centres. These are Sportech's proprietary products and centres.

The capacity of the Quantum™ System-supported global pools and bet types was significantly expanded to include exotic complex parlays, of particular interest to customers in Asia, and the popular French pools offered by ZEturf and PMU.

The North American footprint was strengthened, executing 13 long-term contract extensions with existing customers, and we further expanded the global footprint to include four new customers, including Dansk Hestevæddeløb ApS, the joint operating company for horseracing and operator of all nine racetracks in Denmark. This is in addition to the long-standing contract we have with Danske Spil A/S, the national lottery in Denmark.

Racing and Digital also continued to enhance and promote its digital technologies, rolling-out key updates to the G4 white-label betting website product and deploying the Digital Link® mobile app, along with the self-service BetJet® SL 2.5 betting terminals at Ascot racecourse in the UK, under our contract with Betfred.

Looking forward

I see additional opportunities in both the North American and international markets, some of which have already come to fruition.

Since the start of the year, important new contracts and contract extensions have been signed in the tote services, global commingling, and digital services businesses.

Additional commingling agreements have already been completed with new customers in Europe: Norsk Rikstoto, the foundation that supervises pari-mutuel betting on horseracing in Norway; and OPAP, the holder of exclusive rights to numerical lotteries and sports betting in Greece. These commingling contracts leverage the Quantum™ System software and European hosting and operations services to further expand the global commingling footprint and the menu of hosted pools and bet types.

A new ten-year, USD10 million agreement with Camarero Racetrack has been signed covering both Tote and Digital Services and including the provision of a new G4 wagering website and Digital Link® app to the exclusive operator of horseracing in Puerto Rico.

Long-term Tote customer Parx® Racing once again selected Sportech for Tote services under a contract extension and also became a new Digital Services customer beginning in 2018 under a new five-year, USD4.1 million contract, using the G4 website and Digital Link® mobile products. Parx® Racing has a well-established intrastate account betting operation in Pennsylvania and this contract is a significant endorsement of Sportech's digital technology platforms.

In North America, I am re-examining our Digital Services business with a focus on improving profitability and cash generation. We intend to push our digital technologies into racetrack and OTB operations in order to reduce capital and operational costs through the encouragement of "bring your own device" mobile apps and websites.

New products will be added to the Quantum™ System software including additional lottery products currently offered by LEIDSA, (a Sportech customer in the Dominican Republic), which would be suitable for deployment by other small private lottery operators, particularly in Latin America and Asia.

Operating Review of the Business by the CEO continued

Bump 50:50

Description

The Bump 50:50 sports raffle business provides the technologies and services that allow the foundations (or charities) associated with professional and college sports teams and entertainment venues to sell and fulfil 50/50 raffles to generate funds for their charitable missions. Jackpots are divided equally between the foundation and the winner. Bump 50:50 electronic raffle technologies and proven marketing strategies help foundations maximise the return on their charitable fundraising programs. Sportech acquired the business in 2014 when the company serviced just seven professional sports teams. Since then the determination and professional acumen of the team has seen our number of clients serviced grow to more than 60.

Financial performance

Revenues, currently included within the Racing and Digital division, were in 2017 up 46% at £1.2 million (2016: £0.8 million). Adjusted EBITDA £0.5 million (2016: £0.2 million).

Developments

The Bump 50:50 business continued its multi-year growth trajectory in 2017, signing 25 new customers including the official charitable foundations of the Atlanta Braves (MLB®), Columbus Blue Jackets (NHL®), Houston Rockets (NBA®), Las Vegas Golden Knights (new franchise team of the NHL®), Pittsburgh Pirates (MLB®), New York Jets (NFL®), and the NASCAR Foundation. These additions helped bring the total number of Bump 50:50 customers to 68, representing foundations from 16 different professional and collegiate sports leagues. In 2017, Bump 50:50 helped their customer foundations raise just under US$11 million.

This year Bump 50:50 launched a new online and mobile raffle program to supplement in-stadia play and used this new platform to help the Tampa Bay Lightning Foundation reach a jackpot record of US$270,000 during the NHL® All-Star event.

In 2018, Bump 50:50 will continue its aggressive customer acquisition strategy, flexing staff up to accommodate additional deployments and to support increased sales activity. The company will target more non-sports customers – music and other large-scale community and entertainment festivals – for the online and mobile platforms in particular. The business continues to look at revenue enhancing vertical markets which may include internationalisation of the core product.

Venues

Description and financial performance summary

Sportech Venues in Connecticut, USA is the only legally permitted betting operator in the state. It operates the legal betting on horseracing, greyhound racing and jai alai under an exclusive and perpetual licence for retail, telephone, internet and mobile channels. Sportech works in close collaboration with the State of Connecticut which has a population of 3.6 million, 76% of who are 18 and over, the legal age for pari-mutuel wagering there, and a median household income of around USD73k, around USD16k higher than the national median household income.

£'000s	2017	2016 Reported
F&B – Stamford	1,471	–
F&B – Other	2,561	2,609
F&B – Total	4,032	2,609
Wagering revenue	27,574	27,050
Total revenues	**31,606**	29,659
Contribution	15,482	14,405
Contribution margin	49.0%	48.6%
Adjusted operated expenses	(13,985)	(11,957)
Adjusted EBITDA	**1,497**	2,448
PPE – Stamford	5,238	2,451
PPE – Other	370	513
PPE – Total	**5,608**	2,964

Venues currently has over 400 employees and a total of 16 locations in Connecticut, two of which operate under our premium Bobby V's Restaurant and Sports Bar brand. Digital betting services are offered through an online platform, MyWinners.com, constructed around Sportech Racing and Digital's G4 white-label betting website technology and a mobile app powered by Sportech's Digital Link® mobile, along with a traditional phone betting service featuring personal teller betting services.

Developments during the year

In 2017, Venues opened the 25,000 sq.ft. Bobby V's Stamford, featuring 200 high definition TV's, multi-functional party spaces, an indoor golf simulator, and a designated betting area with VIP spaces and state-of-the-art betting and viewing carrels in the heart of Stamford's downtown district. Performance to date has been below the original expectations set by previous management, and we are reviewing growth initiatives for this venue, on both the wagering and food and beverage sides, including a comprehensive and aggressive plan for Group sales and food and beverage management, and more proactive deployment of mobile betting with Sportech's Digital Link®.

The local management team successfully lobbied the Connecticut legislature for permission to open an additional six venues over and above the 18 we were already permitted to open, which will allow expansion and to eventually diversify into sports betting, should the laws and regulations be adjusted to permit it.

There remains illegal competition from unlicensed internet betting operators who accept wagers from Connecticut residents despite being issued cease and desist letters by the State's Attorney General's office. In 2017 and into 2018 we are pursuing new remedies available to us, including increased legal protections for Connecticut's only licensed and taxed operator.

Despite this, our brand MyWinners.com achieved an 11% increase in 2017 from online and mobile handle versus prior year. Regardless of the outcome of any remedial actions at the state level, the Board is taking a much more aggressive and proactive stance with regard to promotion and marketing of its digital channels. Sportech holds a distinct advantage in terms of both technology and access to bricks and mortar cross-selling and these advantages will be fully exploited to drive customer acquisition and to increase betting by customers who may hold multiple accounts.

The Venues division capitalises on its operational expertise to offer turn-key managed venue packages to licensed operators. In 2017, Venues extended key managed venue contracts with the Mohegan Sun Casino in Connecticut, along with two other racebooks in Louisiana and the Caribbean.

Corporate Management Structuring and Focus

With a shift in the senior management presence from the UK to North America, management operations from the Group's existing London base will be relocating to the existing operations centres in Toronto and the US, where both I and a new CFO will be located. This shift will not only allow reduced corporate overhead costs but will also place senior corporate management in closer proximity to global technology and operational focal points, and the consumer-facing business, while maintaining key bases of operation and secondary business offices at existing locations in Bristol (UK), Ireland and Singapore.

Further financial focus will characterise senior management of Sportech going forward, with a renewed and vigorous focus on billing, debt collection, and working capital improvements within the business and a stricter financial evaluation of new business opportunities, capital investments, and partnerships.

2017 was a year of material change for Sportech and 2018 is shaping up to be one of significant opportunity. Global recurring service revenues in our B2B businesses provide a clear indication of growth resulting from several years of technology and operational investment. New contracts and sales opportunities in the 2018 pipeline speak to the efficacy of our technology and business strategy. The Bump 50:50 growth trajectory of the past four years is on pace to continue, with new sales platforms and opportunities in new markets. The Venues business now has room for meaningful strategic expansion and the tools to more aggressively compete in Connecticut's digital marketplace. Finally, both our Venues and our Racing and Digital divisions are well positioned to act quickly and decisively on sports wagering, if and when the regulations allow it.

I am pleased to be leading Sportech and enthusiastic about what the future holds for its shareholders, customers and employees. Indeed, at this juncture I would like to thank all staff across the Group for their hard work and commitment.

Andrew Gaughan
Chief Executive Officer
23 April 2018

Financial Review

An extensive evaluation of the finances has been undertaken and a more granular review of the underlying performance has been prepared along with a clear focus on cash conversion and an explanation of those charges of a 'one-off' nature.

Income Statement – Statutory View

£000's	2017	2016 Reported
Revenue	**66,271**	64,814
Gross profits	**47,709**	45,053
Contribution	**45,591**	43,023
Other income (net)	**827**	90,952
Operating expenses (net)	**(68,065)**	(68,589)
Operating loss before interest and taxation	**(21,647)**	65,386

Income Statement – Detailed View

£000's	Note	2017	2016 Reported	2016 Constant currency
Service revenue		**64,886**	59,029	61,582
Sales revenue		**1,385**	5,785	6,042
Total revenues	1	**66,271**	64,814	67,624
Cost of sales	2	**(18,562)**	(19,761)	(20,684)
Gross profits		**47,709**	45,053	46,940
Marketing and distribution costs		**(2,118)**	(2,030)	(2,118)
Contribution	3	**45,591**	43,023	44,822
Contribution margin %		***68.8%***	*66.4%*	*66.3%*
Adjusted operating expenses	4	**(38,884)**	(34,506)	(35,827)
Impact of FX on reported earnings		**—**	—	(478)
Adjusted EBITDA	5	**6,707**	8,517	8,517
Spot the Ball ("STB")	7	**827**	90,952	
Exceptional items other than STB	6	**(5,603)**	(5,517)	
Share option charges – normal	8	**(666)**	87	
Share option charges – accelerated	8	**(3,765)**	—	
Depreciation	9	**(2,740)**	(3,168)	
Amortisation	9	**(1,540)**	(3,024)	
Amortisation of acquired intangibles	10	**(350)**	(563)	
Impairment of PPE	11	**(874)**	(5,089)	
Impairment of intangible assets	11	**(12,040)**	(14,220)	
Impairment of goodwill	11	**—**	(1,843)	
Investments – loss on sale of NYX shares	12	**(1,603)**	(746)	
Total – non-cash items		**(23,578)**	(28,566)	
EBIT		**(21,647)**	65,386	
Share of losses from JVs	13	**(300)**	(608)	
Impairment of investment in JVs	13	**(1,184)**	(628)	
Net finance charges	14	**(19)**	(542)	
EBT		**(23,150)**	63,608	
Taxation	15	**230**	(16,912)	
Result after taxation – continuing ops		**(22,920)**	46,696	
Discontinued – Football Pools	16	**(1,696)**	(33,653)	
Discontinued – Holland	16	**174**	24	
(Loss)/profit for the year		**(24,442)**	13,067	
Adjusted profit before tax for the year from continuing operations*		**1,549**	717	

*Adjusted profit for the year is calculated as shown in note 17 of this financial review.

Adjusted EBITDA is not an IFRS measure, nevertheless it is widely used by both the analyst community to compare with other gaming companies, and by management to assess underlying performance. 'Reported' revenues refers to revenues as restated (for the exclusion of the Football Pools) for the prior year. 'Constant Currency' revenues refers to prior year revenues retranslated at 2017 exchange rates.

A bridge between the numbers shown above and the results from the Venues business in The Netherlands, now shown as held for sale, is shown below:

	Revenue	Adjusted EBITDA
As reported above	66,271	6,707
Venues, Netherlands	6,038	427
	72,309	7,134

Within the Adjusted EBITDA reported above are write-downs of inventory of £126k and a write-down of debtors carried over from 2016 of £762k. The total of these write-downs was £888k.

A summary of the result by division is shown below:

	Revenues		Adjusted EBITDA	
£000's	**2017**	2016 Constant currency	**2017**	2016 Constant currency
Racing and Digital	**35,469**	37,545	**7,708**	9,715
Venues	**31,606**	30,999	**1,497**	2,587
Corporate (and inter-divisional elimination)	**(804)**	(920)	**(2,498)**	(3,307)
Total, at constant currency	**66,271**	67,624	**6,707**	8,995
Impact of foreign exchange	**—**	(2,810)	**—**	(478)
Total, reported	**66,271**	64,814	**6,707**	8,517

Note 1 – Revenues

£000's	**2017**	2016 Reported	2016 Constant currency
Racing & Digital Service revenue	**32,890**	29,431	30,655
Racing & Digital Sales revenue	**1,389**	5,789	6,042
Bump 50:50 revenue	**1,190**	817	848
Venues wagering revenue	**27,574**	27,050	28,253
Venues F&B revenue	**4,032**	2,609	2,746
Inter-group elimination	**(804)**	(882)	(921)
Total revenues	**66,271**	64,814	67,624

The periodic division between Racing and Digital Sales Revenue was:

£000's	**2017**	2016 Constant currency
Q1	**110**	1,262
Q2	**329**	2,450
Q3	**503**	378
Q4	**447**	1,952
Total revenues	**1,389**	6,042

Group revenues at £66,271k were 2.2% up on reported revenues but down 2.0% in constant currency. The following comparisons have been done at a constant currency level:

- Service revenues from Racing and Digital (excluding Bump 50:50) were up 7.3% at £32,890k (2016: £30,655k), although sales revenues from Racing and Digital were significantly lower at £1,389k (2016: £6,042), for reasons explained in the Operating review.

Financial Review continued

- Revenues from Bump 50:50 were up 40.3% at £1,190k (2016: £848k) and this sub-division continues to grow healthily as more teams are signed up to the Bump shared raffle offering.
- Revenues from Venues continue to be primarily driven by wagering. Revenues from this source were down 2.4% in the year at £27,574k (2016: £28,253k). Of this, £2,275k was generated online (2016: £2,257k).
- Food & Beverage ('F&B') revenues were £4,032k (2016: £2,746k). New F&B revenues contributed by Stamford following its delayed opening in late June 2017 were £1,471k. In line with a drop in handle, F&B revenues outside of Stamford also fell.

Note 2 – Cost of sales

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

£000's	2017	2016 Reported	2016 Constant currency
Tote and track fees	**12,166**	11,923	12,493
Cost of inventory sold	**1,134**	3,125	3,287
Provision for obsolete inventory	**126**	—	—
Food and Beverage consumables	**1,322**	866	904
Ticket paper and programmes	**1,327**	1,394	1,454
Betting and gaming duties	**480**	421	439
Repairs of deployed terminals	**402**	256	267
Outsourced service costs	**1,605**	1,776	1,840
Total cost of sales	**18,562**	19,761	20,684
Split between:			
Racing and Digital	**4,335**	6,224	6,759
Venues	**14,760**	14,060	14,677
Inter-divisional elimination	**(533)**	(523)	(752)
Total cost of sales	**18,562**	19,761	20,684

	Racing and Digital		Venues	
£000's	2017	2016 Constant currency	2017	2016 Constant currency
Tote and track fees	**55**	17	**12,640**	12,971
Cost of inventory sold	**1,134**	3,545	**—**	—
Provision for obsolete inventory	**126**	—	**—**	—
Food and Beverage consumables	**—**	—	**1,322**	904
Ticket paper and programmes	**855**	950	**472**	504
Betting and gaming duties	**253**	239	**227**	200
Repairs of deployed terminals	**402**	267	**—**	—
Outsourced service costs	**1,510**	1,741	**99**	98
Total cost of sales	**4,335**	6,759	**14,760**	14,677

The cost of inventories sold declined, given the reduction of sales. Food & Beverage costs rose following the opening of the "Bobby V's" venture in Stamford, Connecticut. Reduced wagering revenues result in a reduction in tote and track fees of 2.6% to £12,640k.

Note 3 – Contribution

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

£000's	2017	2016 Reported	2016 Constant currency
Racing & Digital	**30,380**	28,977	30,173
Contribution margin %	**85.7%**	80.4%	79.8%
Venues	**15,482**	14,405	15,076
Contribution margin %	**49.0%**	48.6%	48.6%
Total Contribution*	**45,591**	43,023	44,822
Contribution margin %	**68.8%**	66.4%	66.3%

*includes inter-divisional eliminations

Contribution margins across the Group improved slightly 68.8% (2016: 66.3%). The Racing and Digital business produced a contribution margin of 85.7% (2016: 79.8%) against the contribution margin in Venues of 49.0% (2016: 48.6%)

Marketing and distribution costs in the year were:

£000's	2017	2016 Reported	2016 Constant currency
Racing & Digital			
– Marketing	**300**	396	413
– Distribution	**454**	440	459
	754	836	872
Venues			
– Marketing	**1,364**	1,194	1,246
– Distribution	**—**	—	—
	1,364	1,194	1,246
Group Total			
– Marketing	**1,664**	1,590	1,659
– Distribution	**454**	440	459
	2,118	2,030	2,118

Note 4 – Adjusted operating expenses

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

- share option charges
- depreciation
- amortisation
- items which by nature or materiality or consistency with 2016 have been regarded by the company as 'exceptional'. These items are discussed in further detail below.

Adjusted operating expenses, gross of capitalised software, rose by £2,949k at constant currency (7.6%) of which an additional £739k arose from the recognition of bad debts, and the bulk of the remaining increase arising from staff (£1,026k) and property (£663k).

Financial Review continued

Note 4a – Group

£000's	2017	2016 Reported	2016 Constant currency
Gross employment costs	**28,562**	26,459	27,536
Less: capitalised	**(3,026)**	(3,022)	(3,134)
Net Employment costs*	**25,536**	23,437	24,402
Property costs	**5,454**	4,596	4,791
Professional fees	**3,249**	3,378	3,497
Travel & Entertainment	**1,524**	1,377	1,429
IT & Communications	**1,351**	1,158	1,206
Bad debts from prior periods	**762**	22	23
Other costs	**1,008**	538	479
Adjusted operating expenses	**38,884**	34,506	35,827
Costs, gross of capitalised software	**41,910**	37,528	38,961

Gross employment costs at £28,562k represented 68% of the aggregate of the adjusted operating expenses and capitalised staff costs (2016: £ 27,536k, 71%). Gross employment costs include the cost of field service agents whose time and expense is incurred in servicing terminals at customer sites. Net employment costs in this analysis exclude share-based payments which are disclosed in note 8 below.

Of the £1,026k increase in gross staff costs (at constant currency), the divisional split of the changes is shown below:

	£000's	
Racing and Digital	**788**	4.2%
Venues	**748**	10.9%
Corporate	**(510)**	(26.2%)
	1,026	

The North American employees are unionised and are entitled to annual wage rises. Other staff cost increases chiefly arose in venues where extra staff were taken on for the running of the expanded "Bobby V's" sports bar in Stamford, Connecticut. Significant savings were made in the corporate function with a downsizing of both staff and office premises.

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

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

Group

£000's	2017	2016 Reported	2016 Constant currency
Racing and Digital (note 4b)	**25,698**	22,623	23,592
Venues (note 4c)	**13,985**	11,957	12,489
Corporate (and inter-divisional elimination)	**2,227**	2,948	2,880
Total	**41,910**	37,528	38,961

Note 4b – Racing and Digital

£000's	2017	2016 Constant currency
Gross employment costs	**19,510**	18,722
Less: capitalised	**(3,026)**	(3,134)
Net Employment costs*	**16,484**	15,588
Property costs	**999**	1,044
Professional fees	**1,760**	1,595
Travel & Entertainment	**1,082**	1,037
IT & Communications	**816**	781
Bad debts from prior periods	**657**	23
Other costs	**874**	390
Adjusted operating expenses	**22,672**	20,458
Costs, gross of capitalised software	***25,698***	*23,592*

Note 4c – Venues

£000's	2017	2016 Constant currency
Gross employment costs	**7,613**	6,865
Less: capitalised	**—**	—
Net Employment costs*	**7,613**	6,865
Property costs	**4,245**	3,637
Professional fees	**979**	1,029
Travel & Entertainment	**188**	150
IT & Communications	**403**	380
Bad debts from prior periods	**105**	—
Other costs	**452**	428
Adjusted operating expenses	**13,985**	12,489

The number of staff employed (or on contracts), and including the Non-executive Directors at 31 December 2017 and 2016 is as shown below:

	2017	2016
Racing and Digital (excluding Bump 50:50)	**295**	295
Bump 50:50	**4**	3
Venues	**245**	192
Corporate	**9**	11
Total	**553**	501

Staff numbers in Venues rose principally due to the opening of the Bobby V's bar in Stamford Connecticut.

Note 5 – Adjusted EBITDA

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

£000's	2017	2016 Reported	2016 Constant currency
Racing and Digital	**7,708**	9,376	9,715
Venues	**1,497**	2,448	2,587
Central costs	**(2,498)**	(3,307)	(3,307)
FX and inter-divisional elimination	**—**	—	(478)
	6,707	8,517	8,517

Financial Review continued

Note 6 – Exceptional items other than Spot the Ball

On 25 September 2017, the Group sold its shares in NYX for net proceeds of £2,333k. Those shares were originally acquired as part of the Group's disposal of Sportech-NYX Gaming, LLC in 2015, at which point the share price was CAD $4.06. Those shares have been subsequently revalued as available for sale financial assets, and losses realised when shares are disposed of.

This resulted in a loss of £1,603k which we have disclosed as a separate item. A mark-to-market loss of £746k was recognised in 2016 and shown within exceptional items.

Owing to the magnitude of the loss and the fact that the asset has been disposed of, we believe it is more instructive for the readers to show the loss this year, and the mark-to-market revaluation last year, as a separate reported item.

Other separately reported items are listed below:

£000's	2017	2016 Reported
Restructuring and redundancy costs (note a)	**2,291**	492
Costs of exit from California (note b)	**2,740**	180
Transaction costs from material M&A activity (note c)	**—**	4,350
Lobbying and licencing costs (note d)	**264**	175
Costs of implementing new VCP (note e)	**150**	—
Other exceptional items (net)	**158**	320
	5,603	5,517

Note a: On 18 September 2017, the Company announced the departure of the incumbent CEO and CFO. This was accompanied by a strategic review and Formal Sales Process under the Takeover Code following a series of initial approaches made to the Company. The costs of honouring the contracts of those departing executives along with some other staff in senior positions represents the majority of the costs of restructuring and redundancy. £680k of these costs were paid after the year end.

Note b: The Group had a number of contractual arrangements in the State of California, none of which was profitable and included real-estate leases for a considerable duration with no benefit to the Group. These have been provided for in full, with certain other items also written off.

Note c: Transaction costs relate to those incurred in the Group's Football Pools disposal. This disposal was completed in H1-17, with additional disposal costs incurred during the year of £3,248k. Those 2017 costs have been presented as part of the loss on disposal of Football Pools as shown in note 10 to the Consolidated Financial Statements.

Note d: Given the political nature of lobbying, the costs of presenting the case for liberalising sports betting and gambling in Connecticut, along with costs incurred in obtaining a licence in New Jersey have been disclosed separately.

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

Note 7 – Exceptional items – Spot the Ball

£000's	2017	2016 Reported
Income received	146	96,878
Costs received /(incurred)	681	(5,926)
Exceptional income (net)	827	90,952

The Group successfully won its VAT case in relation to the Spot the Ball product against HMRC in 2016. Further receipts, net of costs, were recognised during the year, representing primarily recovery of legal and advisory costs awarded by the Court to the defendants.

Note 8 – Share based payments

£000's	2017	2016 Reported
Accelerated charge for departing executives and directors	(3,765)	—
Normalised charges	(666)	87
	(4,431)	87

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

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

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

Note 9 – Depreciation and amortisation

Tangible and intangible fixed assets are depreciated/amortised over their useful lives as disclosed in the notes to the Consolidated Financial Statements. Both charges have reduced from prior year primarily due to impairment charges made to certain assets in 2016. However, in 2017 the Group incurred further costs of £5,238k in the construction and fit-out of the new Stamford Venue (2016: £2,451k), and the depreciation of these tangible fixed assets amounted to £200k during the year.

Note 10 – Amortisation of acquired intangibles

Intangible assets acquired on the acquisitions of eBet, Datatote and Bump relate primarily to customer relationships, the most material of which reached the end of its useful life in 2016. All those acquired intangible assets are fully amortised as at December 2017.

