Gamesys Group plc

Consolidated Financial Statements

[in pounds sterling, except where otherwise noted]

For the Year Ended 31 December 2019

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Independent Auditor's Report

To the Shareholders of Gamesys Group Plc

Opinion

We have audited the consolidated financial statements of Gamesys Group Plc and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report; and
- The information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 Canadian generally accepted auditing standards 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 consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related

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safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kieran Storan.

BDO LLP
London
United Kingdom
17 March 2020

Gamesys Group plc

Consolidated Statements of Comprehensive Income

For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
Gaming revenue	6	**415,078**	308,212
Costs and expenses			
Distribution costs	6, 7	**214,239**	149,856
Administrative costs	7	**147,432**	104,840
Impairment of financial assets	6, 13	**3,879**	1,000
Severance costs	6	**–**	850
Transaction related costs	6	**15,809**	1,890
Foreign exchange (gain)/loss	6	**(1,470)**	354
Total costs and expenses		**379,889**	258,790
Fair value adjustments on contingent consideration	23	**460**	7,208
Interest income	9	**(420)**	(349)
Interest expense	9	**21,824**	19,821
Accretion on financial liabilities	9	**1,291**	2,993
Total financing expenses		**23,155**	29,673
Net income for the year before taxes from continuing operations		**12,034**	19,749
Tax expense	27	**2,906**	458
Net income for the year after taxes from continuing operations		**9,128**	19,291
Net loss from discontinued operations	8	**(660)**	(4,814)
Net income for the year attributable to owners of the parent		**8,468**	14,477
Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods			
Foreign currency translation gain on retranslation of overseas subsidiaries		**1,316**	394
Unrealised gain on foreign exchange forward	15	**2,717**	–
Unrealised loss on cross currency swap	15	**(9,251)**	–
Unrealised loss on interest rate swap	15	**(1,238)**	(1,141)
Total comprehensive income for the year attributable to owners of the parent		**2,012**	13,730
Net income for the year per share			
Basic	10	**£0.10**	£0.20
Diluted	10	**£0.10**	£0.19
Net income for the year per share - continuing operations			
Basic	10	**£0.11**	£0.26
Diluted	10	**£0.11**	£0.26

See accompanying notes

Gamesys Group plc
Consolidated Balance Sheets
31 December 2019

ASSETS	Note	As at 31 December 2019 (£000's)	As at 31 December 2018 (£000's)
Current assets			
Cash	12, 23	**100,299**	84,383
Restricted cash	12, 23	**6,324**	3,912
Player deposits	12, 23	**12,444**	9,032
Trade and other receivables	13, 23	**33,182**	19,680
Taxes receivable		**13,671**	7,313
Total current assets		**165,920**	124,320
Non-current assets			
Tangible assets		**9,448**	2,232
Intangible assets	5, 16	**484,524**	226,324
Goodwill	5, 16	**524,208**	288,355
Right-of-use assets	17	**22,176**	–
Other long-term receivables	14, 23	**5,216**	4,675
Total non-current assets		**1,045,572**	521,586
Total assets		**1,211,492**	645,906
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18, 23	**77,970**	20,606
Other short-term payables	11, 20, 23	**5,617**	9,612
Current portion of provisions	19	**3,800**	–
Current portion of cross currency and interest rate swap payable	11, 15, 23	**3,719**	97
Current portion of lease liabilities	11, 17	**4,727**	–
Interest payable	11, 23	**959**	264
Payable to players	23	**12,444**	9,032
Current portion of contingent consideration	11, 23	–	4,540
Provision for taxes		**13,406**	8,169
Total current liabilities		**122,642**	52,320
Non-current liabilities			
Other long-term payables	11, 15, 23, 24	**16,724**	1,817
Provisions	19	**6,000**	–
Lease liabilities	11, 17, 23	**17,907**	–
Deferred tax liability	5	**53,209**	1,196
Long-term debt	11, 22, 23	**530,319**	371,450
Total non-current liabilities		**624,159**	374,463
Total liabilities		**746,801**	426,783
Equity			
Retained earnings		**190,839**	182,435
Share capital	25	**10,867**	7,434
Share premium		**4,685**	2,068
Other reserves		**258,300**	27,186
Total equity		**464,691**	219,123
Total liabilities and equity		**1,211,492**	645,906