Note 11 – Asset impairments

£000's	2017	2016 Reported
Impairment of PPE	874	5,089
Impairment of goodwill	—	1,843
Impairment of intangible assets	12,040	14,220

Site preparation and construction costs in the town of Norco, California, were incurred by the Group in previous years when a new venue build was anticipated. The Group is evaluating its involvement in California and accordingly the capitalised costs (£874k) in respect of those sites have been impaired.

Financial Review continued

In 2016, goodwill relating to the eBet business (within Racing and Digital) was fully impaired. There is no goodwill held on the balance sheet at December 2017, given that the disposal of the Football Pools during the year (see note 16) eliminated the goodwill held for that asset.

The Group is obligated to conduct an impairment review of its business units each year based on events that existed on the balance sheet date and not on events regarding legislation or liberalisation which might occur after the balance sheet date. Accordingly, the softer level of betting transactions in the Venues business has led to a downgrading of its accounting value and an impairment charge has been taken of £12,040k. Impairments totalling £14,220k in 2016 were also recognised comprising £13,127k against Racing and Digital assets, and £1,093k against Venues assets.

Note 12 – Loss on disposal of investments

As disclosed in note 6, the Group has recognised a loss of £1,603k in respect of a disposal of its investments in NYX Gaming Group Limited (2016: £746k).

Note 13 – Joint ventures

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

Note 14 – Net Finance charges

	2017	2016 Reported
Net interest payable on loans and similar	**(211)**	(1,695)
Net foreign exchange gains	**96**	1,065
Unwinding of discount rate on non-current assets and liabilities	**96**	88
	(19)	(542)

Following the receipt of funds relating to Spot the Ball and the sale of the Football Pools, the Group discharged all its bank loans and has operated in a cash surplus position in 2017.

Note 15 – Taxation

The Group has recognised a net tax credit of £230k due primarily to losses made in the US which can be carried-forward for up to 20 years and relieved against future profits.

The gross losses provided for as a deferred tax asset at 31 December 2017 were £19.5 million (2016: £11.8 million). It is anticipated that the Group will recover those tax losses within ten years.

The approximate tax base cost of the individual divisions (and therefore the one on which any capital gain would be assessed in the case of a partial break-up of the Group) is shown below:

Racing and Digital	$10 million (approximately £7.1 million)
Venues	$20 million (approximately £14.3 million)

US rates of capital gains tax range from 25% to 35%.

Note 16 – Discontinued activities

The contribution to earnings during 2017 was as below:

£000's	2017	2016 Reported
Football Pools – trading result excluding asset impairments	6,771	8,854
Football Pools – impairment charges	—	(42,507)
Football Pools – net loss on disposal	(8,467)	—
Net result from Football Pools	(1,696)	(33,653)
Net result from Venues, Netherlands	174	24
Net result from discontinued operations	(1,522)	(35,294)

The Group's Football Pools business was sold in June 2017 on which a net loss on disposal (after tax) has been recognised of £8,467k. This includes disposal costs recognised in 2017 of £3,248k and a corporation tax charge of £6,395k.

As disclosed further in note 20 of this financial review, the Group considered its Venues business in the Netherlands to be held for sale, with its future economic benefit recovered principally through a sale transaction, and an SPA signed in March 2018. Accordingly, the results from this business have been presented as a discontinued operation. The net gain/loss on this disposal will be recognised in the 2018 financial statements.

Note 17 – Adjusted result

£000's	2017	2016 Reported
Adjusted EBITDA	6,707	8,517
Depreciation	(2,740)	(3,168)
Amortisation of intangible assets (excluding amortisation of acquired intangibles)	(1,540)	(3,024)
Normalised share option charge	(666)	87
Net interest payable on loans etc.	(212)	(1,695)
Adjusted PBT	1,549	717

Financial Review continued

Note 18 – Balance Sheet

Other than by trading, the balance sheet was significantly impacted by the disposal of the Football Pools in June 2017 and the return of capital to shareholders in two tranches during the year. The table below provides a bridge between 31 December 2016 and 31 December 2017.

	£000's
Net assets at 31 December 2016	148,813
Loss for the period	(24,442)
Offsetting equity items*	6,931
Foreign exchange movements	(4,935)
Movement in defined benefit pension obligation	(116)
Employer taxes paid on vesting of options	(21)
Return of capital to shareholders – tranche 1	(21,192)
Return of capital to shareholders – tranche 2	(53,828)
Net assets at 31 December 2017	**51,210**

*offsetting equity items include share option charges and brought forward losses on NYX shares

A summary of the balance sheet is shown below:

£000's	Non-current	Current	Combined
Tangible fixed assets and PPE	37,334	—	37,334
Cash, net of customer liabilities	—	15,885	15,885
Trade receivables	450	7,339	7,789
Other receivables	447	3,003	3,450
Inventories	—	2,652	2,652
NYX contingent receivables (note 19)	1,546	—	1,546
Assets held for sale	—	778	778
Deferred tax asset	6,406	—	6,406
Tax liabilities	—	(7,106)	(7,106)
Trade payables	—	(13,186)	(13,186)
Bump 50:50 earn-out	—	(175)	(175)
Retirement benefits	(1,537)	—	(1,537)
Provisions	(1,523)	(1,103)	(2,626)
	43,123	8,087	51,210

Note 19 – NYX contingent receivables

An estimation of the consideration arising from the disposal terms of the investment in NYX Gaming LLC, but contingent on NYX signing new customers up to their wagering platform. NYX have an obligation to inform Sportech each time a customer is acquired to this platform, with the Group entitled to CAD $1 million for each customer signed up, up to a maximum of CAD $3 million. The Group continue to believe that the maximum contingent amount will be due. This is discounted and accrues over the relevant period (to May 2020). At December 2017, £1,546k is held on the balance sheet in respect of this receivable.

Note 20 – Assets held for sale

As at the balance sheet date, the Group's Venues business in the Netherlands was considered to be a held for sale asset. The net assets of that business have therefore been shown as one line in the financial statements. The net asset value is comprised of the following items:

	£'000
Intangible assets	212
Property, plant and equipment	394
Deferred tax asset	212
Trade and other receivables	284
Inventories	28
Cash	413
Trade and other payables, including provisions	(765)
	778

Note 21 – Trade receivables

Current asset trade receivables of £7,339k (2016: £7,427k) represent 40 days of revenue (2016: 42 days). Certain provisions have been made for debtors outstanding for period significantly overdue. These amounted to £1,606k (2016: £1,537k). In certain circumstances, arrangements have been reached with other customers to spread significantly overdue debts over a longer period.

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

£000's	As at 31.12.17	As at 31.12.16 Reported*
Current trade receivables		
– Racing and digital	6,469	6,654
– Venues	870	773
Total current trade receivables	7,339	7,427
Non-current trade receivables	450	—
Total trade receivables	7,789	7,427
Total debtor days	43	42

*2016 balances above exclude receivables in the discontinued Football Pools division of £56k.

Current trade receivables within the Racing and Digital division total £6,469k (2016: £6,654k) representing 67 days of revenue in both current and prior year. Within the Venues division, current trade receivables total £870k (2016: £773k), which equates to 10 days of revenue in both reporting periods.

Note 22 – Inventories

Inventory held was £2,652k (2016: £2,504k). This consists of work in progress, £99k (2016: £219k); Tote machines, £240k (2016: £210k); and machine parts available for deployment, £2,313k (2016: £2,075k). The Group has a significant number of terminals that are deployed on customer sites, many of which are older models. There is a requirement therefore for the Group to hold a proportional amount of spare parts for the terminals that are being used by customers. A review of inventory led the Board to conclude that given certain spare parts had not been utilised for a considerable period of time, £126k should be recognised as obsolete and provided against, increasing the total inventory provision to £310k.

Financial Review continued

Note 23 – Cash at bank

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

	As at 31.12.17
Group cash, excluding Holland	15,885
Customer cash	2,872
	18,757

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

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

	As at 31.12.17
GBP	9,468
USD	4,425
EUR	1,890
Other	101
	15,885

The cash was held in the following banks:

	As at 31.12.17
Lloyds/Bank of Scotland	12,554
Wells Fargo	1,170
Ulster Bank	823
Bank of America	605
Türkiye Garanti Bankası A.Ş.	351
Other banks	382
	15,885

This represented cash of 8.6 pence per ordinary share at 31 December 2017. Since the balance sheet date, the Group has paid £1.3 million to HMRC by way of a deposit over disputed VAT (see note 26).

Note 24 – Defined benefit pension liabilities

The Group retains the legacy obligation for the Football Pools pension scheme in which all 63 members are retired. There is in an IAS19R surplus of £9k at December 2017 for this scheme. The Group is actively trying to secure a buy-out for the scheme, not least as the actuarial and trustee fees each year of running this scheme amount to around £80k. Payments into the scheme during the year totalled £305k (2016: £112k), with a one-off increase in the payments being made to fully fund the scheme's liabilities.

In addition, the Group's US employees are enrolled in pension schemes which have a deficit of £1,546k. The US legal obligation is to fund these schemes no less than 85% of the liability.

The payments made to the US schemes in the year was £223k (2016: £205k). US law requires that any actuarial deficit as measured in any one year is funded to not less than 85% in the subsequent financial year. Thus there will be an accelerated cash funding of these schemes required in 2018 of around £0.6 million.

Note 25 – Liquidity, Current assets less current and non-current liabilities

The Group's liquidity can be summarised as follows:

£000's	31.12.17
Current assets	32,529
Current liabilities	(24,442)
Net current assets	8,087
Non-current trade and other receivables	2,443
Non-current liabilities	(3,060)
Net non-current liabilities	(617)
Net position	7,470
Less: inventories held	(2,652)
Implied liquidity (long-term)	4,818
Amount per share	2.6p

Financial Review continued

Cash Flows

A summary of the Group cash flows (excluding customer funds) during the year is shown below:

	£000's	£000's
Adjusted EBITDA		**6,707**
Capitalised software		(3,026)
Other intangible assets		(922)
Acquisition of Tangible Fixed assets (excluding Bobby V's)		(1,667)
Movements in working capital and other items		(4,412)
Sub-total		**(3,320)**
Separately identified material cash flows		
Acquisition of Tangible fixed assets – 'Bobby Vs, Stamford'	(5,238)	
Spot the Ball*	(2,125)	
Restructuring costs	(1,258)	
Other exceptional items	(1,360)	
Sub-total		**(9,981)**
Tax paid		
Football Pools disposal	(6,395)	
Spot the Ball	(13,804)	
Other	(173)	
Sub-total		**(20,372)**
Sale of Football Pools	86,200	
Football Pools deal fees paid	(5,128)	
Contribution from Football Pools in H1	4,802	
Contribution from Venues, Netherlands	267	
Sale of NYX shares	2,333	
Sub-total		**88,474**
Return of capital to shareholders, March 2017	(21,192)	
Special dividend, December 2017	(53,828)	
Sub-total		**(75,020)**
Net cashflows for the year		(20,219)
Group cash at 31 December 2016		36,517
Total cash at 31 December 2017		16,298
Less: cash presented as available for sale asset		(413)
Group cash at 31 December 2017		15,885
Add: customer cash		2,872
Cash and cash equivalents		**18,757**

*net outflows in respect of Spot the Ball include £3,146k of cash received from the principal £97m claim, plus costs awarded of £494k, net of costs totalling £5,211k. A further amount of £487k has been received by the Group in H1-18 relating to the costs awarded. This amount is shown within other receivables on the balance sheet.

Note 26 – Taxation liabilities and items subject to challenge

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

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

Note 27 – Contingent liabilities and litigation

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

Richard Cooper
Non-Executive Director, Chairman of Audit Committee

23 April 2018

Corporate Governance

Risk Management

Measuring risk

The Group's risk management strategy is to consider risks arising from each area of the business through a top-down and bottom-up approach. This is achieved by the communication through the Group of a risk appetite statement.

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

The management teams of each business units assess risk and formally update their business-specific risk registers. Risks are measured in relation to their mitigated likelihood and their prospective impact were they to arise, in accordance with the following risks matrix:

Risks matrix

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

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

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

Risk Management continued

Risk area	Description	Rating	Mitigation
Changing market demographics	Horseracing has an aging demographic leading to revenue declines	9	New products are being innovated and refreshed
Technological changes	More and more products are being consumed on mobile devices which are in their infancy in the pari-mutuel world.	9	Group has developed mobile applications and industry-leading self-service betting terminals
Industry competition	Competition for gambling revenues is emerging in North America from more casino openings	8	Trying to reach partnership deals with first nation bodies
Foreign Exchange	The bulk of the business is generated in North America. European, including UK business is conducted via an Irish company, yet the Groups' results are reported in GBP	6	The Group is evaluating whether it should change its reporting to USD and seeks to create natural hedges wherever possible
If US states do not enforce their own laws they therefore inviting non-regulated competition	Advance Deposit Wagering has permeated the industry without regulatory challenge	4	The Group continues to lobby the states to enforce their laws in pain of losing taxation revenues.
US Supreme Court repeals PASPA, providing Sports Wagering opportunity	Sportech is not sufficiently geared-up to take advantage of opportunities	4	The Group continues to market itself as both a provider in the B2B and B2C markets.

Viability Statement

The Board has assessed the prospects of the Group over a longer period than the 12 months required by the going concern requirements of the UK Corporate Governance Code (the 'Code'). This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern, made on page 71. The Board conducted this review for a period up to December 2020, which was selected for the following reasons:

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

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

The most recent strategic review, (completed 13 March 2018) considered the Group's cash flows, earnings, leverage, and other key financial ratios over the period. These metrics were subject to sensitivity analysis which involved flexing a number of the main assumptions underlying the forecast, both individually and in unison. The assumptions included the impact of the potential occurrence of the Group's principal risks and the effectiveness of available mitigating actions, other than the impact of a loss of a key licence or severe technology failure. These were not included within the forecasts as it is the Board's opinion that the likelihood of those risks occurring is minimal.

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

Corporate Social Responsibility Report

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

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

The Group General Counsel and local legal counsel 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.

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

Environment

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

The Company has an obligation under the UK Companies Act 2006 to report on greenhouse gas emissions. In 2017, an increase in intensity of 13% is seen as the new Stamford venue has opened and remains in its trading infancy. As the popularity of the venue grows, and the Group's one-off sales move back towards normalised levels, this intensity will reduce.

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

Through its Bump 50:50 subsidiary, the Group has raised just under $11m for sports foundations in the US and Canada in 2017, including those associated with Dallas Cowboys, Atlanta Braves, and Vegas Golden Knights.

Employees

The Board is acutely aware of the vital contribution of employees to the future success of the business. It recognises the importance of providing employees with information on matters of concern to them, enabling employees to improve their performance and make an active contribution to the achievement of the Group's business objectives. This is accomplished through formal and informal briefings and meetings.

Employee representatives are consulted regularly on a wide range of matters affecting their interests. The Group launched a recent bi-monthly employee newsletter and awards programme to reflect 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 45.

It is the policy of the Group to comply with the requirements of the UK 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 it has a programme of risk identification, management and improvement in place. The Board receives a report in respect of health and safety across all of its businesses at each Board meeting.

Corporate Governance Report

Sportech is committed to a high standard of corporate governance and, throughout the financial year ended 31 December 2017, has complied with the provisions of the UK Corporate Governance Code (the 'Code'), save as described in the paragraphs below. A copy of the Code is publicly available from www.frc.org.uk. It is the policy of the Board to manage the affairs of the Company in accordance with the principles of the Code so far as the Board is able and believes it is practical.

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

Director	Status
Roger Withers	Chairman until 24 May 2017. Not independent
Richard McGuire	NED until 24 May 2017 when he became Chairman. Not independent
Richard Cooper	NED from 24 May 2017. Independent
Giles Vardey	NED from 17 November 2017. Independent
Andrew Gaughan	Executive Director from 27 January 2017, CEO from 14 March 2018. Not independent
Ian Penrose	CEO until 31 December 2017. Not independent
Mickey Kalifa	CFO until 31 October 2017. Not independent

The Company ended the year with two Independent Directors, although did not have this throughout the year.

For the period from 1 January 2017 until 24 May 2017, the company was not in compliance with the Code in its requirement to have two independent Directors as members of the Remuneration, Audit and Nomination Committees.

The Company did not have a Senior Independent Director throughout the period.

Notwithstanding the above, the Board is comfortable that it has achieved, and continues to achieve, good governance, as a result of the experience of the Chairman and the appointment of Richard Cooper as a new Independent Non-executive Director on 24 May 2017 and the additional appointment of Giles Vardey as an Independent Director on 17 November 2017.

The Company confirms that Richard Cooper, former CFO of FTSE250 company GVC Holdings PLC, has the recent, relevant financial expertise required to effectively challenge and review accounting judgements and reporting. With this, and the extensive corporate experience of Richard McGuire and Giles Vardey in mind, the Company is comfortable that the Committees have continued to function to a high standard throughout, and robustly challenge management and the preparation of the financial statements.

The search for a further new Independent Non-executive Director, is being undertaken and the Board has been mindful of its responsibility to appoint an individual who achieves the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. Further to this, the Board anticipates announcing the appointment of a further Independent Non-executive Director to the Board imminently.

The Chairman is no longer a member of the Audit or Remuneration Committees although chairs the Nominations Committee.

As announced on Tuesday 24 April 2018, the Company has identified a suitable CFO candidate and is conducting final appraisals before announcing their appointment in due course.

Conflicts of Interest

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

Board Effectiveness

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 on the Company's website.

The Board has undergone a series of changes in the year but now has in place an industry experienced Chief Executive (Andrew Gaughan), two independent Non-executives and has commenced a search for a CFO to be based in the East Coast of North America alongside the operational teams and the Group General Counsel.

The Company maintains Directors and Officers insurance cover.

Board Performance Evaluation

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

The Code provides that the Non-executive Directors should meet without the chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. The performance of Richard McGuire, the current Chairman, appointed on 24 May 2017 will be reviewed as part of the Board Evaluation process to be conducted on the anniversary of his appointment. The Code also requires the performance of Non-executive Directors to be appraised and this will be done on the anniversary of their respective appointments.

Board Meetings

The Board meets regularly. Certain matters are considered at all Board meetings, including a business update, a financial update, business development opportunities and operational issues. 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. The meetings held in the year were as follows:

		Main Board	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings held during 2017		19	5	3	4
Executive Directors					
Ian Penrose	(resigned 31 December 2017)	14	—	—	—
Mickey Kalifa	(resigned 18 September 2017)	10	—	—	—
Andrew Gaughan	(appointed 27 January 2017)	17	—	—	—
Non-executive Directors					
Roger Withers	(resigned 24 May 2017)	7	4	1	3
Richard McGuire		19	5	2	4
Richard Cooper	(appointed 24 May 2017)	12	2	2	1
Giles Vardey	(appointed 04 December 2017)	2	—	—	—

Corporate Governance Report continued

Board Committees

The Committees of the Board are:

- Audit Committee
- Remuneration Committee
- Nomination Committee.

Audit Committee

The Audit Committee currently comprises two independent Non-executives, Richard Cooper, as the Chairman, and Giles Vardey. During the period before the appointment of Giles Vardey, Richard McGuire also was a member of the Committee.

The Committee is scheduled to meet at least three times a year. The Committee's main responsibilities include reviewing the Annual Report and Accounts and Interim Report, including considering significant financial reporting issues and judgements that they contain. The Committee reviews, and challenges where necessary, the consistency and changes to accounting policies, methods used to account for significant and unusual transactions, whether the Company has followed appropriate accounting standards and the clarity of disclosure in the Company's financial statements. Further to this, the Committee has delegated from the Board the responsibility for review of the effectiveness of internal controls, the Company's whistleblowing procedures and the need for an internal audit function as well as the scope, extent and effectiveness of such a function.

The Group acknowledges that DTR 7.1.1A had been breached following the revision to the Rule for the period beginning 1 January 2017, in relation to the majority of members of the Audit Committee being independent. Following the appointment of Giles Vardey that breach was rectified.

Members of the senior finance team 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 financial reporting.

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

The primary areas of judgement considered by the Committee in relation to the 2017 financial statements were:

- the assumptions underlying impairment testing of the Group's intangible assets;
- the exposure to tax liabilities; and
- the carrying value of contingent consideration receivable from NYX

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

- detailed review and discussion of models used for impairment testing; and
- scenario analysis

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

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

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

External audit

The Committee is responsible for the relationship with the external Auditors. The Committee considers the nature and extent of non-audit services provided by the Auditors in order to seek to balance the maintenance of objectivity, access to applicable technical expertise and value for money. To help avoid the objectivity and independence of the external Auditors becoming compromised, the Committee has a formal policy governing the engagement of the external Auditor to provide non-audit services.

This policy precludes PricewaterhouseCoopers LLP from providing certain services such as internal audit work or accounting services and as of 1 January 2017, tax advice and any advisory service which ultimately has an impact, material in size, on the treatment of items in the financial statements. The Group complies with the new ethical standards which also require that fees for non-audit services do not exceed 70% of the average of the audit fee for the prior three years, prospectively from 1 January 2017. For all other services the Board must approve spend on discrete projects in excess of £10k. The Committee is regularly updated on the spend to date with the external Auditors and also with other financial advisers.

The Auditors are also subject to professional standards that safeguard the integrity of their auditing role. The Committee remains confident that the objectivity and independence of the external Auditors are not in any way impaired by reason of the audit and non-audit services which they provide to the Group. Moreover, the Committee is satisfied that such work is best handled by them, either because of their knowledge of the Group or because they have been awarded it through a competitive tendering process. In addition, the independence of the Auditors is safeguarded by the use of separate teams for individual assignments such as acquisition due diligence and the audit being subject to internal PricewaterhouseCoopers LLP quality control procedures. A breakdown of non-audit fees charged by the Auditors is disclosed in note 7 in the Notes to the financial statements. A significant proportion of the non-audit fees charged by the Auditors in 2017 relates to work undertaken in respect of corporate activity. It was concluded by the Committee that it was in the interest of the Company to purchase these services on a single tender basis from PricewaterhouseCoopers LLP due to the cumulative historical knowledge already gained, the timing of the work, the tie-in to the financial statements and confidentiality.

Effectiveness

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle the Company receives from PricewaterhouseCoopers LLP a detailed audit plan ('Audit Strategy Memorandum'), identifying their assessment of these key risks. For 2017 the significant and elevated risks identified were in relation to:

- impairment of intangible assets
- uncertain tax positions
- carrying value of contingent consideration in relation to NYX.

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

Appointment and reappointment

The Committee considers the reappointment of the external Auditors, including the rotation of the audit partner each year, and also assesses their independence on an ongoing basis. The external Auditors are required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner, Nigel Reynolds, has performed the role since 2014.

PricewaterhouseCoopers LLP have been the Company's external Auditors for more than 20 years,

Corporate Governance Report continued

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 2017. The Committee will continue to assess the appropriate time at which an audit tender process should be conducted and continues to assess the effectiveness, independence and value for money of PricewaterhouseCoopers LLP. Transitional arrangements in the new ethical standards allow for the Auditor to remain in place for no longer than six years from 16 June 2014 and as such PricewaterhouseCoopers will be allowed to remain as the Group's Auditor until post signing of the 31 December 2019 financial statements, at which point the Group will be required to rotate its Auditor.

The Audit Committee provided the Board with its recommendation to the shareholders on the reappointment of PricewaterhouseCoopers LLP as external Auditors for the year ending 31 December 2017 and as a result, in accordance with Section 489 of the Companies Act 2006, a resolution proposing the reappointment of PricewaterhouseCoopers LLP as our Auditors will be put to shareholders at the impending AGM. There are no contractual obligations restricting the Committee's choice of external Auditors and we do not indemnify our external Auditors. The Committee will keep the appointment of the external Auditors under annual review.

Internal control and internal audit

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

The Group performs an annual strategy and budgeting process and the Board approves the annual Group budget as part of its normal responsibilities. The Group results are reported monthly to the Board. Regular reforecasts are undertaken and are produced for the Board whenever significant financial trends are identified in the periods between the quarterly assessments.

The Audit Committee reviews the effectiveness of the internal control environment of the Group, excluding that of the Group's joint ventures. It receives reports from the external Auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. Significant risk issues are referred to the Board for consideration. The principal risks facing the Group and the mitigating actions taken by the Board and management are included on pages 35 and 36 of the Strategic report.

To manage lower-level risks, a risk management programme is in place, supported by a business control and risk self-assessment process and a business continuity plan. The risk management programme places responsibility on managers to identify risks facing each business unit and for implementing procedures to mitigate these risks. The risk appraisal process is regularly reviewed by the Board and accords with the UK Corporate Governance Guidance. The Audit Committee and Board have reviewed the effectiveness of the internal controls of the Group for the year ended 31 December 2017 and up to the date of approval of the Annual Report and Accounts. This review covered controls in areas of finance, operations, risk management and compliance.