See accompanying notes

On behalf of the Board:

(signed) " Lee Fenton" — *(signed) " Keith Laslop "*

Lee Fenton, Chief Executive Officer — Keith Laslop, Chief Financial Officer

Gamesys Group plc
Consolidated Statements of Changes in Equity
For the year ended 31 December 2019

	Note	Share Capital (£000's)	Share Premium (£000's)	Merger Reserve (£000's)	Share-Based Payment Reserve (£000's)	Translation Reserve (£000's)	Hedge Reserve (£000's)	Retained Earnings (£000's)	Total (£000's)
Balance at 1 January 2018		**7,407**	**1,342**	**(6,111)**	**9,971**	**23,649**	**–**	**167,799**	**204,057**
Comprehensive income/(loss) for the year:									
Net income for the year (continued and discontinued operations)		–	–	–	–	–	–	14,477	14,477
Other comprehensive income/(loss)	15	–	–	–	–	394	(1,141)	–	(747)
Total comprehensive income/(loss) for the year:		**–**	**–**	**–**	**–**	**394**	**(1,141)**	**14,477**	**13,730**
Contributions by and distributions to shareholders:									
Conversion of debentures	25	6	186	–	–	–	–	–	192
Exercise of options	25	21	540	–	(159)	–	–	159	561
Share-based compensation	25	–	–	–	583	–	–	–	583
Total contributions by and distributions to shareholders:		**27**	**726**	**–**	**424**	**–**	**–**	**159**	**1,336**
Balance at 1 January 2019		**7,434**	**2,068**	**(6,111)**	**10,395**	**24,043**	**(1,141)**	**182,435**	**219,123**
Comprehensive income/(loss) for the year:									
Net income for the year (continued and discontinued operations)		–	–	–	–	–	–	8,468	8,468
Other comprehensive income/(loss)	15	–	–	–	–	1,316	(7,772)	–	(6,456)
Total comprehensive income/(loss) for the year:		**–**	**–**	**–**	**–**	**1,316**	**(7,772)**	**8,468**	**2,012**
Contributions by and distributions to shareholders:									
Issuance of common shares, net of costs	25	3,365	–	240,625	–	–	–	(1,355)	242,635
Reclassification of gain on foreign exchange forward	15	–	–	–	–	–	(2,717)	–	(2,717)
Exercise of options	25	68	2,617	–	(821)	–	–	821	2,685
Issuance of ordinary share warrants		–	–	–	–	–	–	470	470
Share-based compensation	25	–	–	–	483	–	–	–	483
Total contributions by and distributions to shareholders:		**3,433**	**2,617**	**240,625**	**(338)**	**–**	**(2,717)**	**(64)**	**243,556**
Balance at 31 December 2019		**10,867**	**4,685**	**234,514**	**10,057**	**25,359**	**(11,630)**	**190,839**	**464,691**