The Group does not have an internal audit function. The Audit Committee has considered the use of an internal audit function during the year but considers that due to the size and nature of the Group there is not a requirement for such an internal function. The central Group Finance function continues to undertake certain work of an internal audit nature and reports its findings to the Audit Committee. The Committee will continue to assess the need for specific internal audit reviews and an ongoing internal audit strategy during the coming months.

Whistleblowing policy

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

Remuneration Committee

The Remuneration Committee of the Board currently comprises the Non-executive Directors. It is Chaired by Giles Vardey.

The purpose of the Committee is to ensure that the remuneration 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 47 to 69.

Nominations Committee

The Nomination Committee currently comprises the Non-executive Directors and is Chaired by Richard McGuire, the Chairman of the Company.

Objectives

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.

Activities

The Nomination Committee's activities are underpinned by the principle that all appointments should be made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. Accordingly, the Committee prepares a description of the role and capabilities required for a particular appointment. Notably, during the year under review, the Committee recommended to the Board:

- the appointment of Richard Cooper as an Independent Non-executive Director and Chairman of the Audit Committee
- the appointment of Giles Vardey as an Independent Non-executive Director and Chairman of the Remuneration Committee
- the appointment of Andrew Gaughan as CEO with effect from 14 March 2018

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 560 employees, 32% are female and out of 21 members of senior management 33% are female.

The Committee endorses the Company's policy to attract and develop a highly qualified and diverse workforce; to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. Although at present there are no female Board members, the Committee acknowledges the importance of diversity, including gender, to the effective functioning of the Board. Furthermore, the Board acknowledges the recommendations of the Davies Report, and supports the principle of improving, in particular, gender imbalance, both at a Board level and throughout its businesses. Subject to securing suitable candidates, when recruiting additional Directors and/or filling vacancies that arise when Directors do not seek re-election, we will seek to appoint new Directors who fit the skills criteria and gender balance that is in line with the Company's policy.

We continue to focus on encouraging diversity of business skills and experience, recognising that Directors with diverse skill sets, capabilities and experience gained from different geographic and cultural backgrounds enhance the Board.

Investors

There is regular dialogue with shareholders through a planned programme of investor relations which includes formal presentations of the Group's results by members of the Board. Meetings also take place with institutional investors and analysts on a regular basis and there is regular 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

Corporate Governance Report continued

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 2017 AGM held on 24 May 2017 were voted by way of a manual poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting.

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

The Board recognises the high level of withholding of votes and abstentions in relation to the Auditors' remuneration (resolution 6) and reappointment (resolution 5) respectively at the 2017 AGM. The appointment of PricewaterhouseCoopers LLP as external Auditors is subject to regular review by the Audit Committee and it is the belief of the Committee, as stated in the Audit Committee report, that the effectiveness, independence and value for money of PricewaterhouseCoopers LLP as external Auditors remains appropriate.

Report of the Remuneration Committee

Letter from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present, for the first time as Sportech's Remuneration Committee chair, the Directors' Remuneration Report.

This report comprises an annual report on remuneration which describes how the shareholder approved Directors' remuneration policy was implemented for the year ended 31 December 2017 and how we intend for the policy to apply for the year ending 31 December 2018. This report, together with this annual statement, will be put to an advisory shareholder vote at the 2018 AGM.

Our approach to remuneration is governed by our directors' remuneration policy which, along with a new long-term incentive arrangement, the Value Creation Plan ("VCP"), received binding shareholder approval at the General Meeting on 24 May 2017 and came into formal effect from that date. The current intention is for the policy to operate over the three-year period to 2020 and shareholders will not therefore be asked to approve any revisions at the 2018 AGM. However, to ensure clarity and transparency we have republished our directors' remuneration policy report herewith (pages 49 to 58).

Performance and remuneration for 2017

Our FY2017 performance-related bonus was subject to adjusted Group EBITDA targets alongside a number of strategic objectives aligned with the KPIs of the business. The threshold level of EBITDA was not met and no bonus was therefore payable for this element. However, as set out in detail in the Strategic report, the Company delivered against a number of strategically important objectives during the year under review including, for example, concluding the sale of the Football Pools (realising in the process around £80 million cash net of tax for the Group). A number of the strategic measures set for the Executive Directors were thus achieved in full or in part and overall bonuses earned were 40% of maximum for Ian Penrose (former Chief Executive Officer), 43% of maximum for Mickey Kalifa (former Chief Financial Officer) and 4% of maximum for Andrew Gaughan, formerly President of Sportech Racing and Digital, and since March 2018, Group CEO).

With regards to our longer-term performance, the FY2015 Performance Share Plan ("PSP") awards which were granted on 9 March 2015 were subject to earnings per share (50% of the award) and relative total shareholder return (50% of the award) targets measured over a three-year performance period. Earnings per share failed to meet the stretching threshold target and so that part of the award lapsed. However, total shareholder return exceeded the upper quartile of the FTSE Small Cap Index (excluding investment trusts) over the performance period and therefore that part of the award vested in full. As a result, 50% of the award overall will vest.

Implementation of remuneration policy for 2018

The remuneration package for our executive directors will continue to be made up of base salary, plus pension contributions and benefits, and, subject to stretching performance conditions, an annual bonus paid in cash. The current Executive Directors received one-off awards under the VCP in 2017 and it is not currently intended that any further long-term incentive plan awards will be made to them as a result. Within this framework we will be taking the following approach to the implementation of the remuneration policy for the year ending 31 December 2018:

- **Salary** – Andrew Gaughan was promoted to the position of Chief Executive Officer on 14 March 2018 from his previous position as President - Sportech Racing and Digital. Andrew's salary on appointment to the Board on 25 January 2017 in his position as President – Sportech Racing and Digital was set at CAD$400,000 and his salary was increased from this level on his promotion to Chief Executive Officer by 25% to CAD$500,000.
- **Bonus** – The maximum annual bonus will remain at 100% of salary for the Chief Executive Officer and 75% of salary for other executive directors. The majority of the bonus will be based on financial performance measures and the minority on strategic objectives aligned with the KPIs of the business.
- **Long-term incentives** – The VCP was introduced in 2017 to replace the PSP. Awards under the VCP were first made in 2017 and it is intended that these awards will be one-off in nature to cover the five-year vesting period of

Report of the Remuneration Committee continued

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

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

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

Changes to the Board

Chief Executive Officer, Ian Penrose, stepped down from the Board and left the employment of the Company on 31 December 2017 and Chief Financial Officer, Mickey Kalifa, also stepped down from the Board on 18 September 2017 and left the employment of the Company on 31 October 2017. Details of their leaving arrangements can be found on the company website: www.sportechplc.com. Andrew Gaughan was promoted to Chief Executive Officer in March 2018 and his salary and incentive package on his promotion are set out above.

Richard McGuire was appointed temporarily to the position of Executive Chairman on 4 December 2017 from his previous position as Non-executive Chairman in relation to significant additional work undertaken following the announcement that Ian Penrose and Mickey Kalifa would be leaving Sportech and to lead the Strategic Review and Formal Sale Process. Richard reverted to his Non-executive Chairman role on 14 March 2018. His fixed remuneration arrangements on becoming Executive Chairman remained the same, i.e. an annual fee of £120,000.

On behalf of the Committee, I thank shareholders for their support last year and hope you will be able to support the advisory vote on our directors' remuneration report at the 2018 AGM.

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

23 April 2018

This Report has been prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations") and is intended to be in full compliance with the requirements of the Regulations and the UK Corporate Governance Code 2016 issued by the Financial Reporting Council (the "Code"). PricewaterhouseCoopers LLP has audited the contents of the Report to the extent required by the Regulations.

Directors' Remuneration Policy

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

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

The primary objective of the remuneration policy is to promote the long-term success of the Company. In working towards the fulfilment of this objective the Committee aims to: (i) establish a competitive remuneration policy for the Executive Directors; and (ii) align Senior Executives' remuneration with the interests of shareholders and other stakeholders, including customers and employees. In connection with this, the Committee aims to ensure that the remuneration packages offered to Executive Directors and Senior Executives:

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

The Committee reviews the remuneration policy, and in particular performance-related pay scheme structures, on an annual basis to ensure that it continues to operate within the agreed risk framework of the Group.

The Committee ensures that an effective system of control and risk management is in place with regards to remuneration, which includes access to the Audit Committee to discuss matters of operational and financial risk. The Committee is satisfied that the policy does not encourage, or reward for, undue risk taking.

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

Remuneration for Executive Directors

The main component parts of the remuneration packages for Executive Directors are detailed in the table on pages 50 to 54, which should be read in conjunction with the recruitment/promotion policy on page 57, and the "Detailed remuneration policy for 2017" section of the Annual report on remuneration, which starts on this page.

Report of the Remuneration Committee continued

Policy table

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Base salary To attract and retain key individuals. Reflects the relevant skills and experience in role.	– Salaries are normally set on 1 January each year and typically reviewed annually taking account of performance, experience, responsibilities, relevant market information, internal reference points and the level of workforce pay increases.	– The current salaries are set out in the Annual report on remuneration on page 58. – Annual increases will typically be commensurate with those of the wider workforce (in percentage of salary terms). – If there are significant changes in responsibility or a change in scope, increases may exceed this level. – New joiners, where pay is initially set below market levels, may experience larger increases as their salary is progressed towards the market rate, based on their development in the role and subject to satisfactory performance.	A broad-based assessment of individual and Company performance is considered as part of any salary review.
Pension To provide cost-effective, yet market competitive, retirement benefits.	– Contribution to a personal pension arrangement or cash in lieu of pension by way of a salary supplement.	– Up to 8% of salary for UK Executive Directors. Only basic annual salary is pensionable.	Not applicable.

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Benefits To provide cost-effective, yet market competitive, benefits.	Benefits may include a combination of the following: – Car or car allowance for travel. – Family cover private health insurance. – Life insurance cover. Benefits such as relocation allowances may also be offered if considered appropriate and reasonable by the Committee. Executive Directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and where Executive Directors are recruited from overseas, benefits more tailored to their geographical location may be provided. Executive Directors are also eligible to participate in any all-employee share schemes operated by the Company, in line with prevailing HMRC guidelines (where relevant), on the same basis as for other eligible employees. Any reasonable business-related expenses can be reimbursed.	There is no maximum limit but the Committee reviews the cost of the benefits provision on a regular basis to ensure that it remains appropriate. Participation in the all-employee share plans is subject to the limits set out by HMRC.	Not applicable.

Report of the Remuneration Committee continued

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Annual bonus plan To motivate Executive Directors and incentivise the achievement of key financial and strategic goals and targets over the financial year.	– Bonus is typically paid in cash. – Based on the achievement of performance metrics with a sliding scale from a threshold to maximum level of performance. – Levels of award are determined by the Committee after the year end based on performance against the targets set. – Recovery provisions may be applied in the event of material misconduct and/or an error in the calculation of the bonus payable.	– Maximum bonus potential is up to 100% of salary for the Chief Executive and up to 75% of salary for other Directors. The Committee, in its discretion, acting fairly and reasonably, may alter the bonus outcome (upwards or downwards) if it feels that the payout is inconsistent with the Company's overall performance and events taking place during the year along with any other factors it considers relevant. The Committee will consult with the Company's major shareholders before any exercise of its discretion to increase the bonus outcome and will explain the use of any such discretion in the relevant Annual report on remuneration.	The majority of the bonus will be based on financial measures such as profitbased targeted performance of the Group (and operating divisions as appropriate), which takes into account market forecasts, and a minority of the bonus will be based on Group strategic objectives and/or personal objectives tailored to the achievement of the Group strategic goals. The proportion of the maximum bonus that may become payable at the threshold performance level where financial targets are set will be 0% of that part of the bonus. Bonuses above this level are earned on a graduated basis to the maximum performance level. Where strategic targets are set, it is not always practicable to operate targets that can be assessed using a graduated scale.

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

Report of the Remuneration Committee continued

Remuneration element and purpose	Operation	Opportunity	Performance metrics
Executive share ownership To align Executive Directors' and shareholders' interests.	– The Chief Executive is expected to hold an investment of at least 200% of base salary in the Company, other Executive Directors are expected to hold 150% of base salary in the Company.	– 200% of salary for the Chief Executive and 150% of salary for all Executive Directors.	Not applicable.
Non-executive Director fees To attract and retain high-calibre Non-executive Directors. To set remuneration by reference to the responsibilities and time commitment undertaken by each Non-executive Director. The Group is a highly regulated and licensed entity in various jurisdictions and Non-executive Directors are subject to personal licencing assessments and if appropriate consents by numerous US authorities.	– Fee levels are reviewed on a regular basis and are set based on expected time commitments, responsibilities and in the context of the fee levels in companies of a comparable size and complexity, and reflecting the onerous obligations of international racing regimes. – Any increase in fees will also take account of increases in salaries across the workforce. – Fees are normally paid monthly in cash. Any reasonable business-related expenses can be reimbursed.	– The Non-executive Chairman's fee and Non-executive Directors' fees are set out in the Annual report on remuneration on page 59. – There is no prescribed maximum fee or fee increase. Any increase will be guided by changes in market rates, time commitments and responsibility levels. Any increase in fees may be above those of the wider workforce (in percentage terms) in any particular year, reflecting the periodic nature of any review and changes to time commitments and/or responsibilities.	Not applicable.

Choice of performance measures

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

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

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

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

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

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

Existing awards

The Committee intends to honour any commitments, including outstanding LTIP awards other than the awards granted in March 2017 which lapsed as a condition of participation in the VCP during 2017, on the terms applicable at the time each such commitment was made.

Policy on contracts of service

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

In the event of termination, the Committee's policy is that payments on termination should reflect the specific circumstances prevailing. In general, it would be the Committee's policy to make a payment in lieu of notice where necessary, limited to base salary and benefits. To the extent that an individual might otherwise seek to bring a claim against the Company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the Committee retains the right to make an appropriate payment in settlement of such potential or actual claims.

Report of the Remuneration Committee continued

Payments in connection with any statutory entitlements (for example, in relation to redundancy) may be made as required. In connection with the foregoing, the Committee reserves the right to award to an Executive Director a bonus in respect of the period of the year in which notice of termination had not been served (and, in certain exceptional circumstances, in respect of any period following receipt of notice of resignation) that the individual remained in employment, subject to the appropriate performance measures being achieved. The determination of any share incentive vesting would be subject to the rules of the relevant plan, but in general where an individual is a good leaver (e.g. death, injury or disability, retirement, redundancy, transfer of business outside of the Group and any other reason the Committee decides) their awards would vest on the cessation date, unless the Committee decides the award should continue to the original vesting date and remain subject to the appropriate performance measures being achieved and time pro rating (unless the Committee decides it is inappropriate to apply time pro rating).

The Committee would intend to apply the above policy for any new appointment, which may include the ability to make phased payments with mitigation. Copies of the Executive Directors' service contracts are available for inspection on request to the Company Secretary.

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

Policy on external appointments

Sportech PLC recognises that its Directors are likely to be invited to become Non-executive Directors of other companies and that such exposure can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept Non-executive appointments and retain any fees earned, with the Board's prior permission, if these are not likely to lead to conflicts of interest.

Other employees' pay

The Committee does not consult with employees directly on matters of Executive remuneration. However, the Committee is aware of the disconnect which can be created if Executive Director remuneration is set in isolation. The Committee therefore regularly interacts with the senior operational executives and monitors pay trends and conditions across the workforce. In particular, the Committee is made aware of general salary increases, general benefit provision and the proposed level of annual bonuses. Salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce. The Committee is also responsible for reviewing the participants of the LTIPs, the VCP and participation levels in the all-employee plans.

Policy on Executive Director recruitments/promotions

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

Element of remuneration	Policy
Base salary	Salary levels will be set based on: – the particular experience, knowledge and skill of the individual; – market rates for comparable positions in companies of a similar size and complexity; and – internal Company relativities. Where considered appropriate the Committee may wish to set the initial salary below the market rate but with the view to make a series of planned phased increases, potentially above those of the wider workforce as a percentage of salary, to achieve the desired market positioning over time. Any increases would be subject to the individual's continued development and performance in the role.
Benefits	A new appointment would be offered the same benefits package (or equivalent in line with local market practice) as that provided to current Executive Directors. Where considered necessary, the Committee may be required to pay certain relocation expenses, legal fees and other costs incurred by the individual in relation to their appointment.
Pension	A defined contribution or cash supplement (or equivalent in line with local market practice) at up to the level provided to current Executive Directors may be provided.
Annual bonus	The Committee would envisage the annual bonus for any new appointment operating as set out in the Policy Table for current Executive Directors. However, the Committee may consider it necessary (depending on timing and the nature of the appointment) to set different tailored performance measures for the initial bonus year.
Long-term incentives	A new Executive Director may be entitled to participate in the VCP, albeit potentially with different performance awards and depending on the timing of the appointment. An award may be made shortly after an appointment. For internal promotions, existing awards will continue over their original vesting period and remain subject to their terms as at the date of grant.
Buy-out awards	To facilitate an external recruitment, it may be necessary to buy out remuneration which would be forfeited on the appointee leaving their previous employer. When determining the quantum and structure of any buy-out awards the Committee will, where possible, use a consistent basis, taking into account the form of remuneration (cash or shares), timing horizons and the application of any performance criteria. Any buy-out awards will be addition to the limits set out above. Buy-out awards, if used, will be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

Report of the Remuneration Committee continued

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

Shareholder engagement

The Committee is mindful of the concerns of shareholders and stakeholders and considers an open and constructive dialogue with investors to be vitally important to establishing a successful remuneration policy which is considered fair by both Executives and shareholders.

The Committee will consult with major investors whenever material changes to the policy are proposed. The Committee also welcomes investor feedback and will consider views raised at the AGM and during regular meetings throughout the year and this, plus any additional feedback received from time to time, is considered as part of the Committee's annual review of remuneration policy. The Committee also closely monitors developments in institutional investors' best practice expectations.

Annual report on remuneration

Detailed remuneration policy for 2018

Basic annual salary

The Committee has reviewed base salaries for 2018 taking into account the role, responsibilities, performance and experience of the individual, the overall employee salary budget and wider inflationary indicators.

The base salaries for 2018 are as follows:

Director	2018	2017	% change
Chief Executive Officer[1]	CAD$500,000	CAD$400,000	25%

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

Performance related bonus

The maximum bonus potential for Andrew Gaughan for 2018 is 75% of basic salary until his appointment as Chief Executive Officer, after which his maximum bonus potential is 100% of basic salary.

Andrew Gaughan's performance related bonus will be based on Group financial performance, delivering on Group strategic objectives and meeting personal targets. The sustainable financial based proportion of the potential bonus, which represents a majority of Andrew's bonus entitlement, is operated with a range set around an agreed budgeted objective. Strategic and personal objectives are designed to protect and enhance the Company's position across key geographical regions and enhance shareholder value. The objectives themselves are considered commercially sensitive and will therefore be disclosed on a retrospective basis in next year's annual report on remuneration (as long as such targets are no longer considered commercially sensitive at that point). This bonus is wholly payable in cash. Recovery provisions may be applied in the event of material misconduct and/or an error in the calculation of the bonus payable.

Pension arrangements

The Company will contribute CAD$8,000 per annum into a defined contribution scheme for Andrew Gaughan.

Other benefits

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

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

The VCP was introduced in 2017 to replace the Performance Share Plan ("PSP"). It is currently intended that no further awards will be made to executive directors under the PSP. Awards under the VCP were first made in 2017 and it is intended that these awards will be one-off in nature to cover the five-year vesting period of the plan. The Committee retains the right to make further awards, from the shareholder approved pool and limits, to personnel identified as key to delivering incremental value or executing a strategy to deliver tangible returns. However, the previous VCP awards made to current Executive Directors will not increase.

Non-executive Directors' fees

The Non-executive Director fee for 2018 is £60,000 which is unchanged since May 2017. This is intended to cover all Board duties and no separate Committee fees are payable. All Non-executives sit on the subsidiary Boards and no additional fees are payable for this.

The fee was increased from £45,000 to £60,000 effective 24 May 2017 having been previously reduced in August 2016 from £47,500 base fee plus £5,000 fee per Committee membership.

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

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

Details of each Director's remuneration for the year ended 31 December 2017 are given in the table below.

Directors' remuneration for 2017 (audited)

	Year of appointment	Fees/ salary £000	Taxable benefits £000	Pension £000	Bonuses £000	Long-term incentive £000	Other £000	2017 Total £000
Executive Directors								
Richard McGuire (appointed to an executive role 4 December 2017)	2017	10	–	–	–	–	–	10
Ian Penrose (stepped down from the Board 31 December 2017)	2005	399	18	32	160	362	520	1,491
Mickey Kalifa (stepped down from the Board 18 September 2017)	2016	180	1	14	82	76	309	662
Andrew Gaughan (appointed 25 January 2017)	2017	219	1	5	7	82	–	314
Non-executive Directors								
Roger Withers (stepped down from the Board 24 May 2017)	2011	60	–	–	–	–	30	90
Richard McGuire (appointed Non-executive Chairman 24 May 2017)	2016	79	–	–	–	–	–	79
Richard Cooper (appointed 24 May 2017)	2017	40	–	–	–	–	–	40
Giles Vardey (appointed 4 December 2017)	2017	5	–	–	–	–	–	5
Aggregate emoluments		992	20	51	249	520	859	2,691

– Richard McGuire was paid a basic annual salary of £120,000 per annum with effect from 4 December 2017 on becoming Executive Chairman, the same as the fee he was paid in his previous role as Non-executive Chairman (a role to which he was appointed on 24 May 2017). Prior to becoming Non-executive Chairman he was a Non-executive Director for which he received fees of £19,000 for the period from 1 January 2017. In addition to the figures in the table he also received £60,000 in consultancy fees in the period to 4 December 2017 and £20,000 during the period 4 December 2017 to 31 December 2017 in relation to significant additional work undertaken following the previous Chief Executive and the Chief Financial Officer resignation announcements and leading the Strategic Review and Formal Sale Process. Richard returned to his role as Non-executive Chairman on 14 March 2018 following the appointment of Andrew Gaughan as Chief Executive Officer.

Report of the Remuneration Committee continued

- Ian Penrose, Chief Executive, was paid a basic annual salary of £399,000 per annum, with effect from 1 January 2017. He received £520,000 in relation to his leaving arrangements, full details of which are provided on page 65.
- Mickey Kalifa, Chief Financial Officer, was paid a basic annual salary of £254,000 per annum with effect from 1 January 2017. He received £309,000 in relation to his leaving arrangements full details of which are provided on page 65.
- Andrew Gaughan, in his position as President - Sportech Racing and Digital, was paid a basic annual salary of CAD$400,000 per annum with effect from 1 January 2017 which was not subsequently increased on his appointment to the Board on 25 January 2017. He earned a bonus of £1,000 in relation to performance for the period prior to his Board appointment. This is in addition to the figures set out above. Figures have been converted from CAD$ to GBP at an exchange rate of 1.67 (the weighted average rate for the period).
- Roger Withers stepped down from the Board on 24 May 2017 and received £30,000 for payment in lieu of contracted notice.
- Richard Cooper and Giles Vardey, Non-executive Directors, were paid a basic annual fee of £60,000 per annum each with effect from 1 May 2017 and 4 December 2017 respectively. In addition to the figures in the table Richard Cooper also received £66,000 in relation to additional work undertaken following the previous Chief Executive and the Chief Financial Officer announced resignations and fulfilling the role of senior financial officer in the Group.

Directors' remuneration for 2016 (audited)

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

- Ian Penrose, Chief Executive, was paid a basic annual salary of £393,000 per annum, with effect from 1 January 2016. Gain on exercise of share options in the year was £312,546.
- Mickey Kalifa, Chief Financial Officer, was paid a basic annual salary of £230,000 per annum with effect from 4 January 2016, increasing to £250,000 per annum with effect from 1 September 2016 (appointed to the Board 3 March 2016). He earned a bonus of £11,000 for performance in 2016 prior to his appointment to the Board. This is in addition to the figure set out above. Gain on exercise of share options in the year was £66,349.
- Rich Roberts, former President: Sportech Digital, was paid a basic annual salary of $306,000 per annum with effect from 1 January 2016 (stepped down from the Board 14 July 2016). He was eligible to receive a bonus in relation to 2016 (pro-rated to 14 July 2016) on the basis that he served in an Executive capacity for the performance year up until the date he stepped down from the Board.
- Cliff Baty, former Chief Financial Officer, was paid a basic annual salary of £249,000 per annum (stepped down from the Board 3 March 2016). He was not eligible for a bonus in relation to 2016.

Performance related bonus

The maximum bonus potential for the Chief Executive in the year under review was 100% of basic salary, and for the Chief Financial Officer and President - Sportech Racing and Digital was 75% of basic salary. For each Executive Director, their performance related bonus was based on (i) the adjusted EBITDA performance of the Group and (ii) strategic objectives aligned with Group strategic goals

Adjusted EBITDA performance

The Committee considered the Group's adjusted EBITDA performance for these purposes and in this respect, achievement was determined to be nil out of a maximum of 51% of overall potential bonus. The targets set were to achieve adjusted EBITDA of between threshold £8.8m (0% of this element of bonus achievement) and £9.3m (100% of this element of bonus achievement), with target set at £9.1m (50% of this element of bonus achievement). Actual adjusted EBITDA performance was £6.7m.

Strategic objectives

With regards to Ian Penrose, his personal 2017 targets related to: concluding the sale of the Football Pools realising in excess of £80 million net cash to the PLC – following the previous failed sale to Burlywood Capital this was a significant objective for the Group and accounted for 33% of potential annual bonus; realigning the Group strategically to maximise shareholder value; delivering enhanced revenues from US businesses, reducing exceptional expenditure and delivering net positive cash generation from on-going businesses. In addition to the key performance indicator of securing the sale of the Football Pools, another key achievement during the year was the successful return of £75 million to shareholders, including the restructuring of the Group share capital. Achievement against each of these targets was assessed by the Committee, resulting in an award of 40% out of a maximum target of 49% of potential bonus.

The 2017 strategic targets relating to Mickey Kalifa were in relation to: concluding the sale of the Football Pools realising in excess of £80 million net cash to the PLC – following the previous failed sale to Burlywood Capital this was a significant objective for the Group and accounted for 33% of potential annual bonus; realigning the Group strategically to maximise shareholder value; reduce recurring exceptional expenditure and ongoing operational costs and drive enhanced cash generation from the Racing and Digital Division; and ensure two key finance IT projects go live in the year. In addition to the key performance indicator of securing the sale of the Football Pools, another key achievements during the year was his involvement in the successful return of £75 million to shareholders, including the restructuring of the Group share capital and the launch of a live accounting system. Achievement against each of these targets was assessed by the Committee, resulting in an award of 43% out of a maximum target of 49% of potential bonus.

The strategic targets of Andrew Gaughan related to: improving free cashflow generation; establish and implement a digital development strategy; and ensure a key finance IT project goes live in the year. Achievements against these targets was assessed by the Committee, resulting in an award of 4% out of a maximum target of 49% of potential bonus, specifically relating to engagement in the US billing system rolled out to clients and the launch of Digital Link® (the division's industry leading mobile pari-mutuel wagering product).

The table below summarises the overall bonus result.

Individual	Total bonus: % Maximum (% salary payable)
Chief Executive (Ian Penrose)	40.0% out of the maximum entitlement (40.0% of salary payable)
Chief Financial Officer (Mickey Kalifa)	43.0% out of the maximum entitlement (32.25% of salary payable)
President: Sportech Racing and Digital (Andrew Gaughan)	4.00% out of the maximum entitlement (3.00% of salary payable), pro-rated per date of appointment to the Board

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

Pension arrangements

The Company made cash in lieu of pension payments by way of a salary supplement for the UK-based Executive Directors at a rate of 8% of base salary. The Company paid CAD$8,000 into a defined contribution scheme for Andrew Gaughan, a Canadian-based director.

Report of the Remuneration Committee continued

Long-Term Incentive Plans ("LTIPs")

Awards vested in relation to performance ending 2017

Awards granted in March 2015 reached the end of their performance periods or were substantially complete in the year under review. This includes 50% of awards subject to relative TSR (performance period measured to 9 March 2018) and 50% of awards subject to Earnings per Share "EPS" (performance period ended 31 December 2017). Summary details of the full conditions applying to the 2015 awards are included as a footnote to the PSP table on page 64.

The assessment of the TSR measure was made independently by New Bridge Street who advised that TSR over the three-year performance period to 9 March 2018 was 68.5% which resulted in the Company being ranked above the upper quartile position on a relative basis. As a result, 100% of this part of the award will be eligible to vest.

The increase in adjusted EPS during the three-year period to 31 December 2017 was below the threshold target level and therefore no part of this award will be eligible to vest.

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

Performance Share Plan – 2017 vesting

Measure	Condition	Threshold	Maximum	Actual	Vesting
Relative TSR	TSR measured against the constituents of the FTSE Small Cap Index (excluding investment trusts) over the three years from date of grant	Median rank 75	Upper quartile rank 37.75	Actual rank 37	100%
EPS	Annualised adjusted EPS growth measured against RPI over three financial years	RPI +4% p.a.	RPI +10% p.a.	RPI + 3.9% p.a.	0%

Executive	Award	Number of awards granted	Dividend adjust-ment[2]	Adjusted number of awards	Vesting	Number of shares vesting	Value of awards vesting[3]	Value of awards at 63.0p
Ian Penrose	2015 (Part A and B)	584,657	195,860	780,517	50%	390,259	£361,770	£245,863
Mickey Kalifa	2015 (Part A and B)	122,274*	40,962	163,236	50%	81,618	£75,660	£51,419
Andrew Gaughan	2015 (Part A and B)	131,895	44,185	176,080	50%	88,040	£81,613	£55,465

[1]Mickey Kalifa's award has been pro-rated to 31 December 2017. The original number of shares awarded was 130,362.

[2]The plan rules allow for a dividend adjustment to be made to awards to compensate for dividends paid during the vesting period. The December 2017 dividend resulted in an Ex-dividend price of 105.5p and a cum-dividend price of 79p, resulting in an uplift applied to awards of a factor of 1.335.

[3]Value of the awards is based on the average share price for the three months to 31 December 2017, being 92.7p. The value of the awards at a share price of 63.0p is also included in the table above to reflect approximate current value of the awards at the time of signing this report.

LTIP awards granted during 2017

Performance Share Plan ("PSP")

Executive	Type of award	Number of awards granted	Basis of award	Share price on grant Pence	Face value	Percentage which vests at threshold
Ian Penrose	Performance share	419,552	100% of salary	95.0p	£398,575	25%
Mickey Kalifa	Performance share	200,328	75% of salary	95.0p	£253,750	25%
Andrew Gaughan	Performance share	191,387	75% of salary	95.0p	£242,000 CAD$400,000	25%

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

The PSP awards granted during 2017 were surrendered in full in exchange for eligibility to receive awards under the VCP as detailed below.

Value Creation Plan ("VCP")

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

Executive	Type of award	Number of units awarded	% of overall VCP pool
Ian Penrose	Restricted share award	5,000	25%
Mickey Kalifa	Restricted share award	2,500	12.5%
Andrew Gaughan	Restricted share award	2,500	12.5%

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

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

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

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

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

Report of the Remuneration Committee continued

Directors' share-based incentives

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

PSP

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

	Date of grant	As at 1 January 2017 Number	Awarded during the year Number	Exer-cised during the year Number	Lapsed during the year Number	**As at 31 December 2017 Number**	Market price on date of grant Pence	Date from which exerci-sable	Award expiry date	Share Price at date of exercise (pence)
Ian Penrose	08.03.14[1]	432,525	—	—	(432,525)	**—**	89.00	08.03.17	08.03.18	n/a
	09.03.15[1]	584,657	—	—	—	**584,657**	66.50	24.04.18	09.03.19	n/a
	03.11.16[2]	607,636	—	—	(202,545)	**405,091**	64.625	03.11.19	03.11.20	n/a
	24.03.17[3]	—	419,552	—	(419,552)	**—**	95.00	n/a	n/a	n/a
Total		1,624,818	419,552	—	(1,054,622)	**989,748**				
Mickey Kalifa	08.03.14[1]	96,441	—	—	(96,441)	**—**	89.00	08.03.17	08.03.18	n/a
	09.03.15[1]	130,362	—	—	(8,088)	**122,274**	66.50	24.04.18	09.03.19	n/a
	03.11.16[2]	290,135	—	—	(114,729)	**175,406**	64.625	03.11.19	03.11.20	n/a
	24.03.17[3]	—	200,328	—	(200,328)	**—**	95.00	n/a	n/a	n/a
Total		516,938	200,328	—	(419,586)	**297,680**				
Andrew Gaughan	08.03.14[1]	302,271	—	—	(302,271)	**—**	89.00	08.03.17	08.03.18	n/a
	09.03.15[1]	131,895	—	—	—	**131,895**	66.50	24.04.18	09.03.19	n/a
	03.11.16[2]	239,679	—	—	—	**239,679**	64.625	03.11.19	03.11.20	n/a
	24.03.17[3]	—	191,387	—	(191,387)	**—**	95.00	n/a	n/a	n/a
Total		673,845	191,387	—	(493,658)	**371,574**				
Total PSP awards		2,815,601	811,267	—	(1,967,866)	**1,659,002**				

[1]2014 and 2015 awards were subject to relative TSR and EPS growth performance targets each applying to one-half of the awards the structure for which was outlined in full in the 2015 Annual Report.

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

[3]2017 awards were surrendered in full in lieu of entering the VCP 2017.

The market price of the ordinary shares at 31 December 2017 was 80.00p and the, post distribution adjusted range during the year was 77.5p to 80.25p.

VCP

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

	Date of grant	As at 1 January 2017 Number	Awarded during the year Number	**As at 31 December 2017 Number**	% of bonus pool
Ian Penrose	24.07.17	—	5,000	**5,000**	25%
Mickey Kalifa	24.07.17	—	2,500	**2,500**	12.5%
Andrew Gaughan	24.07.17	—	2,500	**2,500**	12.5%
Total		—	10,000	**10,000**	50%

Ian Penrose and Mickey Kalifa's entitlement to the VCP shares will reduce pro rata to maturity, following their departure from the Company, as noted below.

Payments to departing directors including payments for loss of office

Roger Withers stepped down as Chairman from the Board on 24 May 2017 and received his contracted fee of £120,000 per annum to this date. Per the terms of his contract, he received three months' notice of £30,000.

Mickey Kalifa stepped down from the Board on 18 September 2017 and left the employment of the Company on 31 October 2017. Mickey received 12 months' salary of £254,000 and a compensation for loss of office inclusive of entitlement to statutory payments of £50,000. He continued to accrue his usual employment benefits until 31 October 2017 and remained eligible for a discretionary annual bonus on a pro rata basis in respect of the period of his active service up to 31 October 2017. He was determined to be a Good Leaver for the purpose of PSP and VCP awards.

The LTIP award granted to Mickey in 2015 will vest in line with its original vesting date, subject to the satisfaction of the original performance conditions, and will be pro-rated to reflect the period from the date of grant to 31 December 2017 as compared to three years. The award granted to in 2016 under the LTIP will vest in line with its original vesting date, subject to the satisfaction of the original performance conditions, and will be pro-rated to reflect the period of time from 9 March 2016 to 31 December 2017 as compared to three years save that, where this award vests in the context of a takeover of the Company and the Remuneration Committee exercises its discretion to accelerate the vesting of all other outstanding awards granted under the LTIP, the pro-rating of this award will be calculated by reference to the period of time from 9 March 2016 to 31 December 2017 as compared to the period of time from 9 March 2016 to the date of the takeover. All awards granted under the LTIP will continue to be subject to malus and clawback provisions. He will be entitled to retain the shares issued to him pursuant to the VCP and such shares will vest, subject to performance, on their normal vesting date (being 1 January 2022 or, if earlier, the date of a takeover or demerger of the Company). The number of shares that will vest will be reduced to reflect the period from 6 September 2018 to the vesting date as compared to the period of time from 1 January 2017 to the vesting date. If the vesting date falls on or before 6 September 2018 (that is, as a result of a takeover or demerger), his VCP shares will vest in full. The Company also settled his legal fees, capped at £5,000.

Ian Penrose stepped down from the Board and left the employment of the Company on 31 December 2017. Ian received £449,000 in damages for breach of contract in respect of his notice period (which equates to 12 months' salary and benefits under his contract of employment), £50,000 compensation (inclusive of entitlement to statutory payments for loss of office), £15,340 in lieu of holiday accrued and he remained eligible for a discretionary annual bonus (a minimum amount of £159,600). He was also, following the end of his employment, entitled to receive a payment of £1,000 in consideration of obligations agreed with the Company in respect of the period of six months following the end of his employment. He was determined to be a Good Leaver for the purpose of PSP and VCP awards and his 2016 PSP awards were prorated to 9 March 2018 (no pro rating was applied to the 2015 award). For the purpose of the VCP his leave date was agreed to be 31 December 2018. He continued to accrue his usual employment benefits until 31 December 2017. The Company also settled his legal fees, capped at £5,000.

Report of the Remuneration Committee continued

Payments to past directors

Steve Cunliffe, a past director, was paid £42,500 in March 2017 in relation to the Spot the ball VAT repayment claim success. There were no other payments to past directors in the year.

Director interests and shareholding guidelines

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

Director	Total shareholding at 31 December 2016	**Total shareholding at 31 December 2017 (or on stepping down from the Board if earlier)**	PSP award held unvested	Share ownership guideline	% of guideline met by 31 December 2017
Ian Penrose*	950,000	**561,800**	989,748	200%	59.0%
Mickey Kalifa*	89,613	**80,652**	297,680	150%	18.0%
Andrew Gaughan	545,111	**545,111**	371,574	150%	125.9%
Richard McGuire	300,000	**270,000**	—	N/A	N/A
Richard Cooper	—	—	—	N/A	N/A
Giles Vardey	—	—	—	N/A	N/A

*Interests frozen at the Director's leaving date.

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

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

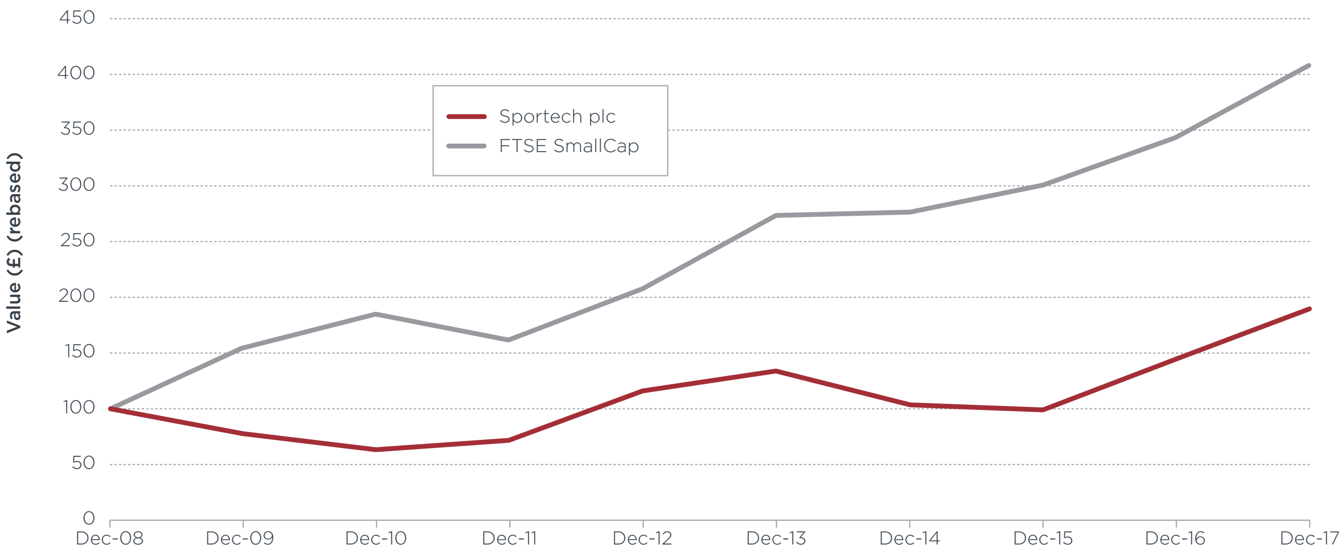
External directorships

Andrew Gaughan does not hold any external directorships. Ian Penrose is a Trustee of the National Football Museum, a registered charity, and he receives no remuneration in respect of this appointment. Mickey Kalifa did not hold any external directorships during his employment with the Group.

Performance graph and Chief Executive pay chart

This graph shows the value, by 31 December 2017, of £100 invested in Sportech PLC on 31 December 2008 compared with the value of £100 invested in the FTSE Small Cap Index. The other points plotted are the values at intervening financial year ends:

Total shareholder return
Source: Datastream (Thomson Reuters)



This graph shows the value, by 31 December 2017, of £100 invested in Sportech plc on 31 December 2008, compared with the value of £100 invested in the FTSE SmallCap Index on the same date.

The other points plotted are the values at intervening financial year-ends.

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

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

	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Remuneration before LTIPS (£000)	416	542	502	542	575	515	517	1,233[1]	**609[3]**
LTIPS (£000)	—	—	—	233	836	158	—	—	**362**
Total remunerations (£000)	416	542	502	775	1,411	673	517	1,233	**971**
Annual bonus	33%	74%	50%	25%	40%	21.25%	20.5%	39.2%[2]	**40.0%**
LTIP vesting	—	—	—	62.0%	82.7%	29.7%	—	—	**50.0%**

[1]Including exceptional bonus of £637,000

[2]Excluding exceptional bonus

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

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

	2017	2016*	% change
Chief Executive (£000)			
- Salary	**399**	393	1.5%
- Bonus (excluding exceptional bonus)	**160**	154	3.9%
- Benefits	**18**	18	—
- Exceptional bonus	—	637	N/A
Average of Group full-time employee (£000)			
- Salary	**64**	64	—
- Bonus	**5**	4	25.0%
- Benefits	**11**	12	(8.3)%

*Restated to exclude Football Pools employees

Report of the Remuneration Committee continued

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)

	2017 £m	Restated* 2016 £m	% change
Staff costs	**26.2**	24.5	6.9%
Distributions to shareholders	**74.8**	Nil	N/A

*Restated to exclude disposal group

Dates of appointment of directors

Details of the service contracts and letters of appointment in place as at 31 December 2017 for Directors are as follows:

	Date of Appointment	Notice period
Richard McGuire	24.08.16	3 months
Andrew Gaughan	01.10.05	12 months
Richard Cooper	24.05.17	3 months
Giles Vardey	04.12.17	3 months

Shareholders' vote on remuneration

At the last Annual General Meeting on 24 May 2017, votes on the Directors' remuneration report were cast as follows:

	In favour	Against	Withheld
To approve the Directors' Remuneration Report for the year ended 31 December 2016	124,660,236 (98.48%)	1,926,132 (1.52%)	9,265,264

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

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

Committee activity

The Committee's Terms of Reference are available from the Company Secretary and can be found on the Company's website at www.sportechplc.com/investors/corporate-governance.

The Committee met five 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 and VCP in the year under review;
- approval of the PSP and VCP performance conditions and targets for the 2017 awards;
- approval of bonus awards for achievement of FY2016 targets, and approval of bonus measures and targets for 2017;
- consultation with major shareholders in relation to the implementation of the Value Creation Plan;
- review of base salaries for the Executive team;
- approval of vesting determination for the 2014 PSP awards; and
- approval of termination terms for Ian Penrose and Mickey Kalifa.

The Committee's recommendations in 2017 and early 2018 were all accepted and implemented by the Board.

Composition of the Remuneration Committee

During the year, the Committee consisted of (i) Richard McGuire (Chairman), (ii) Roger Withers, Chairman of the Board (who became a temporary member and the Chairman following Peter Williams' stepping down from the Board in May 2016), (iii) Richard Cooper (who became a member upon his appointment in May 2017); and (iv) Giles Vardey who became a member on his appointment to the Board in December 2017. Giles became Chairman of the Committee in March 2018. Each of Richard Cooper and Giles Vardey are Independent Non-executive Directors. Richard McGuire will remain a member of the Committee given his executive role was temporary and for a short period of time. None of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest from cross- directorships or day-to-day involvement in the running of the business.

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

The Committee receive independent advice from New Bridge Street ("NBS") (a trading name of Aon PLC) on aspects of executive remuneration. NBS also provides Sportech with advice on Non-executive director remuneration. NBS is a member of the Remuneration Consultants Group and has voluntarily signed up to its industry Code of Conduct. NBS has no connection with Sportech other than in the provision of advice on executive and Non-executive director remuneration. The terms of engagement with NBS are available from the Company Secretary on request. The fees of the independent remuneration consultants in relation to the services provided by them to the Company during the financial year were £19,000 (2016: £34,000).

The Committee also received advice from PricewaterhouseCoopers LLP in relation to the structure of the Value Creation Plan and from KPMG for its implementation. Fees paid for this independent advice were £65,000 and £64,000 respectively.

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

Approval

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

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

23 April 2018

Directors Statutory Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2017. General information of the Company can be found in the Accounting Policies on page 92.

The Strategic report and Corporate Governance report are set out on pages 2 to 69. This Directors' report does not include information on trading in the year or principal risks, as this information is included on pages 35 and 36 in the Strategic report instead, under section 414C(11) of the Companies Act 2006,

Directors and their interests in the shares of the Company

The Directors who held office at 31 December 2017 and up to the date of signing these financial statements (unless otherwise stated), had beneficial interests in the share capital of the Company as shown below.

	At 20 April 2018 and 31 December 2017 Number*	31 December 2016 Number
Andrew Gaughan (appointed 27 January 2017)	**544,566**	545,111
Richard McGuire	**270,000**	300,000
Richard Cooper (appointed 24 May 2017)	**Nil**	Nil
Giles Vardey (appointed 1 December 2017)	**Nil**	Nil
Ian Penrose (resigned 31 December 2017)	**950,000**	850,000
Mickey Kalifa (resigned 31 October 2017)	**80,652**	89,613
Roger Withers (resigned 24 May 2017)	**112,079**	112,079

*or date of resignation if earlier

Details of share options and performance share plan ("PSP") awards granted during the year ended 31 December 2017 are set out in the Remuneration report on pages 62 to 64.

Directors' third-party indemnity provisions

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

Employees

Details of the Company's policy on equal opportunities for disabled employees and on employee involvement are set out in the 'Employees' section of the Corporate social responsibility report on page 39.

Substantial shareholdings

	29 March 2018		31 December 2017*	
	Ordinary shares of 20p	% of issued share capital	Ordinary shares of 20p	% of issued share capital
Lombard Odier 1798 Volantis fund	34,378,164	18.52	36,531,280	19.65
Harwood Capital	22,000,000	11.85	22,050,000	11.86
Schroder Investment Management Limited	16,580,863	8.93	16,580,010	8.92
Bank of America Merrill Lynch	17,570,851	9.47	16,546,080	8.90
Artemis Investment management	16,548,688	8.91	16,548,688	8.90
Richard Griffiths and Controlled Undertakings	13,135,675	7.07	13,095,675	7.04
Axa Investment Management	11,441,177	6.16	11,441,177	6.16
Aviva Investors	10,194,303	5.49	10,197,257	5.49
Hargreaves Hale	9,584,642	5.19	9,606,038	5.17
Total of substantial shareholdings	**151,434,363**	**81.59**	**152,596,205**	**82.09**
All other shareholdings	**34,179,881**	**18.41**	**33,018,039**	**17.91**
Total shares in issue	**185,614,244**	**100.00**	**185,614,244**	**100%**

Dividend

No dividend is proposed (2016: £nil). A special dividend of 29 pence was paid during the year (2016: £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 38. Greenhouse gas emissions are monitored closely by management, and disclosure of those emissions can be found in the Strategic report on page 38.

Corporate governance

The Group's statement on corporate governance is set out on pages 35 to 69 and forms part of this Directors' report.

Respect for Human Rights

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

Anti-corruption and anti-bribery matters

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

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

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

Significant agreements

There are a number of agreements that take effect, alter or potentially terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and employees' share plans. None of these are deemed to be individually significant in terms of their potential impact on the day-to-day running of the business of the Group as a whole, however, the Group operates under a number of licences in various territories awarded to it by regulatory bodies. In the event of a change of control, certain regulatory bodies retain the right to pre-approve the acquirer in order for a change of control to be permitted.

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

Share Capital and Authority to Issue Shares

The Company has one class of ordinary shares and these shares have equal voting rights. The nature of the holdings of the Company's individual Directors and individually significant shareholders are disclosed on page 70. There are no restrictions on the transfer of shares.

As part of the resolutions approved at the 2017 AGM, shareholders' authority was given to the Directors for:

(i) the allotment of up to 61,871,415 ordinary shares of 50p each (representing 33.3% of the issued share capital of the Company as at the date of the 2017 AGM); and

(ii) the allotment of up to 61,871,415 ordinary shares of 50p each (representing 33.3% of the issued share capital as

at the date of the 2017 AGM) in connection with a rights issue (including within such limit, any shares pursuant to the authority set out at (i)). As at 31 December 2017, no shares have been allotted pursuant to such authority.

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

Going concern

The Group's forecasts and projections, which have been prepared as described on page 37 were reviewed and approved by the Board.

On the basis of this review, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to June 2019. Accordingly, it is deemed appropriate to prepare the financial statements on a going concern basis for the financial year ended 31 December 2017.

Financial risk management

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

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

Where appropriate the Group uses derivative financial instruments to hedge certain risk exposures. The

Directors Statutory Report continued

policy for each of the above risks is described in more detail in note 25 of the consolidated financial statements.