See accompanying notes

Gamesys Group plc
Consolidated Statements of Cash Flows
For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 (£000's)**	Year ended 31 December 2018 (£000's)
Operating activities			
Net income for the year		**8,468**	14,477
Add (deduct) items not involving cash			
Amortisation and depreciation		**63,241**	61,994
Share-based compensation expense	25	**483**	583
Issuance of ordinary share warrants		**470**	–
Tax expense	27	**2,906**	458
Interest expense, net	9	**22,695**	22,465
Fair value adjustments on contingent consideration	23	**460**	7,208
Foreign exchange (gain)/loss	6	**(1,470)**	317
Loss on sale of discontinued operation, net of tax	8	**26**	4,477
		97,279	111,979
Restriction of cash balances		**(1,409)**	(3,651)
Increase in trade and other receivables		**(6,311)**	(1,299)
(Increase)/reduction in other long-term receivables		**(61)**	571
Increase in accounts payable and accrued liabilities		**6,338**	2,705
Reduction in other short-term payables		**(23,727)**	(2,871)
Increase in provisions		**6,000**	–
Cash generated from operations		**78,109**	107,434
Income taxes paid		**(5,957)**	(3,325)
Income taxes received		**2,930**	2,484
Total cash provided by operating activities		**75,082**	106,593
Financing activities			
Proceeds from exercise of options		**2,685**	561
Proceeds from long-term debt	5, 22	**173,578**	–
Debt issuance costs	22	**(2,617)**	–
Debenture settlement		–	(62)
Lease payments		**(3,643)**	–
Repayment of non-compete liability		**(6,000)**	(8,000)
Interest repayment		**(20,974)**	(21,007)
Payment of contingent consideration	23	–	(63,455)
Total cash provided by/(used in) financing activities		**143,029**	(91,963)
Investing activities			
Purchase of tangible assets		**(3,809)**	(1,450)
Purchase of intangible assets		**(12,921)**	(5,250)
Proceeds from sale of intangible assets		**–**	1,450
Disposal of discontinued operation	8	**18,000**	16,140
Business acquisitions, net of cash acquired	5	**(199,726)**	–
Total cash (used in)/provided by investing activities		**(198,456)**	10,890
Net increase in cash during the year		**19,655**	25,520
Cash, beginning of year		**84,383**	59,033
Exchange loss on cash and cash equivalents		**(3,739)**	(170)
Cash, end of year		**100,299**	84,383

See accompanying notes

1. Corporate information

Gamesys Group plc, formerly JPJ Group plc, is an online gaming holding company that was incorporated under the *Companies Act 2006* (England and Wales) on 29 July 2016. On 26 September 2019, following the completion of the Gamesys Acquisition (as defined below), JPJ Group plc changed its name to Gamesys Group plc. Gamesys Group plc's registered office is located at 10 Piccadilly, London, United Kingdom. Unless the context requires otherwise, use of 'Group' in these accompanying notes means Gamesys Group plc and its subsidiaries, as applicable, and use of 'Parent Company' means Gamesys Group plc.

The Group currently offers bingo, casino and other games to its players using the Jackpotjoy, Starspins, Botemania, Virgin Games, Heart Bingo, Virgin Casino, Monopoly Casino, Rainbow Riches, Vera&John, InterCasino and Solid Gaming brands. All brands operate off proprietary software owned by the Group.

On 13 June 2019, the Group entered into a conditional agreement to acquire the business of Gamesys (Holdings) Limited, excluding sports brands and games, for a mixture of cash and new Group shares (the 'Gamesys Acquisition'). The Gamesys Acquisition was completed on 26 September 2019. The total consideration amounted to approximately £491.2 million, comprising of: (i) £237.3 million in cash (net of gains from hedging), of which £173.6 million was funded by an add-on to the Group's existing Term Facility, (ii) £9.9 million in deferred consideration (net of working capital adjustments) and (iii) 33.7 million in newly issued shares, representing approximately £244.0 million.

These Consolidated Financial Statements were authorised for issue by the Board of Directors of Gamesys Group plc on 17 March 2020.

2. Basis of preparation

Basis of presentation

These Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in compliance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union. The impact of the first-time adoption of IFRS 16 – *Leases* ('IFRS 16') is explained in note 3.

These Consolidated Financial Statements have been prepared under the historical cost convention, other than for the measurement at fair value of the Group's Interest Rate Swap, Currency Swap, FX Forward, contingent consideration, certain hedged loan instruments, and certain loans receivable.

The financial information for the period ended 31 December 2019 and the period ended 31 December 2018 does not constitute the company's UK statutory accounts for those years.

Statutory accounts for the period ended 31 December 2018 have been delivered to the UK Registrar of Companies. The statutory accounts for the period ended 31 December 2019 will be delivered to the Registrar of Companies in due course.