Disclosure of information to Auditors

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

The Auditors, PricewaterhouseCoopers LLP, 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;
- 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 Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Group and 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 4 confirms that, to the best of each person's knowledge and belief:

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

Annual General Meeting ("AGM")

The Notice convening the AGM of the Company on 24 May 2018 will be sent to shareholders by 29 April 2018. In accordance with the Articles of Association of the Company, Richard McGuire, Andrew Gaughan and Richard Cooper retire by rotation and offers themselves for reappointment at the AGM. The profiles of those Directors appear on page 4. In addition, Giles Vardey, who was appointed to the Board since the last AGM, will retire and offer himself for reappointment. Resolutions will also be proposed at the AGM to receive the Accounts and the Directors' and Independent Auditors' Reports, to approve the Remuneration Policy set out on pages 49 to 54, to approve the Remuneration Report set out on pages 47 to 69, to reappoint the Auditors and to authorise the Directors to fix their remuneration.

On behalf of the Board,

Richard Cooper

Company Secretary

23 April 2018

Independent Auditors' Report to the Members of Sportech PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the company's affairs as at 31 December 2017 and of the Group's loss and the Group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and accounts 2017 (the "Annual Report"), which comprise:

- the group and company Balance Sheets as at 31 December 2017;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the group and company statements of Cash Flows for the year then ended;
- the group and company Statements of Changes in Equity for the year then ended; and
- the accounting policies; and the notes to the financial statements.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall Group materiality: £230,000 (2016: £590,000), based on 0.35% of revenue (2016: based on 2.5% of adjusted EBITDA (being earnings before interest, tax, depreciation and amortisation, as adjusted for exceptional items, impairment of assets and share option charges).
- Overall company materiality: £430,000 (2016: £417,000), based on 0.5% of Net assets

- Our audit focussed on the reporting packs for the key reporting units, being: Sportech PLC (the parent company), Sportech Pools Limited (formerly The Football Pools Limited), Sportech Racing LLC, Sportech Venues Inc and Racing Technology Ireland Limited.
- The components where we performed audit procedures accounted for 86% of Group revenue and 80% of Group adjusted EBITDA.

- Intangible asset impairment (Group)
- Provision for uncertain tax provisions (Group)
- Recoverability of contingent consideration (Group)

The scope of our audit

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

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group, which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focussed on laws and regulations that could give rise to a material misstatement in the group and parent company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation, US Gaming Regulations and UK and US tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with regulators, review of correspondence with legal and tax advisors and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent Auditors' Report to the Members of Sportech PLC continued

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Intangible asset impairment Refer to page 42 (Audit Committee Report), page 92 (Significant Accounting Policies) and page 112 (notes) Intangible assets associated with the gaming licence held within Sportech Venues Inc. ('Venues') have a carrying value of £5.6m, following the recognition of a £12.0m impairment in the year. In arriving at the remaining carrying value, the directors have assumed that the level of net handle (the total value of bets taken) generated by the land based venues will continue its recent decline, falling by 2% per year on average from 2018 onwards. Further, they have assumed the level of net handle in respect of internet gambling in Connecticut will grow on average 5% between 2018 and 2022, then at a rate of 2% into perpetuity. Finally, the directors have made assumptions in respect of the growth in profitability of the newly opened Bobby V's Stamford venue both in respect of the level of handle generated and the food and beverage sales which are set out in detail within note 13. We focussed on these areas due to the judgments and estimates involved.	We evaluated and challenged the Directors' future cash flow forecasts, together with the process by which they were drawn up and the key assumptions made, and tested the underlying value-in-use calculation. We noted no material inconsistencies between the forecasts and our understanding of the Board's approved future plans for the business gained from other areas of our audit. We evaluated the key assumptions over the net handle generated by the land based venues in 2017 and beyond by reference to the trend in total handle in recent years, after removing the impact of one off events. We have evaluated the growth assumptions adopted by the directors in respect of online handle, via reference to historic growth rates. We have also assessed the reasonableness of the directors' forecasts for the profitability of the Bobby V's Stamford venue, with reference to the current performance of the venue and other more established venues. The directors' assumptions are supported by information currently available. In addition, we have evaluated the discount rate used within the impairment review to assess whether it is appropriate. This was done primarily by comparison to the weighted average cost of capital of other comparable companies within the same industry or with a similar business model. The discount rate was found to be supportable. Whilst inherent uncertainty exists around many of the key assumptions used by the directors in the impairment review, our procedures indicated that the key assumptions were supportable and reasonable within the context of the evidence we obtained. We did not identify any material inconsistencies in the directors' estimation techniques and forecasting in these areas.

Key audit matter	How our audit addressed the key audit matter
	Furthermore, we performed sensitivity analysis to assess whether reasonably possible changes to key assumptions could result in a further impairment. We determined that, while the directors' assumptions are not inappropriate, reasonably possible changes in the key assumptions would be likely to lead to a material further impairment. We have determined that the directors' disclosure (see note 13) appropriately reflects this fact and is consistent with the requirements of accounting standards.
Uncertain tax provisions Refer to page 42 (Audit Committee Report), page 92 (Significant Accounting Policies) and pages 109 and 129 (notes). Over recent years the business has experienced a number of one off transactions that have significant tax implications. These include the disposal of the Football Pools division and the gain arising from the successful Spot the Ball claim. **Football Pools disposal** The disposal of the Football Pools division was structured as a share sale of three companies and sales of the core business trade and assets of other companies, which remain in the Group. The total tax charge resulting from the sale of the Football Pools division has been estimated by management as £6.4m (see note 10). Where certain intangible assets are disposed of by the Group the quantum of the tax liability, which crystallises, is subject to management judgement both in respect of the allocation of the consideration to the assets disposed of, the value of those assets and the periods in which those assets arose. **Spot the ball income** The tax in respect of the net Spot the Ball exceptional income recognised in the prior year was provided at 20%, being the UK tax rate enacted for the year ending 31 December 2016. It is possible that capital losses can be offset against the gain to reduce the tax on this gain. A judgement therefore exists as to whether a provision is required for the £4.6m which could be reduced to nil should the conclusion be reached that it is appropriate to treat the gain as a capital gain. The directors have determined that is appropriate to provide for this amount in full on the basis of probability.	We have evaluated the directors' conclusions surrounding whether a provision is required in respect of these uncertain tax provisions and where applicable the judgements adopted in determining the quantum of the provision and related disclosures. **Football Pools disposal** In respect of the calculation of tax on disposal of the Football Pools division we obtained management's intangible asset valuation model and assessed the appropriateness of the methodology and assumptions adopted in determining the valuation to be assigned to each of the intangibles disposed of. We also evaluated the judgements adopted by the directors in determining the period in which those intangibles arose, in the context of our understanding of the Group. We performed sensitivity analysis to assess the potential incremental tax liability should different assumptions be adopted. We determined that, while the directors' assumptions are supportable, there were alterative judgements which could result in a materially different tax charge, and hence agree that the directors' disclosures (see note 26) adequately reflect this. **Spot the ball income** In respect of the taxation of the Spot the ball income we have understood the relevant tax legislation, recalculated the tax payable based on the assumptions adopted by management, reviewed correspondence with HMRC and consulted with tax specialists to assess the appropriateness of the position taken by management. On balance we consider the judgement taken to be supportable.

Independent Auditors' Report to the Members of Sportech PLC continued

Key audit matter	How our audit addressed the key audit matter
HMRC VAT challenge In addition, during 2017 Sportech PLC has received a challenge from HMRC in respect of the value of economic activities that they provide to their trading subsidiaries, including the exempt Football Pools business. Assessments have been received totalling £1.3m for the period ended 31 December 2015. The directors have determined on the basis of legal and tax advice that no provision is required in respect of this assessment or for any subsequent periods. Together these create a number of material tax judgements and we have therefore focussed on the assumptions adopted by management in determining the appropriate provisions required as at the 31 December 2017.	**HMRC VAT challenge** In respect of the VAT claim we have reviewed the advice that the directors have received from their external tax and legal advisors and evaluated the supporting calculations, which have been prepared by management in reaching their conclusion that no provision is required. Whilst the future outcome of the appeal against HMRC is uncertain we determined that the director's judgement in respect of this item is reasonable. Further, we have confirmed that the contingent liability in respect of this item is appropriately disclosed (see note 26).
Recoverability of contingent consideration receivable Refer to page 42 (Audit Committee Report), page 92 (Significant Accounting Policies) and page 127 (notes). In May 2015 the Group disposed of its 50% investment in Sportech – NYX Gaming LLC. Included within the consideration receivable by the Group for the sale was an amount, which is contingent on the buyer NYX Gaming Group limited ("NYX") acquiring three new customers in the five years subsequent to the disposal. The directors assumed, and continue to assume, that the conditions for receipt of these amounts will be met within the requisite period and that the consideration will be received. As such this amount, £1.5m, continues to be included within trade and other receivables as at 31 December 2017. Given the judgement over the likelihood of this amount being received, we have focussed on the directors' assumptions in respect of this consideration.	We have evaluated the directors' conclusions surrounding the likelihood of this contingent amount being received. This has focussed on the likelihood of NYX obtaining the additional three new customers within the remaining two and a half years for the consideration to be payable. During our assessment we have considered a number of factors, which are relevant to NYX acquiring new customers in the remaining period. These factors include: the passage of gambling de-regulation through certain states within the USA in the year, the number of credible competitors to NYX in those states, and the pre-existing relationships NYX has with a number of potential customers, which increase the likelihood of a new customer being acquired. We verified these factors through external research over the regulatory and competitive environment in the USA in this industry. Whilst there is an inherent amount of uncertainty within the directors' assumptions in respect of this item, we have concluded that, at this time, the directors' judgement is reasonable.

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

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

The Group is managed divisionally, with the three operating divisions being Football Pools (until its sale in June 2017), Racing and Digital, and Venues, with the head office function incurring certain central costs on behalf of the Group.

The Group's accounting structure includes a local finance function in each of these divisions. These functions maintain their own localised accounting records and controls, distinct from those at the head office level.

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

The entities that were subject to audit work accounted for 86% of the Group's revenue from continuing operations and 80% of the Group's adjusted EBITDA from continuing operations.

Additionally we performed work in another eight reporting units on specific balances that we regarded to be significant to the consolidated financial statements.

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

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£230,000 (2016: £590,000).	£430,000 (2016: £417,000).
How we determined it	0.35% of revenue.	0.5% of Net assets.
Rationale for benchmark applied	In considering an appropriate benchmark on which to base our determination of materiality, we took into account that the Group has undergone significant changes during the year, most notably with the sale of the Football Pools business, which represented a significant proportion of the Group's adjusted EBITDA. Given the significant downsizing of the Group, the Group's cost base during the year ending 31 December 2017 was not representative of a Group of a similar size. The Group has undergone a cost reduction exercise in the year such that the underlying cost base will be reduced going forward. We therefore consider revenue the most appropriate benchmark on which to base our materiality. Applying our professional judgement, based on the scale of the business we determined an overall materiality of £230,000 which represents 0.35% of revenue.	Net assets is considered to be appropriate as it is not a profit oriented company. The main source of income is dividend income provided by other Group companies. The company holds all investments in subsidiaries and therefore net assets is deemed a generally accepted auditing benchmark.

Independent Auditors' Report to the Members of Sportech PLC continued

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £68,000 and £215,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10,000 (Group audit) (2016: £30,000) and £21,000 (Company audit) (2016: £21,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

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

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (as set out on pages 40 to 46) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

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

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (as set out on pages 40 to 46) with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. *(CA06)*

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

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

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

- The directors' confirmation on page 37 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 37 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions

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

- The statement given by the directors, on page 72, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially

Independent Auditors' Report to the Members of Sportech PLC continued

inconsistent with our knowledge of the group and company obtained in the course of performing our audit.

- The section of the Annual Report on page 42 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 72, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

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

Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2018

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Financial Statements Contents

Primary Statements

Notes to the Financial Statements

Company Financial Statements (Sportech PLC as a stand-alone entity)

Consolidated Financial Statements

Income Statement

for the year ended 31 December 2017

	Note	2017 £000	2016* £000
Revenue	2	**66,271**	64,814
Cost of sales	3	**(18,562)**	(19,761)
Gross profit		**47,709**	45,053
Marketing and distribution costs	3	**(2,118)**	(2,030)
Contribution		**45,591**	43,023
Operating costs	3	**(68,065)**	(68,589)
Other income (net)	4	**827**	90,952
Operating (loss)/profit		**(21,647)**	65,386
Finance costs	8	**(212)**	(1,695)
Other financial income	8	**193**	1,153
Share of loss after tax and impairments of joint ventures and associates	15	**(1,484)**	(1,236)
(Loss)/profit before tax from continuing operations		**(23,150)**	63,608
Tax – continuing operations	9	**230**	(16,912)
(Loss)/profit for the year – continuing operations		**(22,920)**	46,696
Net loss from discontinued operations	10	**(1,522)**	(33,629)
(Loss)/profit for the year		**(24,442)**	13,067
Attributable to:			
Owners of the Company		**(24,300)**	13,067
Non-controlling interests	14	**(142)**	—
		(24,442)	13,067
Earnings per share attributable to owners of the Company from continuing operations			
Basic	11	**(12.0)p**	22.6p
Diluted	11	**(12.0)p**	22.1p
Earnings per share attributable to owners of the Company from discontinued operations			
Basic	11	**(0.8)p**	(16.3)p
Diluted	11	**(0.8)p**	(16.3)p
Adjusted earnings per share attributable to owners of the Company			
Basic	11	**2.9p**	5.2p
Diluted	11	**2.9p**	5.0p

See note 1 for a reconciliation of the above statutory income statement to the adjusted performance measures used by the Executive management team to assess divisional performance which is referred to in the financial review.

*Prior year comparatives have been adjusted for discontinued operations. The classification of certain costs between cost of sales, marketing and distribution costs and operating costs has also been adjusted, with no net impact on operating profit. See note 30.

Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
(Loss)/profit for the year		**(24,442)**	13,067
Other comprehensive income/(expense):			
Items that will not be reclassified to profit and loss			
Actuarial gain on retirement benefit liability	24	**(171)**	(33)
Deferred tax on movement on retirement benefit liability		**55**	5
		(116)	(28)
Items that have been reclassified to profit and loss			
Realised fair value loss on available-for-sale financial assets	25	**2,500**	746
Items that may be subsequently reclassified to profit and loss			
Revaluation of available for sale financial assets	25	—	(1,647)
Currency translation differences	25	**(4,935)**	10,552
		(4,935)	8,905
Total other comprehensive (expense)/income for the year, net of tax		**(2,551)**	9,623
Total comprehensive (expense)/income for the year		**(26,993)**	22,690
Attributable to:			
Owners of the Company		**(26,862)**	22,664
Non-controlling interests		**(131)**	26
		(26,993)	22,690

Consolidated Financial Statements continued

Balance Sheet

As at 31 December 2017

	Note	2017 £000	2016 £000
ASSETS			
Non-current assets			
Goodwill	12	—	81,849
Intangible fixed assets	13	**11,629**	27,833
Property, plant and equipment	14	**25,705**	26,182
Net investment in joint ventures and associates	15	—	1,416
Trade and other receivables	16	**2,443**	2,577
Deferred tax assets	17	**6,406**	3,036
		46,183	142,893
Current assets			
Trade and other receivables	16	**10,342**	14,583
Inventories	18	**2,652**	2,504
Assets held for sale	19	**778**	—
Available-for-sale financial assets	25	—	1,261
Cash and cash equivalents	20	**18,757**	39,640
		32,529	57,988
TOTAL ASSETS		**78,712**	200,881
LIABILITIES			
Current liabilities			
Trade and other payables	21	**(16,058)**	(31,415)
Provisions	22	**(1,103)**	(67)
Financial liabilities	23	**(175)**	(196)
Current tax liabilities		**(7,106)**	(18,109)
		(24,442)	(49,787)
Net current assets		**8,087**	8,201
Non-current liabilities			
Financial liabilities	23	—	(82)
Retirement benefit liability	24	**(1,537)**	(1,708)
Provisions	22	**(1,523)**	(491)
		(3,060)	(2,281)
TOTAL LIABILITIES		**(27,502)**	(52,068)
NET ASSETS		**51,210**	148,813
EQUITY			
Ordinary shares	27	**37,123**	103,119
Other reserves		**22,400**	10,240
Retained earnings		**(8,313)**	35,323
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**51,210**	148,682
Non-controlling interests		—	131
TOTAL EQUITY		**51,210**	148,813

The financial statements on pages 86 to 137 were approved and authorised for issue by the Board of Directors on 23 April 2018 and were signed on its behalf by:

Richard McGuire
Director

Richard Cooper
Director

Company Registration Number:SC069140

Statement of Changes in Equity

for the year ended 31 December 2017

	Ordinary shares £000	Capital redemption reserve £000	Share option reserve £000	Pension reserve £000	FX** reserve £000	Available-for-sale reserve £000	Retained earnings £000	NCI*** £000	Total £000
		Other reserves							
At 1 January 2017	103,119	—	2,198	(530)	11,072	(2,500)	35,323	131	148,813
Comprehensive income									
Loss for the year	—	—	—	—	—	—	(24,300)	(142)	(24,442)
Other comprehensive items									
Actuarial loss on defined benefit pension liability*	—	—	—	(116)	—	—	—	—	(116)
Realised fair value losses on available-for-sale financial assets (note 25)	—	—	—	—	—	2,500	—	—	2,500
Currency translation differences	—	—	—	—	(4,946)	—	—	11	(4,935)
Total other comprehensive items	—	—	—	(116)	(4,946)	2,500	—	11	(2,551)
Total comprehensive items	—	—	—	(116)	(4,946)	2,500	(24,300)	(131)	(26,993)
Transactions with owners									
Share option charge, excluding accelerated IFRS 2 charge	—	—	666	—	—	—	—	—	666
Acceleration of IFRS 2 charge for departing management	—	—	3,765	—	—	—	—	—	3,765
Employer taxes paid on vesting of options	—	—	(21)	—	—	—	—	—	(21)
Share buyback (note 27)	—	—	—	—	—	—	(21,192)	—	(21,192)
Cancellation of share capital (note 27)	(10,312)	10,312	—	—	—	—	—	—	—
Capital reduction (note 27)	(55,684)	—	—	—	—	—	55,684	—	—
Special dividend (note 27)	—	—	—	—	—	—	(53,828)	—	(53,828)
Total transactions with owners	(65,996)	10,312	4,410	—	—	—	(19,336)	—	(70,610)
Total changes in equity	(65,996)	10,312	4,410	(116)	(4,946)	2,500	(43,636)	(131)	(97,603)
At 31 December 2017	**37,123**	**10,312**	**6,608**	**(646)**	**6,126**	**—**	**(8,313)**	**—**	**51,210**

*Net of deferred tax.

**Foreign exchange reserve

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

Consolidated Financial Statements continued

Statement of Changes in Equity (continued)

for the year ended 31 December 2016

		Other reserves							
	Ordinary shares £000	Capital redemption reserve £000	Share option reserve £000	Pension reserve £000	FX** reserve £000	Available-for-sale reserve £000	Retained earnings £000	NCI*** £000	Total £000
At 1 January 2016	103,119	—	2,332	(502)	546	(1,599)	22,256	105	126,257
Comprehensive income									
Profit for the year	—	—	—	—	—	—	13,067	—	13,067
Other comprehensive items									
Actuarial loss on defined benefit Pension liability*	—	—	—	(28)	—	—	—	—	(28)
Realised fair value losses on Available for sale financial Assets (note 25)	—	—	—	—	—	746	—	—	746
Revaluation of available for sale financial assets (note 25)	—	—	—	—	—	(1,647)	—	—	(1,647)
Currency translation differences	—	—	—	—	10,526	—	—	26	10,552
Total other comprehensive items	—	—	—	(28)	10,526	(901)	—	26	9,623
Total comprehensive items	—	—	—	(28)	10,526	(901)	13,067	26	22,690
Transactions with owners									
Share option debit	—	—	(87)	—	—	—	—	—	(87)
Employer taxes paid on vesting of options	—	—	(47)	—	—	—	—	—	(47)
Total transactions with owners	—	—	(134)	—	—	—	—	—	(134)
Total changes in equity	—	—	(134)	(28)	10,526	(901)	13,067	26	22,556
At 31 December 2016	103,119	—	2,198	(530)	11,072	(2,500)	35,323	131	148,813

*Net of deferred tax.

**Foreign exchange reserve

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

Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Cash generated from operations, before exceptional items	28	**6,418**	9,358
Interest paid		**(235)**	(1,902)
Tax paid		**(15,859)**	(3,049)
Net cash generated from operating activities before exceptional items		**(9,676)**	4,407
Exceptional cash inflows		**3,685**	93,941
Exceptional cash outflows		**(8,391)**	(4,150)
Cash generated from operations – continuing operations		**(14,382)**	94,198
Cash generated from operations – discontinued operations		**(7,114)**	13,296
Net cash (used in)/generated from operating activities		**(21,496)**	107,494
Cash flows from investing activities			
Investment in joint ventures and associates	15	**(173)**	(527)
Disposal of shares in NYX Gaming Group Limited	25	**2,333**	561
Disposal of Football Pools division		**86,200**	—
Investment in intangible fixed assets	13	**(3,948)**	(3,213)
Purchase of property, plant and equipment	14	**(6,905)**	(5,890)
Cash used in investing activities – continuing operations		**77,507**	(9,069)
Cash used in investing activities – discontinued operations		**(1,104)**	(2,853)
Net cash generated from/(used in) investing activities		**76,403**	(11,922)
Cash flows from financing activities			
Distributions to shareholders		**(75,020)**	—
Net cash outflow from repayment of borrowings		**—**	(62,092)
Cash used in financing activities – continuing operations		**(75,020)**	(62,092)
Cash used in financing activities – discontinued operations		**—**	—
Net cash used in financing activities		**(75,020)**	(62,092)
Net (decrease)/increase in cash and cash equivalents		**(20,113)**	33,480
Effect of foreign exchange on cash and cash equivalents		**(357)**	361
Net cash and cash equivalents at the beginning of the year		**39,640**	5,799
Net cash and cash equivalents at the end of the year		**19,170**	39,640
Less cash held by asset held for sale	19	**(413)**	—
Group cash and cash equivalents at the end of the year	20	**18,757**	39,640
Represented by:			
Cash and cash equivalents	20	**18,757**	39,640
Less customer funds	20	**(2,872)**	(3,123)
Adjusted net cash at the end of the year		**15,885**	36,517

Consolidated Financial Statements continued

Notes to the financial statements

for the year ended 31 December 2017

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 2017 comprise the Company, its subsidiaries, joint ventures and associates (together referred to as the 'Group'). The principal activities of the Group are pari-mutuel betting, both B2B and B2C, and supply of wagering technology solutions.

Going concern

As discussed in the Directors' report on page 71, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the period to 30 June 2019. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and International Financial Reporting Interpretation Committee ('IFRIC') interpretations as adopted by the European Union ('IFRSs as adopted by the European Union') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments and available for sale financial assets) to fair value in accordance with IAS 39 'Financial Instruments: Recognition and measurement'.

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

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

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

Critical judgements and estimates

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

Carrying value of Sportech Venues intangible assets

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

- success of newly-built venues in growing both its handle and F&B earnings;
- rates of industry handle growth/decline impacting the retail and online product;
- discount rates, which appropriately reflect the risks associated with those specific cash-generating units ('CGUs').

These assumptions, and the judgements of management that are based on them, are subject to change as new information becomes available. Economic conditions and government policy changes can also impact on the assumption and discount rates applied, which are reviewed annually. Further details are disclosed within note 13 of the Annual Report.

Carrying value of contingent consideration receivable

An element of the consideration received on the disposal of Sportech-NYX Gaming, LLC is contingent upon NYX Gaming Group Limited ('NYX') customers going live on their Real Money Wagering Platform. Judgement is therefore applied by management as to the likelihood that customers will go-live on this platform, and the number of customers who do so (see note 25).

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

Tax

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

Critical judgments include the valuation of assets disposed of in the Football Pools deal, the period in which those assets arose, and the valuation of management supplies provided by the Executive management team to its subsidiaries. The use of capital losses to offset the Spot the Ball gain is also a critical judgment, and the uncertainty of this results in a provision of £4.6m of corporation tax continuing to be carried in respect of this. Further detail is provided in notes 9, 10 and 26.

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control of an entity is deemed to exist when the Group is exposed to, or has rights to, variable returns through its power over that entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

Consolidated Financial Statements continued

(b) Equity accounted investees

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

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

The Group's share of post-acquisition profits and losses made by the investee is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an equity-accounted investee equals or exceeds its interest in that entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in that entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the investee have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Revenue

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

- the value of entry fees, net of winnings paid, receivable in respect of Football Pools recognised on the date of the event;
- the value of stakes, net of winnings paid, received in relation to betting activities recognised on the date of the event;
- the value of goods and services sold to external customers is recognised when the goods and services are consumed;
- the sale of terminals and systems, recognised when significant risks and rewards of ownership have been transferred, which is when title passes to the customer, generally being at the point of customer acceptance. Sales which involve significant customisation are recognised on a percentage of completion basis in accordance with IAS 11; and
- the value of services delivered under service contracts generally based on either a percentage of amounts wagered or on a predetermined fixed amount depending on contract terms.

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

Under multiple element arrangements, revenue is allocated to the various elements based on fair value determined by the price charged when the same element is sold separately, and revenue is recognised on the separate components of the contract in accordance with the appropriate revenue recognition policy for that item or service.

(d) Deferred income

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

(e) Segmental reporting

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

The Group has identified its business segments as follows:

- 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.

Consolidated Financial Statements continued

(g) Foreign currencies

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

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

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

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

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

(h) Property, plant and equipment

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

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

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

(i) Depreciation

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

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

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

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

(j) Goodwill

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

Goodwill is allocated to specific CGUs for the purpose of impairment testing. The allocation is made to the CGU that is expected to benefit from the business combination in which the goodwill arose.

Goodwill is carried at cost less accumulated impairment losses.

(k) Intangible fixed assets

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

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

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

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

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.

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

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(l) Investments in subsidiaries

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

(m) Impairment reviews

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

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

(n) Pension obligation

The Group operates various pension schemes.

The schemes are generally funded through payments to insurance companies or Trustee administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

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

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(o) Financial instruments

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

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

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

(p) Share-based payments

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

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

(q) Cash and cash equivalents

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

(r) Borrowings

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

(s) Exceptional items

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

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(t) Trade receivables

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

(u) Trade payables

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

(v) Inventories

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

(w) Provisions

Provisions for onerous contracts, onerous leases, legal claims and dilapidations are recognised when the Group has: a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses where the Group has no contractual obligation to deliver the service or product. Provisions payable over a period greater than 12 months are discounted using an appropriate market risk-free discount rate.

(x) Leases

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

(y) Share capital

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

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

There are no new standards or amendments to standards or interpretations that are mandatory for the first time for the financial year beginning 1 January 2017 that materially impacted the Group financial statements.

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

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

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

Standard or interpretation	Applicable
IFRS 16 – Leasing	1 January 2019
Amendments to IFRS 9 – Financial Instruments	1 January 2018
IFRS 15 – Revenue from contracts with customers	1 January 2018

Following the cessation of the strategic review, the Board will further consider the impact that the future changes to the above standards will make to the Group's financial statements going forward. An update on the impact of this will be provided in the interim financial statements for the period ended 30 June 2018.

1. Adjusted Performance Measures

The Executive Committee assesses the performance of the operating segments based on a measure of adjusted EBITDA which excludes the effects of non-recurring expenditure such as exceptional items and asset impairment charges. The share option expense is also excluded. Interest is not allocated to segments as the Group's cash position is controlled by the central finance team. This measure provides the most reliable indicator of underlying performance of each of the trading divisions. This is considered the most reliable indicator as it is the closest approximation to cash generated by underlying trade, excluding the impact of one-off items of a material nature and working capital movements.

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

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

	Note	2017 £000	2016 £000
Operating costs per income statement		**(68,065)**	(68,589)
Add back:			
Depreciation	14	**2,740**	3,168
Amortisation, excluding acquired intangible assets	13	**1,540**	3,024
Amortisation of acquired intangible assets	13	**350**	563
Impairment of goodwill	12	**—**	1,843
Impairment of intangible assets	13	**12,040**	14,220
Impairment of property, plant and equipment	14	**874**	5,089
Share option charge/(credit), excluding acceleration of charge for departing management	27	**666**	(87)
Accelerated IFRS 2 charge for departing management	27	**3,765**	—
Fair value losses realised on shares held in NYX Gaming Group	25	**1,603**	746
Exceptional items	4	**5,603**	5,517
Adjusted operating costs		**(38,884)**	(34,506)

Adjusted EBITDA is calculated as below. Note that "other income", ie income arising on exceptional items (see note 4) is also excluded from the adjusted EBITDA.

	2017 £000	2016 £000
Revenue	**66,271**	64,814
Cost of sales	**(18,562)**	(19,761)
Gross profit	**47,709**	45,053
Marketing and distribution costs	**(2,118)**	(2,030)
Contribution	**45,591**	43,023
Adjusted operating costs	**(38,884)**	(34,506)
Adjusted EBITDA	**6,707**	8,517

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

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

	2017 Continuing £000	2017 Discontinued £000	2017 Total £000	2016 Continuing £000	2016 Discontinued £000	2016 Total £000
Adjusted EBITDA	6,707	6,172	12,879	8,517	15,250	23,767
Share option charge/(credit)	(666)	—	(666)	87	—	87
Depreciation	(2,740)	(179)	(2,919)	(3,168)	(360)	(3,528)
Amortisation (excluding amortisation of acquired intangibles)	(1,540)	(561)	(2,101)	(3,024)	(1,869)	(4,893)
Finance charges	(212)	—	(212)	(1,695)	—	(1,695)
Adjusted profit before tax	1,549	5,432	6,981	717	13,021	13,738
Tax at 21.6% (2016: 22.8%)			(1,508)			(3,132)
Adjusted profit after tax			5,473			10,606

2. Segmental reporting

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

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2016	Sportech Racing and Digital £000	Sportech Venues £000	Corporate costs £000	Inter-segment elimination £000	Group £000
Revenue from sale of goods	5,789	—	—	(4)	5,785
Revenue from rendering of services	30,248	29,659	—	(878)	59,029
Total revenue	36,037	29,659	—	(882)	64,814
Cost of sales	(6,224)	(14,060)	—	523	(19,761)
Gross profit	29,813	15,599	—	(359)	45,053
Marketing and distribution costs	(836)	(1,194)	—	—	(2,030)
Contribution	28,977	14,405	—	(359)	43,023
Adjusted operating costs (note 1)	(19,601)	(11,957)	(3,307)	359	(34,506)
Adjusted EBITDA	**9,376**	**2,448**	**(3,307)**	**—**	**8,517**
Share option credit	—	—	87	—	87
Depreciation	(2,047)	(1,091)	(30)	—	(3,168)
Amortisation (excluding amortisation of acquired intangible assets)	(2,958)	—	(66)	—	(3,024)
Segment result before amortisation of acquired intangibles and impairment of assets	4,371	1,357	(3,316)	—	2,412
Amortisation of acquired intangibles	(563)	—	—	—	(563)
Impairment of assets	(17,133)	(4,019)	—	—	(21,152)
Fair value losses realised on sale of shares held in NYX Gaming Group	(746)	—	—	—	(746)
Exceptional income	—	—	90,952	—	90,952
Exceptional costs	(899)	(280)	(4,338)	—	(5,517)
Operating profit/(loss)	(14,970)	(2,942)	83,298	—	65,386
Net finance costs					(542)
Share of loss after tax and impairment of joint ventures					(1,236)
Profit before taxation					63,608
Taxation					(16,912)
Profit for the year – continuing operations					46,696
Net loss from discontinued operations					(33,629)
Profit for the year					13,067
Segment assets	98,028	46,696	158,496	(102,339)	200,881
Segment liabilities	(93,212)	(12,935)	(48,260)	102,339	(52,068)
Other segment items					
Capital expenditure – Intangible assets	3,135	—	79	—	3,214
Capital expenditure – Property, plant and equipment	2,885	2,964	15	—	5,864

Information by geographical area

	Revenues from external customers		Non-current assets	
	2017 £000	2016 £000	**2017 £000**	2016 £000
United Kingdom	3,889	2,490	1,497	88,435
North and South America	56,750	54,305	43,852	52,067
Europe	4,706	4,706	834	2,391
Other	926	3,313	—	—
Total	**66,271**	64,814	**46,183**	142,893

3. Expenses by nature

	Note	2017 £000	2016 £000
Cost of sales			
Tote and track fees		12,166	11,923
F&B consumables		1,322	866
Betting and gaming duties		480	421
Repairs and maintenance cost of sales		402	256
Ticket paper		855	911
Programs		472	483
Outsourced service costs		1,605	1,776
Cost of inventories sold, including provision for obsolete inventory		1,260	3,125
Total cost of sales		18,562	19,761
Marketing and distribution costs			
Marketing		1,664	1,590
Vehicle costs		234	224
Freight		220	216
Total marketing and distribution costs		2,118	2,030
Operating costs			
Staff costs – gross, excluding share option charges		28,562	26,459
Less amounts capitalised		(3,026)	(3,022)
Staff costs – net		25,536	23,437
Property costs		5,454	4,596
IT & Communications		1,351	1,158
Professional fees		3,249	3,378
Travel and entertaining		1,524	1,377
Banking transaction costs and FX		271	207
Provision for doubtful debts		762	22
Other costs		737	332
Adjusted operating costs		**38,884**	**34,507**
Share option charge, excluding exceptional accelerated charges	27	666	(87)
Acceleration of IFRS 2 charge for departing management	27	3,765	—
Realised loss on sale of shares held in NYX Gaming Group	25	1,603	746
Depreciation	14	2,740	3,167
Amortisation, excluding amortisation on acquired intangibles	13	1,540	3,024
Amortisation of acquired intangibles	13	350	563
Impairment of goodwill	12	—	1,843
Impairment of property, plant and equipment	14	874	5,089
Impairment of intangible assets	13	12,040	14,220
Exceptional costs	4	5,603	5,517
Total operating costs		68,065	68,589

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4. Exceptional items

	Note	2017 £000	2016 £000
Included in operating costs:			
Redundancy and restructuring costs in respect of the rationalisation and modernisation of the business	4(a)	**2,291**	492
Onerous contract provisions and other losses resulting from exit from Californian operations	4(b)	**2,740**	180
Compensation received/(paid) in relation to 2016 New Jersey data outage		**(45)**	189
Transaction costs from material M&A activity	4(c)	**—**	4,350
Licencing costs in New Jersey in respect of the acquisition of Sportech Racing		**110**	28
One off start up costs of new ventures, including new venue builds and joint ventures		**390**	137
Earn out and similar costs required to be recognised as an expense	23	**74**	(6)
Release of provisions which did not arise during period of Sportech ownership	22	**(261)**	—
Professional fees associated with new remuneration arrangements approved by shareholders		**150**	—
Costs of lobbying the State of Connecticut for expanded gaming and enforcement of exclusive licence		**154**	147
		5,603	5,517
Included in other operating income:			
Net gain on successful outcome of Supreme Court Spot the Ball ruling	4(d)	**(827)**	(90,952)
Net exceptional costs/(income)		**4,776**	(85,435)

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

On 18 September 2017, the Company announced the departure of the incumbent CFO and CEO. This was accompanied by a strategic review and Formal Sales Process under the Takeover Code following a series of initial approaches made to the Company. The costs of honouring the contracts of those departing executives along with some other staff in senior positions represents the majority of the costs of restructuring and redundancy.

(b) California exit

The Group had a number of contractual arrangements in the State of California, none of which was profitable and included real-estate leases for a considerable duration with no benefit to the Group. These have been provided for in full, with certain other items also written off and provided for, as below:

	£000
Onerous contracts	**2,553**
Provision for irrecoverable items	**91**
Pre-build start up costs of aborted construction sites in California	**96**
	2,740

(c) Transaction costs from material M&A activity

Transaction costs relate to those incurred in the Group's Football Pools disposal. This disposal was completed in June 2017, with additional disposal costs incurred during the year of £3,248k. Those 2017 costs have been presented as part of the loss on disposal of Football Pools as shown in note 10.

(d) Spot the Ball

As disclosed in the 2016 financial statements, there were certain contingent items receivable by the Group. In 2017, clarity was obtained on the quantum of the items receivable, and other income was therefore booked in respect of those.

Other items relating to Spot the Ball were also recognised in these financial statements, resulting in net other Spot the Ball income of £827k as below:

	£000
Cash received from co-appellant in excess of amounts accrued	146
Recovery of costs in respect of successful claim	981
Advisor and legal fees	(300)
	827

At the reporting date, £487k was recognised within other receivables (note 16) for costs awarded and due from HMRC. Those funds were received in Q1-18.

£814k is also included within accrued expenses for advisor and legal fees. It is anticipated that those will be settled within twelve months of the reporting date.

5. Employment costs

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

	2017 Number	2016 Number
Sales and marketing	13	11
Operations and distribution	470	448
Administration	73	78
Total employees	556	537
Total employees at 31 December	553	501

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and Salaries	21,872	20,510
Social security costs	3,878	3,551
Pension costs – defined contribution scheme (note 24)	323	289
Pension costs – defined benefit scheme (note 24)	89	159
Employee remuneration, excluding share option charges	26,162	24,509
Share option expense/(credit), including acceleration of IFRS 2 charge for departing management	4,431	(87)
Total remuneration	30,593	24,422

6. Directors and key management remuneration

	Directors		Key management	
	2017 £000	2016 £000	2017 £000	2016 £000
Short-term employee benefits	1,261	1,955	1,438	2,448
Consultancy fees	146	—	146	—
Share-based payments	373	(149)	373	(168)
Accelerated IFRS 2 charge for departing management	3,567	—	3,567	—
Pay in lieu of notice	859	244	964	244
Post-employment benefits	51	54	51	59
Total remuneration	6,257	2,104	6,539	2,583

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration report on pages 47 to 69. This information forms part of the financial statements. Retirement benefits are accruing under defined benefit pension schemes for nil Directors (2016: nil). Nil Directors exercised share options in the year (2016: two).

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Key management is considered to be the Directors of the Company (Executive and Non-executive) and senior Executives. Consultancy fees are amounts payable to Richard McGuire and Richard Cooper in providing additional services to Group companies in their capacity as Non-executive Directors following the resignation of Ian Penrose and Mickey Kalifa, as detailed in the Remuneration report on page 59.

7. Auditors remuneration

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

	2017 £000	2016 £000
Audit fees	**306**	290
Taxation compliance	—	73
Taxation advisory services	—	105
Other assurance services	**248**	591
Total fees	**554**	1,059

8. Net finance costs

	2017 £000	2016 £000
Finance costs:		
Interest payable on bank loans, derivative financial instruments and overdrafts	**(159)**	(1,636)
Interest on defined benefit pension obligation	**(53)**	(59)
Total finance costs	**(212)**	(1,695)
Other financial income:		
Foreign exchange gain on financial assets and liabilities denominated in foreign currency	**97**	1,065
Unwinding of interest on discounted non-current balances	**96**	88
Total other financial income	**193**	1,153
Net finance costs	**(19)**	(542)

9. Taxation

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

	2017 £000	2016 £000
Current tax:		
Current tax on profit for the year	**1,245**	17,472
Adjustments in respect of prior years	**2,381**	640
Total current tax	**3,626**	18,112
Deferred tax:		
Origination and reversal of temporary differences	**(7,114)**	(4,825)
Effect of changes in tax rates	**3,245**	9
Adjustments in respect of prior years	**13**	469
Derecognition of previously recognised deferred tax assets	—	3,149
Total deferred tax	**(3,856)**	(1,198)
Total tax (credit)/charge	**(230)**	16,914

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

	2017 £000	2016 £000
Earnings before tax	**(23,150)**	63,608
Add share of loss after tax and impairment of non-US based joint ventures and associates	—	64
Earnings before tax and share of loss after tax of UK joint ventures	**(23,150)**	63,672
Tax calculated at domestic tax rates applicable to (losses)/profits in the respective countries	**(7,635)**	11,550
Tax effects of:		
– permanent differences	**1,480**	1,169
– effect of changes in tax rates	**3,245**	9
– adjustments in respect of prior years – current tax	**2,381**	640
– adjustments in respect of prior years – deferred tax	**13**	469
– deferred tax not previously provided	**(97)**	(74)
– deferred tax not recognised	**383**	—
– derecognition of previously recognised deferred tax assets	—	3,149
Total tax (credit)/charge	**(230)**	16,912

Included within permanent differences are the share option charges expensed in the period.

Certain adjustments in respect of prior years are UK debt-cap adjustments that are made within the UK corporation tax Group. This Group includes Sportech PLC and other companies whose results have been presented as discontinued operations in the year (see note 10). The net cash impact of those adjustments on the Group's corporation tax liability is £nil.

US deferred tax assets have been revalued downwards to allow for the reduction in the federal US tax rate from 34% to 21%, thus impacting the future cash benefit the Group will receive from carrying its US tax losses.

Deferred tax assets of £383k have not been recognised in respect of the investment made by the Group in S&S Venues California, LLC. Tax losses are only realisable in the event of a sale of this investment at a profit. Management have insufficient certainty that this will occur and so those items have not been recognised as deferred tax assets.

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

As disclosed in the 2016 financial statements, tax on the net Spot the Ball exceptional income was provided for at 20%. It is possible that capital losses of £23.0m could be used to offset the gain to reduce the tax on this gain by £4.6m. The entire tax liability, other than this £4.6m, has now been paid. The £4.6m remains provided for in current tax liabilities in the year end financial statements as an uncertain tax position.

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10. Discontinued operations

The disposal of the Football Pools business completed in June 2017, and the Board considered its Venues business in the Netherlands, Sportech Racing BV and subsidiaries, to be an asset held for sale, with a sale being considered probable within 12 months from the reporting date. Accordingly both those divisions are reported as discontinued operations in the 2017 financial statements.

A reconciliation of the net loss on discontinued operations is shown below.

	2017			2016		
	Football Pools* £000	Holland £000	Total £000	Football Pools £000	Holland £000	Total £000
Revenue	13,971	6,038	20,009	28,342	5,404	33,746
Cost of sales, marketing and distribution and adjusted operating expenses	(8,226)	(5,611)	(13,837)	(13,391)	(5,105)	(18,497)
Adjusted EBITDA	5,745	427	6,172	14,951	299	15,250
Depreciation and amortisation	(523)	(216)	(739)	(1,972)	(257)	(2,229)
Exceptional items	917	(37)	880	(3,455)	(18)	(3,473)
Impairment of assets	—	—	—	(42,507)	—	(42,507)
Profit/(loss) before tax	6,139	174	6,313	(32,983)	24	(32,959)
Tax, excluding tax arising on disposal	632	—	632	(670)	—	(670)
Profit/(loss) after tax	6,771	174	6,945	(33,653)	24	(33,629)
Loss on disposal (note 10a)	(8,467)	—	(8,467)	—	—	—
Net result from discontinued operations	(1,696)	174	(1,522)	(33,653)	24	(33,629)

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

10a) Net loss on disposal

	£000
Consideration, net of working capital adjustments	86,149
Net assets disposed of	(3,124)
Goodwill relating to the Football Pools division	(81,849)
Transaction costs incurred in the year	(3,248)
Pre-tax loss on disposal	(2,072)
Tax arising on disposal	(6,395)
Loss on disposal	(8,467)

The disposal of the Football Pools division was structured as a share sale for three companies, and sales of the core business trade and assets from other companies that remain in the Sportech Group. Where certain intangible assets are disposed of by the Group, a tax liability crystallises, the quantum of which is subject to management judgment. That judgment includes consideration of the assets which are disposed of, the value of those assets, and the period in which those assets arose. The total tax charge which arises in the period includes £6,395k which is directly attributable to the sale of those assets (see note 26). This was paid in full in 2017.

Note that the net gain/(loss) on disposal in relation to the Venues business in the Netherlands is not recognised until the sale is completed, which is anticipated to occur within 2018. Further detail on this prospective disposal can be found in note 19. It is anticipated that a net gain on disposal will be recognised in the 2018 financial statements for this business of approximately £0.9m, with further potential upside available as disclosed in note 19.

11. Earnings per share

(a) Basic

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

	2017 Continuing £000	2017 Discontinued £000	2017 Total £000	2016 Continuing £000	2016 Discontinued £000	2016 Total £000
Profit attributable to the owners of the Company	**(22,778)**	**(1,522)**	**(24,300)**	46,696	(33,629)	13,067
Weighted average number of ordinary shares in issue ('000)	**190,135**	**190,135**	**190,135**	206,238	206,238	206,238
Basic earnings per share	**(12.0)p**	**(0.8)p**	**(12.8)p**	22.6p	(16.3)p	6.3p

(b) Diluted

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

	2017 Continuing £000	2017 Discontinued £000	2017 Total £000	2016 Continuing £000	2016 Discontinued £000	2016 Total £000
Profit attributable to the owners of the Company	**(22,778)**	**(1,522)**	**(24,300)**	46,696	(33,629)	13,067
Weighted average number of ordinary shares in issue ('000)	**190,135**	**190,135**	**190,135**	206,238	206,238	206,238
Dilutive potential ordinary shares	**N/A**	**N/A**	**N/A**	5,457	N/A	5,457
Total potential ordinary shares	**190,078**	**190,078**	**190,078**	211,695	206,238	211,695
Diluted earnings per share	**(12.0)p**	**(0.8)p**	**(12.8)p**	22.1p	(16.3)p	6.2p

(c) Adjusted

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

	2017 Adjusted Profit after tax £000	2017 Weighted average number of shares £000	2017 Per share amount	2016 Adjusted Profit after tax £000	2016 Weighted average number of shares £000	2016 Per share amount
Basic adjusted EPS	**5,473**	**190,135**	**2.9p**	10,606	206,238	5.1p
Diluted adjusted EPS	**5,473**	**190,988**	**2.9p**	10,606	211,695	5.0p

12. Goodwill

Goodwill arose on three historic acquisitions made by the Group: the acquisition of Littlewoods Leisure, (including the Littlewoods Football Pools business), in September 2000 amounting to £145.2m; the acquisition of Vernons Football Pools in December 2007 amounting to £20.3m; and the acquisition of eBet Online, Inc. in December 2012 of £5.5m. The goodwill which arose on the acquisition of Littlewoods Leisure and Vernons Football Pools are together considered as the goodwill relating to Sportech's Football Pools division.

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Movements in the Group's goodwill are shown below:

	2017 Football Pools £'000	2017 eBet Online £'000	2017 Total £'000	2016 Football Pools £'000	2016 eBet Online £'000	2016 Total £'000
Cost						
At 1 January	**165,499**	**5,548**	**171,047**	165,499	5,548	171,047
Disposal	**(165,499)**	**—**	**(165,499)**	—	—	—
At 31 December	—	**5,548**	**5,548**	165,499	5,548	171,047
Accumulated impairment charges						
At 1 January	**(83,650)**	**(5,548)**	**(89,198)**	(45,950)	(3,705)	(49,655)
Impairment charge	—	**—**	**—**	(37,700)	(1,843)	(39,543)
Disposal	**83,650**	**—**	**83,650**	—	—	—
At 31 December	—	**(5,548)**	**(5,548)**	(83,650)	(5,548)	(89,198)
Closing net book value	—	**—**	**—**	81,849	—	81,849

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

13. Intangible fixed assets

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

Of the amounts capitalised in the year in continuing operations, £3,026k arose from capitalising staff costs for development expenditure.

Amortisation and impairment charges for continuing operations have been included within operating costs.

It was identified during the period that items with a cost of £221k were presented within property, plant and equipment but were of an intangible nature. Those items have been transferred to software.

Impairment – Licences

The Group holds a licence in perpetuity to offer pari-mutuel off-track betting in the State of Connecticut in the US for its Venues division. This asset has a book value in USD at the reporting date, prior to any impairment that may be considered necessary, of $23,644k. Given this licence is in perpetuity, the book value of the asset is not amortised and the useful economic life allocated to the asset is indefinite.

As required by IAS 36, an impairment test has been carried out as at 31 December 2017. In testing for impairment, other assets used solely to generate cash flows in the CGU are also included, totalling $20,158k (2016: $14,130k).

The recoverable amount of the asset has been determined based on a value-in-use calculation. In calculating value-in- use, future opportunity value must be ignored. Therefore, although management consider there to be upside opportunity in its Venues division, particularly in light of potential repeal of PASPA regulation to legalise sports betting, and the appetite in the State of Connecticut to ensure this is taken advantage of locally, the assumptions that are used in calculating value-in-use have been brought down since that performed in 2016. This reflects the continuing underlying decline of core handle and other uncertainties. Note that in previous reporting periods, expected sale proceeds from surplus assets within the Venues division were included. Those are now excluded given the lack of certainty of securing a sale of this asset in the short-term despite the passage of time and the asset being marketed locally. The key assumptions made were as follows:

- EBITDA forecasts assume year-on-year handle decline in the core operating business of 2%, and flat earnings on its core F&B venues (excluding new venues and online);
- compound annual handle growth for the online channel of 5% for Y1-5;
- compound annual handle growth at Bobby V's venue in Stamford of 10% in Y2-3 and 5% in Y4-5;
- growth in F&B revenues in Stamford of 20% in Y2 and 15% in Y3;
- cash flows beyond the fifth year were extrapolated using a 2% rate of decline for the core business venues reflecting the industry handle rates, 0% for food and beverage 2% growth in the online business, and 2% growth for earnings from its new Bobby V's venue in Stamford;
- capital expenditure was included in the cash flows at management's best estimate of industry norm for reinvestment in retail outlets of the kind under review; and
- a post tax discount rate of 9.1% (2016: 9.1%) was used representing a market-based weighted average cost of capital appropriate for the Sportech Venues CGU. This equates to a pre tax discount rate of 12.7% (2016: 14.7%).

Following the impairment review, the recoverable amount of those assets was deemed to be $27,727k and accordingly an impairment of $16,075k (£12,040k) was charged to the income statement within administrative expenses (2016: $1,361k; £1,093k).

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

	Resulting impairment £'000
Core business handle decline of 3% rather than 2% into perpetuity, compound handle growth at Bobby V's in Stamford of 5% rather than 10%, F&B growth projections reduced by 50% each year	**7,470**
Federal tax rate of 34% used as consistent to those in previous periods (pre recent US tax reform)	**2,798**

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2016	Customer contracts and relationships £000	Software £000	Licences £000	Other £000	Total £000
Cost					
At 1 January 2016	36,500	47,764	16,874	3,735	104,873
Additions – continuing operations*	—	2,933	—	281	3,214
Additions – discontinued operations	—	2,300	—	335	2,635
Transfer	—	(300)	—	300	—
Disposals	—	(717)	—	—	(717)
At 31 December 2016	36,500	51,980	16,874	4,651	110,005
Accumulated amortisation					
At 1 January 2016	35,946	24,500	—	3,900	64,346
Charge for year – continuing operations	554	2,868	—	164	3,586
Charge for year – discontinued operations	—	1,869	—	—	1,869
Impairment – continuing operations	—	12,542	1,093	585	14,220
Impairment – discontinued operations	—	4,757	—	—	4,757
Disposals	—	(717)	—	—	(717)
At 31 December 2016	36,500	45,819	1,093	4,649	88,061
Exchange differences	—	1,366	3,437	1,086	5,889
Net book amount at 31 December 2016	—	7,527	19,218	1,088	27,833

*of which £3,022k arose from capitalisation of staff costs

14. Property, plant and equipment

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

Depreciation and impairment charges for continuing operations have been charged to operating costs.

Certain assets have been transferred into alternative sub categories within property, plant and equipment following a detailed review of the asset registers. This has no impact on the net position, other than the items reclassified from intangible assets as stated in note 13 of the Annual Report.

Impairment charges

The Group has decided that it will not continue with its ventures in California and will exit this territory in 2018. As a result, assets capitalised which relate to its Californian ventures will generate no future economic benefit to the Group.

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

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

2016	Short leasehold land and buildings £000	Long leasehold and owned land buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets in the course of construction £000	Total £000
Cost						
At 1 January 2016	200	11,450	20,140	805	3,110	35,705
Additions – continuing operations	—	33	449	64	5,318	5,864
Additions – discontinued operations	—	3	189	25	—	217
Disposals	—	—	(6,535)	(152)	—	(6,687)
Transfer	—	100	3,831	3	(3,934)	—
At 31 December 2016	200	11,586	18,074	745	4,494	35,099
Accumulated depreciation						
At 1 January 2016	112	4,594	7,659	286	—	12,651
Charge for year – continuing operations	7	442	2,563	155	—	3,167
Charge for year – discontinued operations	—	109	215	36	—	360
Impairment – continuing operations	—	2,333	2,615	141	—	5,089
Impairment – discontinued operations	—	23	27	—	—	50
Disposals	—	—	(6,478)	(174)	—	(6,652)
At 31 December 2016	119	7,501	6,601	444	—	14,665
Exchange differences	—	2,149	2,369	60	1,170	5,748
Net book amount at 31 December 2016	81	6,234	13,842	361	5,664	26,182

15. Net investment in joint ventures/associates

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

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

	2017		2016		
	S&S Venues £000	Total £000	S&S Venues £000	Other £000	Total £000
At 1 January	**1,416**	**1,416**	1,221	838	2,059
Additions	**173**	**173**	163	364	527
Income statement items:					
Impairment	**(1,184)**	**(1,184)**	—	(882)	(882)
Share of loss after tax	**(300)**	**(300)**	(213)	(395)	(608)
Net income statement charge	**(1,484)**	**(1,484)**	(213)	(1,277)	(1,490)
Exchange differences	**(105)**	**(105)**	245	75	320
At 31 December	**—**	**—**	1,416	—	1,416

In 2016 the Group also ceased its involvement to provide future management services to Draftday which resulted in a release of the corresponding liability totaling £254k.

b) Capital commitments and future obligations

Sportech Venues Inc. is a guarantor for certain future obligations at Striders. As the Group has now decided to exit California and cease trading in early 2018 those commitments have been provided for in full. See note 22 for further details.

c) Impairments – S&S Venues

The S&S Venues joint venture relates to one particular sports bar operated in San Diego California, branded "Striders". Striders commenced trading in February 2016. The venture has not been profitable, and the Group's share of cumulative losses to 31 December 2017 were £513k. Management reached a decision to exit from its interests in California, with trade at Striders anticipated to cease in H1-18. Accordingly the deemed future economic benefit to the Group from holding its investment in Striders is £nil and the net investment has been impaired in full.

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

Note that although the Group continues to hold a share in its Indian Joint Venture and Draftday at the reporting date, this business is no longer actively managed by the Group. The Group have exited from this joint venture in early 2018 and has no current or future obligation to fulfil working capital requirements of joint venture during 2017. The net investment in this joint venture is £nil at both 31 December 2017 and 31 December 2016.

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

	2017 £000	2016 £000
Non-current assets	**2,125**	2,386
Current assets	**147**	212
Total assets	**2,272**	2,598
Current liabilities	**(75)**	(66)
Net assets	**2,197**	2,532
Revenue	**678**	766
Expenses	**(1,278)**	(1,192)
Loss for the year	**(600)**	(426)

16. Trade and other receivables

	2017 £000	2016 £000
Non-current		
Trade receivables	**450**	—
Accrued income	**250**	968
Other receivables	**197**	27
Contingent consideration due on the disposal of Sportech-NYX Gaming, LLC	**1,546**	1,582
Non-current trade and other receivables	**2,443**	2,577
Current		
Trade receivables	**8,945**	9,020
Less provision for impairment of receivables	**(1,606)**	(1,537)
Trade receivables – net	**7,339**	7,483
Other receivables	**1,498**	4,099
Accrued income	**575**	927
Prepayments	**930**	2,074
Current trade and other receivables	**10,342**	14,583
Total trade and other receivables	**12,785**	17,160

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.

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

	£000
At 1 January 2017	**1,537**
Additional debts provided for	**762**
Utilisation of provision	**(403)**
Reclassification from provisions	**125**
Reclassification to asset held for sale	**(325)**
Foreign exchange movements	**(90)**
At 31 December 2017	**1,606**

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

	2017 £000	2016 £000
Sterling	**1,860**	4,534
US Dollar	**8,265**	9,028
Euro	**2,125**	3,101
Other	**535**	497
Total	**12,785**	17,160

Trade receivables that are not less than three months past due are not considered impaired. As at 31 December 2017, £376k (2016: £831k) of trade receivables were past due and not impaired. Management also considers that these receivables are recoverable in full.

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17. Deferred tax

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

	2017 £000	2016 £000
Net deferred tax asset at 1 January	**3,036**	571
Income statement credit – continuing operations	**3,856**	1,198
Income statement credit – discontinued operations	**73**	957
Tax credited directly to other comprehensive income	**55**	5
Disposal of Football Pools	**(140)**	—
Reclassification of available for sale asset	**(212)**	—
Exchange differences	**(262)**	305
Net deferred tax asset at 31 December	**6,406**	3,036

Deferred tax assets

	Pension £000	Capital allowances £000	Losses and foreign tax credits £000	Other temporary differences £000	Total £000
At 1 January 2016	490	(5,397)	4,811	1,422	1,326
Income statement credit/(charge)	103	3,567	(711)	(1,721)	1,238
Tax credited directly to other comprehensive income	5	—	—	—	5
Currency translation differences	—	—	333	134	467
At 31 December 2016	598	(1,830)	4,433	(165)	3,036
Income statement (charge)/credit	(256)	2,905	(235)	1,515	3,929
Tax credited directly to other comprehensive income	55	—	—	—	55
Disposal of Football Pools	—	(140)	—	—	(140)
Reclassification of available for sale asset	—	4	(216)	—	(212)
Currency translation differences	—	—	(172)	(90)	(262)
At 31 December 2017	**397**	**939**	**3,810**	**1,260**	**6,406**

In addition to the deferred tax asset which has been recognised, the Group has not recognised further deferred tax assets of £4,005k (2016: £6,746k) arising from unutilised trading losses. The Directors do not consider there will be sufficient future profits against which these losses can be offset due to the low profit generation in these particular business units. The reduction in the deferred tax assets not recognised from unutilised trading losses is due predominantly to a disposal of losses within UK Lottery Management Limited during the year (which previously formed part of the Group's Football Pools division).

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

Deferred tax liabilities

	Other temporary differences £000
At 1 January 2016	(918)
Income statement charge	918
At 31 December 2016	—
Income statement credit	—
At 31 December 2017	—

18. Inventories

	2017 £000	2016 £000
Work in progress	**99**	219
Spare parts	**2,313**	2,075
Finished goods	**240**	210
Total	**2,652**	2,504

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,260k (2016: £3,125k). Provisions for obsolescence held against inventories at 31 December 2017 amounted to £310k (2016: £206k). The provision for obsolete inventories has increased in the year as a result of spare parts which have not been utilised for a period of time. Those spare parts must be held by the Group for terminals that are in use at customer sites.

19. Asset held for sale

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

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

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

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

The net assets of this business as at 31 December 2017, which have been presented net on the Group balance sheet, are shown below:

	£000
Non-current assets	
Intangible fixed assets	**212**
Property, plant and equipment	**394**
Deferred tax assets	**212**
	818
Current assets	
Trade and other receivables (£613k, net of provisions of £325k)	**284**
Inventories	**28**
Cash and cash equivalents	**413**
	725
TOTAL ASSETS	**1,543**
Liabilities	
Current liabilities	
Trade and other payables	**(735)**
Provisions	**(30)**
Total Liabilities	**(765)**
Net Assets	**778**

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

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

20. Cash and cash equivalents

	2017 £000	2016 £000
Cash and short-term deposits	**15,885**	36,517
Customer funds	**2,872**	3,123
	18,757	39,640

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

Cash balances of £2,872k (2016: £3,123k) are held on behalf of customers in respect of certain online and telephone betting activities. The corresponding liability is included within trade and other payables (see note 21).

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

21. Trade and other payables

	2017 £000	2016 £000
Trade payables	**5,356**	10,186
Other taxes and social security costs	**435**	1,796
Accruals	**7,107**	13,142
Deferred income	**288**	3,168
Player liability	**2,872**	3,123
	16,058	31,415

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

22. Provisions

	Onerous contracts £000	Other Provisions £000	Total £000
At 1 January 2016	188	388	576
Utilised during the year	(52)	(29)	(81)
Currency differences	(9)	72	63
At 31 December 2016	127	431	558
Net charge to income statement, excluding release of provisions which did not arise during period of Sportech ownership	2,553	—	2,553
Reclassification of provisions for bad debts	—	(125)	(125)
Release of provisions which did not arise during period of Sportech ownership	(120)	(141)	(261)
Reclassification as held for sale asset	—	(30)	(30)
Currency differences	(46)	(23)	(69)
At 31 December 2017	2,514	112	2,626
Of which:			
Current provisions	1,103	—	1,103
Non-current provisions	1,411	112	1,523
	2,514	112	2,626

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.

As disclosed in note 4, management have decided to exit from its interest in California. In this territory, the Group has a number of committed financial obligations which have become onerous contracts.

The amounts provided include committed costs at the leased sites in Norco and San Diego, discounted at 2.5%, totaling $1,866k (£1,676k), plus other onerous contract costs of $132k (£98k) and further obligations estimated at $1,000k (£740k). The Norco lease ends in October 2023, and the San Diego lease ends in August 2024. The Group is a joint and severally liable guarantor for both leases with its JV partner. In the absence of funding receipts from the Group's JV partner, 100% of the future lease liability has been provided for.

As part of the Group's annual review of its provisions, it was identified that certain provisions for onerous contracts and dilapidations were no longer required. Those provisions, totalling £261k, did not arise during the period of Sportech's ownership. Accordingly the gain from releasing those provisions have been shown within exceptional items rather than included in adjusted EBITDA. The release of those provisions is non-cash. It was also identified that certain amounts held in "other provisions" were more reasonably classified as provisions for doubtful debts and have been reclassified as such therefore during the year (with net £nil impact to the income statement).

23. Financial liabilities

	2017 £000	2016 £000
Deferred and contingent consideration due within one year, recognised within:		
Current liabilities	**175**	196
Non-current liabilities	**—**	82
	175	278

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

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

The cost of this is treated as employment costs under IFRS 3 'Business Combinations' (revised) and is therefore accrued on a time apportioned basis to 31 December 2017. This has been included within exceptional items.

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

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

The final instalment payment of £175k (CAD 296k) is payable in H1 2018.

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24. Pension schemes

The Group operates defined contribution schemes, and a funded defined benefit scheme in the UK. Datatote employees contribute to a separate defined contribution scheme to that of Sportech PLC. The Group operates a further funded defined benefit scheme in the US, two defined contribution schemes in the US, a defined contribution scheme in The Netherlands and a defined contribution scheme in Ireland.

Summary of pension contributions paid

	2017 £000	2016 £000
Defined contribution scheme contributions	**323**	289
Defined benefit scheme contributions	**528**	317
Total pension contributions	**851**	606

Defined contribution schemes

In the UK, employer contributions for Sportech are set at a maximum of 8% of pensionable salaries. A defined contribution scheme for non-unionised employees, including eBet, is operated in the US, into which the Group contributes 37.5% of the first 6% of participant contributions. A further defined contribution scheme is available for unionised employees; the Group does not make contributions into this scheme.

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

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

For employees in Ireland (of which there are 15), the Group contributes between 7.5% and 12.5% of salary, dependent on length of service, into a defined contribution scheme.

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

Defined benefit schemes

In disposing of certain business assets with the Football Pools division in 2017, the defined benefit pension scheme was retained by Sportech.

The scheme was formed on 6 April 2001 and is governed by a Definitive Trust Deed and Rules. It is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004. The scheme is contracted out of the State Second Pension Scheme and is not open to new members. The assets of this scheme are held in an independent Trustee administered fund.

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

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

	2017			2016		
	US £000	UK £000	Total £000	US £000	UK £000	Total £000
Fair value of plan assets	**2,935**	**2,306**	**5,241**	3,318	2,109	5,427
Present value of the schemes’ liabilities	**(4,481)**	**(2,297)**	**(6,778)**	(4,781)	(2,354)	(7,135)
Deficit in the schemes	**(1,546)**	**9**	**(1,537)**	(1,463)	(245)	(1,708)

There is a funding obligation in relation to the US defined benefit scheme whereby not less than 80% of the liability must be represented by its assets. At the balance sheet date, that shortfall was £650k, and has to be settled by the Group in 2018.

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

	US 2017	UK 2017	US 2016	UK 2016
Discount rate	**3.5%**	**2.4%**	4.0%	2.6%
Rate of increase in salaries	**N/A**	**3.4%**	N/A	3.5%
Rate of inflation	**N/A**	**3.4%**	N/A	3.5%
Mortality table	**RP-2014 Total Dataset Adjusted to 2006 with Scale MP-2017**	**S2NxA CMI 2015 projections 1.5% per annum long-term rate of improvement**	RP-2014 Total Dataset Adjusted to 2006 with Scale MP-2016	S2NxA CMI 2015 projections 1.5% per annum long-term rate of improvement

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

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

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

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	Present value of obligation £000	Fair value of plan asset £000	Total £000
At 1 January 2016	6,343	(4,941)	1,402
Income statement expense/(income):			
– Current service cost	107	—	107
– Interest expense/(income)	263	(204)	59
- Administrative expenses	—	181	181
	370	(23)	347
Remeasurements:			
– Currency exchange movements	851	(608)	243
– Gain from change in actuarial assumptions	239	(206)	33
	1,090	(814)	276
Contributions:			
– Employer's	—	(317)	(317)
Payments from plans:			
– Benefit payments	(668)	668	—
At 31 December 2016	7,135	(5,427)	1,708

Effect of change of assumptions on liability values

For the US scheme, under the adopted mortality tables, if the future life expectancy were to be plus/minus one year the liabilities would increase/decrease by £12,000.

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

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

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

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

Future commitments – employer contributions

The expected employer annual contributions to the schemes for the financial year ending 31 December 2018 amount to £638k (year ended 31 December 2017: £528k).

Future commitments – benefit payments

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

	Less than a year £000	1 and 2 years £000	2 and 5 years £000	Over 5 years £000	Total £000
UK pension scheme	104	107	338	615	1,164
US pension scheme	610	149	1,064	7,108	8,931

The weighted average duration of the US scheme is approximately ten years, and the UK scheme is approximately 13 years

Pension risks

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

Asset volatility

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

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

Changes in bond yields

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

Inflation risks

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

Life expectancy

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

25. Financial instruments

Financial risk management policies and objectives

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

Liquidity risk

The Group has been subject to a transformational period with the win on its Spot the Ball case and the disposal of its Football Pools division. This has materially changed the liquidity risk that the Group is exposed to, which was previously monitored with reference to covenants on borrowing facilities. The Group has now cancelled its borrowing facilities and operates instead in a cash surplus position.

During the year, the Group distributed its surplus cash back to shareholders in two tranches: the first was a share buyback in March of £21.2m; the second was a special dividend. In quantifying the extent of those distributions, the Board reviewed detailed cash flow forecasts which reviewed a period consistent with the Group's view on long-term strategy. The forecasts included downside sensitivities, thus providing material headroom from the Group's strategic plan to manage the Group's liquidity risk.

In managing short-term divisional liquidity risks, cash flow forecasting is performed on a weekly basis in the operating entities and is aggregated by Group finance. This weekly forecasting recognises committed short-term

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payables of the Group which are monitored and managed through regular discussions with suppliers. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure each operating entity has sufficient cash to meet operational needs. Cash surpluses are managed centrally by Group finance and cash swept up/pushed down as cash surpluses/requirements arise.

Credit risk

The Group's main exposure to credit risk is in accounts receivable in the Sportech Racing and Digital segment. Credit risk in these entities is managed locally by assessing the creditworthiness of each new customer before agreeing payment and delivery terms. 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 risks and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level. In doing so, the Group considers whether use of foreign exchange forward contracts would be appropriate in fixing the economic impact of forecasted profitability. As at 31 December 2017, there were no outstanding commitments on foreign exchange forward contracts (2016: none). During the year, the Group did enter into a number of forward contracts for the settlement of US Dollars at contracted rates, in order to hedge the earnings reported by the Group in its GBP denominated financial statements. A net gain of £42k was recognised in respect of these forward contracts in 2017 (2016: £nil) within operating costs.

With the disposal of the Group's primary UK business in the year, the source of its revenues are now predominantly US Dollars. A long-term strategy of managing its foreign exchange risk may involve a transition in its reporting currency from GBP to US Dollars. This is under consideration by management and may result in a change in financial statement currency presentation in future periods.

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

	2017		2016	
	Average	**Closing**	Average	Closing
US Dollars	**1.30**	**1.35**	1.34	1.23
Euro	**1.14**	**1.13**	1.21	1.17

If the exchange rates in 2017 were comparable to those in 2016, loss after tax would have been £25,355k and the net assets would have been £55,188k at 31 December 2017.

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.

Historically the Group monitored its capital risk based on its leverage ratio, however with no debt there is a need to revise such a metric. An appropriate metric in considering capital risk management, and the ability of the Group to return cash to shareholders whilst operating within its means, would be its implied liquidity per share, defined as below:

Implied liquidity per share	2017 £000	2016 £000
Current assets	32,529	57,988
Current liabilities	(24,442)	(49,787)
Net current assets	8,087	8,201
Non-current trade and other receivables	2,443	2,577
Non-current liabilities	(3,060)	(2,281)
	(617)	296
Net position	7,470	8,497
less inventories held	(2,652)	(2,504)
Implied liquidity	4,818	5,993
Implied liquidity per share	2.6p	2.9p

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

Financial assets and liabilities

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

	2017 £000	2016 £000
Loans and receivables	10,309	13,504
Available for sale financial assets	1,546	2,843
Financial liabilities measured at amortised cost	15,945	28,525

Available for sale financial assets

	2017 £000	2016 £000
Non-current assets – Available for sale financial assets		
Contingent consideration receivable from disposal of Sportech-NYX Gaming, LLC	1,546	1,582
Current assets – Available for sale financial assets		
Shares held in NYX Gaming Group Limited	—	1,261

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

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

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

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

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The fair value of contingent consideration is included in level 3. Management observe market activity including industry growth and pace of regulatory change in determining the probability that the contingent consideration will be received.

It continues to be management's belief that NYX will sign up at least three new customers to the relevant platform and therefore the maximum amount of contingent consideration receivable has been recognised. This has been discounted at 9%, with interest unwinding on this discount within other finance charges. The amount recognised as at 31 December 2017 is CAD 2,618k (£1,546k) within non-current trade and other receivables (2016: CAD 2,460k; £1,582k).

Shares held in NYX Gaming Group Limited

As part of the same 2015 disposal of Sportech-NYX Gaming, LLC, the Group also obtained shares in NYX Gaming Group Limited. Under the terms of the disposal, the Group was restricted from selling this investment for a period of at least twelve months post their initial receipt. The fair value of shares held in NYX were included in level 1 prior to their disposal by the Group, using the quoted share price at the reporting date in determining the amount receivable. Fair value movements on those shares were recognised in the available for sale reserve within equity until the date of their disposal, at which point cumulative gains/losses were recognised in the income statement.

On 25 September 2017, the Group sold its shares in NYX for net proceeds of £2,333k. At the point the shares were received the share price was CAD $4.06. Those shares have been subsequently revalued as Available For Sale financial assets, and losses realised when shares are disposed of. The 2017 disposal reduces the Group's holding in NYX to nil, and accordingly all unrealised losses to date of £1,603k have been recognised in the income statement. The share price on the date of disposal was CAD $2.35

Maturity of financial liabilities

Non-derivative financial liabilities are all payable within twelve months. In 2016, there were £82,000 of financial liabilities that were payable within 1-2 years, and all other financial liabilities were payable within twelve months.

26. Contingencies and commitments

Capital commitments

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

Operating lease commitments

The Group leases various off-track betting venues and other operating sites under non-cancellable operating lease arrangements. The lease terms are generally between three and five years and are renewable at the end of the lease period at market rates. The expenditure charged to the income statement was £4,333k (2016: £2,809k). This includes costs of providing for future operating lease payments in California as outlined in note 22 of £1,676k.

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

	2017 £000	2016 £000
No later than one year	1,923	2,646
Later than one year and no later than five years	6,511	7,730
Later than five years	7,704	8,499
Total	16,138	18,875

Other financial commitments

The Group continues to provide a performance guarantee bond in Turkey equating to 15% of the contract value, being $200k at 31 December 2017. This is to facilitate provision of a customer service contract in the territory.

Contingent items

Tax

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

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

Corporation tax
As disclosed in note 10, judgment has been applied by management as to the corporation tax which arises on the sale of the Football Pools. Exposure to further liabilities as a result of differences to management judgment exist, and a possible further tax liability could arise. However this is deemed to be a possible rather than a probable liability and accordingly no provision has been made in the financial statements for this.

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

HMRC have adjusted their challenge to Sportech in 2017 to instead focus on the value of the economic activities that Sportech PLC provides to its trading subsidiaries, the majority of which are based overseas. Assessments have been raised totalling £1.3m for the period to 31 December 2015, citing an under-valuation of the Group's management supplies which is made primarily to its exempt UK Football Pools business.

Should HMRC maintain this position then there will be further amounts assessed for 2016 and 2017 up to the date that the Group had no exempt UK business. The Group has continued to engage its external advisors on this issue and has entered into a formal appeals process.

To continue with the appeal, and in accordance with due process, £1.3m has been paid to HMRC in 2018. However, management remain confident that this amount will be recovered given advice from its external tax and legal advisors, and the likelihood of a material outflow being made to HMRC to settle this issue is considered remote. No amounts have therefore been provided.

Other contingent items

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

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

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27. Ordinary shares

Authorised, issued and fully paid ordinary shares	2017 '000	2017 £000	2016 '000	2016 £000
At 1 January	**206,238**	**103,119**	206,238	103,119
Cancellation of shares in issue	**(20,624)**	**(10,312)**	—	—
Capital reduction: nominal value reduced to 20p per share (2016: 50p)	**—**	**(55,684)**	—	—
At 31 December	**185,614**	**37,123**	206,238	103,119

On 21 March 2017, the Company purchased 10% of its issued share capital back from shareholders. The tender offer price for the buyback was £1.015 and was fully subscribed, resulting in payments to shareholders of £20,933k. Associated fees of this transaction were £259k. Those shares were purchased and cancelled, thus reducing the number of shares in issue to 185,615,244.

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

This created distributable reserves of £55,684,000 and assisted in the Group making a further distribution of surplus cash in December 2017 by way of a special dividend of 29p per share.

Potential issue of ordinary shares

The Performance Share Plan

Certain Executive Directors and senior Executives have been awarded grants to acquire shares in the Company under the PSP, subject to performance conditions.

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

	2017 '000	2016 '000
Outstanding awards at 1 January	**6,058**	5,826
Awarded	**1,389**	2,328
Surrendered for participation in Value Creation Plan	**(1,389)**	—
Lapsed as a result of failure to meet performance conditions	**(1,873)**	(1,720)
Lapsed due to employees leaving the Group	**(930)**	(376)
Outstanding awards at 31 December	**3,255**	6,058

2017 grant

On 9 March 2017, the Company awarded 1,389,000 grants to acquire shares in the Company under the PSP. Subsequent to this, shareholders approved the setup of a new incentive plan for Directors and other members of the senior management team through a Value Creation Plan ("VCP"), the detail of which is provided later in this note.

For reporting purposes under IFRS, as the new VCP was only available to management who had surrendered existing PSP awards from the 2017 grant, this is treated as a beneficial modification of awards that have already been made by the Company.

Accordingly, a valuation of the 2017 grant is required at the point in time that the VCP shares are issued. The details of the assumption used in this valuation are provided within this note. No awards issued under the 2017 PSP grant are outstanding at 31 December 2017.

Performance conditions

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

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

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

2016 grant
The vesting of all of the award will be dependent on the Company's TSR over a fixed three-year period commencing 3 March 2016 relative to that of the FTSE Small Cap index (excluding investment trusts). For the purpose of calculating TSR, the base figure is averaged over the six weeks preceding the start of the performance period and the end figure is averaged over the last six weeks of the performance period.

Thereafter, a vesting schedule no less demanding than the following will apply:

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

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

2015 grant
The vesting of one-half of the award ('Part A') will be dependent on the Company's TSR over a fixed three-year period beginning on the date of grant relative to that of the FTSE Small Cap Index (excluding investment trusts). For the purpose of calculating TSR, the base figure is averaged over the six weeks preceding the start of the performance period and the end figure is averaged over the last six weeks of the performance period. No portion of Part A will vest unless the Company's TSR performance at least matches that of the index. Thereafter, a vesting schedule no less demanding than the TSR condition on the 2016 grant as outlined above. The vesting of the second half of the award is dependent on an EPS performance criterion ('Part B'). The average annual percentage growth in the Company's EPS in excess of the RPI over the EPS performance period must at least equal 4%. Vesting is determined by the following schedule:

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

Consolidated Financial Statements continued

All PSP grants

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

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

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

The weighted average remaining contractual life of outstanding awards under the PSP at 31 December 2017 was one year (2016: one year and six months). The weighted average exercise price of awards granted during the period was £nil (2016: £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 4 and 5 for the total expense recognised in the income statement for share options granted and PSP awards made to Directors and employees respectively

Value Creation Plan

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

Awards are expected to vest on the fifth anniversary of the date of grant of the Award to the extent that any applicable performance conditions have been satisfied.

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

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

28. Cash generated from operations

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

	Note	**2017 £000**	2016 £000
(Loss)/profit before tax – continuing operations		(23,150)	63,608
Adjustments for:			
Net exceptional items	4	4,776	(85,435)
Realised losses on sale of shares in NYX Gaming Group	25	1,603	746
Share of loss after tax and impairment of joint ventures/associates	15	1,484	1,236
Depreciation and amortisation	13, 14	4,630	6,755
Impairment of assets	12, 13, 14	12,914	21,152
Net finance costs	8	19	542
Acceleration of IFRS 2 charge for departing management	27	3,765	—
Share option (credit)/expense	27	666	(87)
Employers' taxes paid on options vested		(21)	(47)
Changes in working capital:			
Increase in trade and other receivables		1,099	831
Increase in inventories		(177)	(8)
Decrease in trade and other payables		(939)	(1,304)
Movement in customer funds		(251)	1,369
Cash generated from operating activities, before exceptional items		6,418	9,358

29. Related party transactions

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

a. Key management compensation is disclosed in note 6.

b. The Group also invested cash into its joint ventures during the year as outlined in note 15. There were no trading transactions between the Group and any of its joint ventures, and no amounts outstanding at the reporting date.

Consolidated Financial Statements continued

30. Adjustment of 2016 Income Statement presentation

The 2016 income statement that has been presented is subject to two areas of amendment from that reported in prior year:

1. Given the discontinuance of the Football Pools division and the Venues business in The Netherlands, the net result of those business has been shown within discontinued operations for both reporting periods and stripped out of the underlying results of the Group's continuing operations
2. The classification of certain costs between cost of sales, marketing and distribution costs and operating costs has also been adjusted, given a detailed review of the Group's financial performance as part of its strategic review. Items included within cost of sales (as detailed in note 3) are considered by management to be those which vary directly with revenue generated by the Group. Management consider this information to provide relevant and more reliable information of the underlying trading performance of the Group.

A reconciliation of the results reported in 2016 to the 2016 results on the face of the income statement is provided below:

	Reported 2016 £000	Discontinued Operations £000	Exceptional Items £000	Depreciation and amort'n £000	Staff Costs £000	Marketing Costs £000	Other Costs £000	Adjusted 2016 £000
Note		30(a)	30(b)	30(c)	30(d)	30(e)	30(f)	
Revenue	98,560	(33,746)	—	—	—	—	—	64,814
Cost of sales	(58,557)	9,552	182	5,232	16,988	—	6,842	(19,761)
Gross profit	40,003	(24,194)	182	5,232	16,988	—	6842	45,053
Marketing and distribution costs	(238)	12	—	—	—	(1,590)	(214)	(2,030)
Operating costs	(98,290)	57,141	(182)	(5,232)	(16,988)	1,590	(6,628)	(68,589)
Other income (net)	90,952	—	—	—	—	—	—	90,952
Operating profit	32,427	32,959	—	—	—	—	—	65,386
Net finance costs	(542)	—	—	—	—	—	—	(542)
Share of loss after tax and impairment of joint ventures and associates	(1,236)	—	—	—	—	—	—	(1,236)
Profit/(loss) before tax from continuing operations	30,649	32,959	—	—	—	—	—	63,608
Tax – continuing operations	(17,582)	670	—	—	—	—	—	(16,912)
Profit for the year – continuing operations	13,067	33,629	—	—	—	—	—	46,696
Net loss from discontinued operations	—	(33,629)	—	—	—	—	—	(33,629)
Profit for the year	13,067	—	—	—	—	—	—	13,067

30a) Discontinued operations

Adjustment made to remove the results of the Football Pools business and the Venues business in The Netherlands. The breakdown of this is as below:

	Football Pools £000	Holland £000	Total £000
Revenue	28,342	5,404	33,746
Cost of sales	(4,825)	(4,727)	(9,552)
Gross profit	23,517	677	24,194
Marketing and distribution costs	(12)	—	(12)
Operating costs	(56,488)	(653)	(57,141)
Operating profit	(32,983)	24	(32,959)
Other items	—	—	—
(Loss)/profit before tax	(32,983)	24	(32,959)
Tax	(670)	—	(670)
(Loss)/profit for the year	(33,653)	24	(33,629)

30b) Exceptional items

Certain restructuring and redundancy costs in respect of business modernization had been included in 2016 within cost of sales. On closer inspection those costs were in respect of employees whose staff costs have been deemed to be an operating cost of the business as opposed to a cost of sale (see note 30d).

30c) Depreciation and amortisation

In previous years, depreciation and amortisation on assets which were being utilised on racetracks, or of property, plant and equipment in the venues business, were being presented within cost of sales. It is management's belief that those costs are of a fixed nature, albeit may vary over time with material capital investment such as the new Bobby V's in Stamford. However the charge does not vary directly with revenues and so they have been reclassified to operating costs. The depreciation charge relating to assets which are employed at customer racetracks in the year was £604k (2016: £492k).

30d) Staff costs

The costs of individuals working on customer racetracks or within the operating Venues were previously held within cost of sales. As those costs are fixed in nature they have been reclassified to operating costs. The cost of the comparative staff costs included within operating costs this year are £10,884k in Racing and Digital (2016: £10,121k) and £5,741k in Venues (2016: £4,694k).

30e) Marketing costs

Marketing costs had historically been deemed to be a fixed operating cost of the business, however investment in marketing would be expected to correlate with changes in revenue and so they have been presented as separately identified "marketing and distribution costs" on the face of the income statement.

30f) Other costs

Other costs which were previously deemed to be cost of sales but are now considered by management to be of a fixed operating cost nature have been reclassified, including property costs in Venues of £4.2m, travel and entertainment for employees working at customer racetracks in Racing and Digital of £0.5m, IT and telecommunications charges and certain marketing and promotional expenditure within the Venues division.

Consolidated Financial Statements continued

31. Post balance sheet events

Disposal of Venues business in The Netherlands

As disclosed in note 19, the Group signed an SPA with RBA Luxembourg SA on 31 March 2018 to dispose of its Dutch Venues business in The Netherlands, for initial consideration of €2.8m, net of cash and debt adjustments. Additional contingent consideration of up to €450k could be due to the Group subject to this business completing certain activities by 31 December 2017. Disposal costs associated with the transaction are anticipated to be approximately £200k.

As disclosed in note 10, it is anticipated that a net gain on disposal will arise from the transaction of approximately £0.9m.

The deal is subject to certain regulatory approvals which are anticipated to be provided no later than 30 June 2018.

The deal has been structured as a locked box with an effective date of 1 January 2018. Accordingly all 2018 profits of the business, other than commercially agreed amounts payable for Sportech's ongoing management of the business until completion, will accrue to the purchaser. It is anticipated therefore that, subject to the deal completing, a net gain on disposal will be recognised in the 2018 financial statements for this business, and no trading profits will appear in the Group's consolidated results.

32. Related undertakings

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

Subsidiaries, excluding dormant companies	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportech Group Holdings Limited	England & Wales	1	Ordinary	85%
Sportech Gaming Limited	England & Wales	1	Ordinary	100%
Sportech Pools Limited	England & Wales	1	Ordinary	100%
Sportech Pools Games Limited	England & Wales	1	Ordinary	100%
Sportech Holdco 1 Limited	England & Wales	1	Ordinary	100%
Sportech Holdco 2 Limited	England & Wales	1	Ordinary	100%
Datatote (England) Limited	England & Wales	2	Ordinary	100%
Sportech Mauritius Limited	Mauritius	3	Ordinary	100%
Sportech, Inc.	United States	4	Ordinary	100%
Sportech Venues, Inc.	United States	4	Ordinary	100%
eBet Technologies, Inc.	United States	4	Ordinary	100%
Sportech Venues California, LLC	United States	4	Ordinary	100%
Sportech Venues CA Holdco, LLC	United States	4	Ordinary	100%
Sportech Games Holdco, LLC	United States	4	Ordinary	100%
Sportech Racing, LLC	United States	5	Ordinary	100%
Bump Worldwide, Inc.	Canada	6	Ordinary	100%
Sportech Racing Canada, Inc.	Canada	6	Ordinary	100%
1891323 Ontario, Inc.	Canada	6	Ordinary	100%
Sportech Racing Panama, Inc.	Panama	7	Ordinary	100%
Sportech Racing Limited	British Virgin Islands	8	Ordinary	100%
Racing Technology Ireland Limited	Ireland	9	Ordinary	100%
Autotote Europe GmbH	Germany	10	Ordinary	100%
Sportech Racing GmbH	Germany	11	Ordinary	100%
Sportech Racing Turkey	Turkey	12	Ordinary	100%
Sportech Racing SAS	France	13	Ordinary	100%

Joint ventures and associates	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportshub Private Limited	India	14	Ordinary	50%
S&S Venues California, LLC	United States	4	Ordinary	50%
DraftDay Gaming Group, Inc	United States	15	Ordinary	30%

Companies considered held for sale at the reporting date	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportech Racing BV	Netherlands	16	Ordinary	100%
Sportech Racing Banen BV	Netherlands	16	Ordinary	100%
Sportech BV	Netherlands	16	Ordinary	100%

Dormant companies	Country of incorporation	Registered address	Class of shares held	Shareholding
Sportech Trustees Limited	England & Wales	1	Ordinary	100%
Thepools.com Limited	England & Wales	1	Ordinary	100%
C&P Promotions Limited	England & Wales	1	Ordinary	100%
Pools Promotions Limited	England & Wales	1	Ordinary	100%
Sportech Pools Competitions Company Limited	England & Wales	1	Ordinary	100%
Bet 247 Limited	England & Wales	1	Ordinary	100%
Pools Company Limited	England & Wales	1	Ordinary	100%
Sportech Management Limited	Scotland	17	Ordinary	100%
Sportech Pools Trustee Company Limited	Scotland	17	Ordinary	100%

Registered addresses

Number	Country	Address
1	England & Wales	20 Balderton Street, London, W1K 6TL
2	England & Wales	Icarus House, Hawkfield Close, Hawkfield Business Park, Bristol, BS14 0BN
3	Mauritius	Intercontinental Trust Limited, Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius
4	United States	600 Long Wharf Drive, New Haven, CT 06511
5	United States	1095 Windward Ridge Parkway, Suite 170, Alpharetta, GA 30005
6	Canada	CSC North America Inc., 45 O'Connor Street, Suite 1600, Otawa, Ontario K1P 1A4
7	Panama	Arias, Fabrega & Fabrega, Plaza 2000 Building, 50th Street, Panama
8	British Virgin Islands	Trident Chambers, POB 146, Road Town, Tortola, British Virgin Islands
9	Ireland	Unit 3, IDA Technology Park, Garrycastle, Athlone, Co. Westmeath, Ireland
10	Germany	Nienhausenstrasse 42, 45883 Gelsenkirchen, Germany
11	Germany	Katernbergerstrasse 107, 45327 Essen, Germany
12	Turkey	AksuKosuyolu Cad. KalaycioglUSitesi No: 19/1 Bakirkoy Istanbul
13	France	8 Rue des Freres Caudron, 78140 Velizy, Villacoublay, France
14	India	Tower 2, 4th Floor, International Infotech Park, Vashi Railway Station, New Mumbai
15	United States	Corporation Service Company, 2711 Centreville Road, Suite 400, Wilmington, DE 19808
16	Netherlands	Polakweg 23, 2288 GG Rijswijk (ZH), Netherlands
17	Scotland	Collins House, Rutland Square, Edinburgh, Midlothian, EH1 2AA

Company Financial Statements

Company Balance Sheet

at 31 December 2017

	Note	2017 £000	2016 £000
ASSETS			
Non-current assets			
Intangible fixed assets	C5	**1,243**	1,022
Property, plant and equipment	C6	**10**	56
Investment in subsidiaries	C7	**231,989**	194,620
Deferred tax assets		**156**	86
		233,398	195,784
Current assets			
Trade and other receivables	C8	**3,249**	34,545
Cash and cash equivalents		**11,126**	20,200
		14,375	54,745
TOTAL ASSETS		**247,773**	250,529
LIABILITIES			
Current liabilities			
Trade and other payables	C9	**(162,251)**	(167,048)
Net current liabilities		**(147,876)**	(112,303)
NET ASSETS		**85,522**	83,481
EQUITY			
Ordinary shares	27	**37,123**	103,119
Other reserves		**16,920**	2,198
Retained earnings before profit / (loss) for the year		**(41,172)**	7,880
Profit/(loss) for the year		**72,651**	(29,716)
Retained earnings carried forward		**31,479**	(21,836)
TOTAL EQUITY		**85,522**	83,481

The Company financial statements on pages 138 to 144 were approved and authorised for issue by the Board of Directors on 23 April 2018 and were signed on its behalf by:

Richard McGuire
Director

Richard Cooper
Director

Company Registration Number: SC069140

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Ordinary shares £000	Other reserves: Capital redemption reserve £000	Other reserves: Share option reserve £000	Retained earnings £000	Total £000
At 1 January 2016	103,119	—	2,332	7,880	113,331
Comprehensive expense					
Loss of the year	—	—	—	(29,716)	(29,716)
Transactions with owners					
Shares option debit	—	—	(87)	—	(87)
Employer taxes paid on vesting	—	—	(47)	—	(47)
At 31 December 2016	103,119	—	2,198	(21,836)	83,481
Comprehensive expense					
Profit for the year	—	—	—	72,651	72,651
Transaction with owners					
Share option charge, excluding acceleration of IFRS 2 charge for departing management	—	—	666	—	666
Acceleration of IFRS 2 charge for departing management	—	—	3,765	—	3,765
Employer taxes paid on vesting of options	—	—	(21)	—	(21)
Share buyback (note 27)	—	—	—	(21,192)	(21,192)
Cancellation of share capital (note 27)	(10,312)	10,312	—	—	—
Capital reduction (note 27)	(55,684)	—	—	55,684	—
Special dividend (note 27)	—	—	—	(53,828)	(53,828)
At 31 December 2017	37,123	10,312	6,608	31,479	85,522

Company Financial Statements continued

Company Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Cash generated from operations, before exceptional items	C11	**89,280**	89,128
Interest paid		**(235)**	(1,901)
Tax paid		**(18,833)**	(1,396)
Net cash (used in)/generated from operating activities before exceptional items		**70,212**	85,831
Exceptional cash inflows		**493**	—
Exceptional cash outflows		**(12,419)**	(1,635)
Net cash (used in)/generated from operating activities		**58,286**	84,196
Cash flows from investing activities			
Dividends received		**8,105**	—
Investment in intangible fixed assets	C5	**(429)**	(889)
Purchase of property, plant and equipment	C6	**(16)**	(16)
Net cash used in investing activities		**7,660**	(905)
Cash flows from financing activities			
Shareholder distribution – March 2017		**(21,192)**	—
Shareholder distribution – December 2017		**(53,828)**	—
Net cash outflow from repayment of borrowings		—	(62,092)
Net cash used in financing activities		**(75,020)**	(62,092)
Net (decrease)/increase in cash and cash equivalents		**(9,074)**	21,199
Net cash and cash equivalents at the beginning of the year		**20,200**	(999)
Net cash and cash equivalents at the end of the year		**11,126**	20,200

C1. Accounting policies

The accounting policies applied by the Company are consistent to those disclosed on pages 92 to 100 where applicable.

C2. Result of Company

The result for the year is a profit after tax of £72,651k (2016: loss of £29,716k).

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 23 April 2018.

C3. Auditor remuneration

Fees payable to the Company auditors for the audit of these financial statements are £55k (2016: £52k). Other amounts payable to the Company auditors during the year are disclosed in note 7.

C4. Directors and key management remuneration

	Directors		Key management	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Short-term employee benefits	**1,032**	1,806	**1,188**	2,144
Consultancy fees	**146**	—	**146**	—
Share-based payments	**205**	(118)	**205**	(118)
Accelerated IFRS 2 charge for departing management	**3,567**	—	**3,567**	—
Pay in lieu of notice	**859**	13	**964**	13
Post-employment benefits	**46**	51	**46**	51
Total remuneration	**5,855**	1,752	**6,116**	2,090

Details of individual Directors' remuneration and share-based incentives granted are given in the Remuneration report on pages 47 to 69. This information forms part of the financial statements. Retirement benefits are accruing under defined benefit pension schemes for nil Directors (2016: nil). Nil Directors exercised share options in the year (2016: two).

Key management is considered to be the Directors of the Company (Executive and Non-executive) and senior Executives. Consultancy fees are amounts payable to Richard McGuire and Richard Cooper in providing additional services to Group companies in their capacity as Non-executive Directors following the resignation of Ian Penrose and Mickey Kalifa, as detailed in the Remuneration report on page 59.

C5. Intangible fixed assets

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

Company Financial Statements continued

2016	Software £000	Other £000	Total £000
Cost			
At 1 January 2016	16,989	853	17,842
Additions	660	229	889
At 31 December 2016	17,649	1,082	18,731
Accumulated amortisation			
At 1 January 2016	5,349	454	5,803
Charged during the year	1,280	113	1,393
Impairment	9,998	515	10,513
At 31 December 2016	16,627	1,082	17,709
Net book amount at 31 December 2016	1,022	—	1,022

Software owned by the company relates primarily to in-house developed proprietary pari-mutuel software serving racing customers worldwide. Other intangible assets held were certain developments in modifying this core pari-mutuel software to enable the provision of tote software to the Group's Indian joint venture which was fully impaired in 2016.

C6. Property, plant and equipment

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

	Short leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2016	141	193	334
Additions	—	15	15
At 31 December 2016	141	208	349
Accumulated amortisation			
At 1 January 2016	141	122	263
Charged during the year	—	30	30
At 31 December 2016	141	152	293
Net book amount at 31 December 2016	—	56	56

C7. Investments in subsidiaries

A full list of the Company's subsidiaries and other related undertakings is included in note 32.

At 1 January 2017, the Group held direct investments in the following entities:

Company	Nature of business
Sportech Gaming Limited ("SGL")	Holds investments in the companies which previously formed its Football Pools division (now dormant)
Sportech Holdco 1 Limited ("HC1")	Holds investments in the Group's European businesses and Bump
Sportech Holdco 2 Limited ("HC2")	Holds investments in the Group's other overseas entities
Sportech Trustees Limited	Dormant
Sportech Management Limited	Dormant

During the year a new Company was incorporated to facilitate the setup of the Group's shareholder approved Value Creation Plan. The shares held in SGL, HC1 and HC2 were exchanged for shares in this new company, Sportech Group Holdings Limited ("SGHL"). As at the 31 December 2017 the Company's only direct investment is SGHL.

Capital contributions were also made during the year, first to HC2 and then one in December 2017 to SGHL. In both instances, the company in receipt of the capital contribution was a direct subsidiary of the Company.

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

	2017 £000	2016 £000
At 1 January	**194,620**	203,723
Capital contribution – March 2017	**23,612**	—
Capital contribution – December 2017	**13,757**	—
Impairment	**—**	(9,103)
At 31 December	**231,989**	194,620

In 2016, an impairment charge was recognised to the Company's investment in HC2. No impairment charge is considered necessary in 2017 to the Company's sole investment in SGHL. The Directors consider the investments to be supported by the underlying net assets and cash flows of the Group.

C8. Trade and other receivables

	2017 £000	2016 £000
Amounts owed by Group companies	**2,354**	34,349
Other receivables	**828**	34
Prepayments	**67**	162
Total	**3,249**	34,545

The fair value of trade and other receivables is not considered to be different from the carrying value recorded above. Amounts owed by Group companies are shown net of provisions of £2,160k (2016: £2,160k) which relates to amounts owing from Sportech Mauritius Limited. Those amounts were impaired in 2016.

C9. Trade and other payables

	2017 £000	2016 £000
Trade payables	**193**	3,868
Amounts owed to Group companies	**159,939**	156,613
Accruals	**2,119**	6,567
Total	**162,251**	167,048

Company Financial Statements continued

C10. Contingencies and commitments

Operating lease commitments

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

	2017 £000	2016 £000
No later than one year	**140**	137
Total	**140**	137

Contingent items

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

C11. Company cash generated from operations

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

	Note	2017 £000	2016 £000
Profit/(loss) before taxation		**73,141**	(33,548)
Adjustments for:			
Investment income		**(86,841)**	—
Net exceptional costs		**3,801**	10,163
Depreciation	C6	**62**	30
Amortisation of other intangibles	C5	**208**	1,393
Impairment of investments	C7	**—**	9,103
Impairment of intangible assets	C5	**—**	10,513
Impairment of receivables	C8	**—**	2,160
Finance costs		**4,438**	5,032
Other finance expense/(income)		**1,413**	(4,265)
Share option charge, excluding acceleration of IFRS 2 charge for departing management		**657**	(87)
Acceleration of IFRS 2 charge for departing management		**3,765**	—
Changes in working capital:			
Movement in trade and other receivables		**(5,587)**	(12,645)
Movement in trade and other payables*		**94,223**	101,279
Cash generated from operating activities, before exceptional items		**89,280**	89,128

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

C12. Related party transactions

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

	2017 £000	2016 £000
Management charges received	**1,238**	1,315
Royalty income received	**1,934**	1,854
Investment income	**86,841**	—
Interest paid on inter-company loan balances	**4,437**	3,538
Interest received on inter-company loan balances	**158**	136

The amount outstanding in relation to management charges at the balance sheet date was £46k (2016: £82k). All inter-company transactions are on an arm's-length basis.

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