The auditors' reports on the accounts for the year ended 31 December 2019 and year ended 31 December 2018 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Basis of consolidation

Gamesys Group plc's Consolidated Financial Statements consolidate the Parent Company and all of its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All transactions and balances between companies within the group are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Gamesys Group plc obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany transactions, balances, income and expenses on transactions between Gamesys Group plc's subsidiaries are eliminated. Profit and losses resulting from intercompany transactions that are recognised in assets are also eliminated.

The subsidiaries of Gamesys Group plc, all of which have been included in these Consolidated Financial Statements, are wholly owned by the Group and constitute investment in subsidiaries on the Parent Company's Balance Sheets, are as follows:

Name of business	**Country of incorporation and principal place of business**
Intertain CallCo ULC	Canada
The Intertain Group Ltd.	Canada
JPJ Maple Media Ltd.	Canada
Libita Group Ltd.	Bahamas
Jackpotjoy Operations Ltd.	Bahamas
Wagerlogic Bahamas Ltd.	Bahamas
Mandalay Media Ltd.	Bahamas
Jet Management Group Ltd.	Bahamas
Golden Hero Group Ltd.	Bahamas
Stockwell Ltd.	Bahamas
Gamesys Group (Holding) Ltd.	Jersey
Gamesys Jersey Ltd.	Jersey
JPJ Group Jersey Finance Ltd.	Jersey
JPJ Holding II Ltd.	Jersey
JPJ Group Holdings Ltd.	Jersey
JPJ Holding Jersey Ltd.	Jersey
JPJ Jersey Ltd.	Jersey
Gamesys Network Ltd.	Malta
Gamesys Spain Plc	Malta
Dumarca Holdings Ltd.	Malta
Dumarca Services Ltd.	Malta
Dumarca Gaming Ltd.	Malta
Wagerlogic Malta Holding Ltd.	Malta
Cryptologic Operations Ltd.	Malta
Cryptologic Trading Ltd.	Malta
JPJ Maple II Ltd.	Malta
JPJ Spain Plc	Malta
Juegos Espana Plc	Malta
Simplicity Malta Ltd.	Malta
Wagerlogic Israel Ltd.	Israel
Wagerlogic Alderney Ltd.	Alderney

Leisure Spin Ltd.	Gibraltar
Profitable Play Ltd.	Gibraltar
Entertaining Play Ltd.	Gibraltar
Gamesys (Gibraltar) Ltd.	Gibraltar
Jet Media Ltd.	Gibraltar
Fifty States (Gibraltar) Ltd.	Gibraltar
Nozee Ltd.	Gibraltar
Solid Innovations Ltd.	Gibraltar
Gamesys Group (Holdings) Ltd.	United Kingdom
Gamesys Ltd.	United Kingdom
JPJ Group Ltd.	United Kingdom
Mice and Dice Ltd.	United Kingdom
Intertain Management (UK) Ltd.	United Kingdom
JPJ Marketing Support Services Ltd.	United Kingdom
Plain Support SA	Costa Rica
Dumarca Asia Ltd.	Hong Kong
Simplicity V8 Hong Kong Ltd.	Hong Kong
Intertainment Asia Inc.	British Virgin Islands
Entserv Asia Ltd.	British Virgin Islands
Silverspin AB	Sweden
Intertain Financial Services AB	Sweden
Fifty States Ltd.	Isle of Man
Solid (IOM) Ltd.	Isle of Man
Gamesys US LLC	United States of America
The Intertain Group Finance LLC	United States of America
Luxembourg Investment Company 192 S.a.r.l.	Luxembourg
Gamesys Estonia OU	Estonia

3. Summary of significant accounting policies

Business combinations and goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries by Gamesys Group plc, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value at the date of acquisition. Provisional fair values allocated at a reporting date are finalised as soon as the relevant information is available, within a period not to exceed a year from the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred, and equity interests issued by Gamesys Group plc. Consideration also includes the fair value of any contingent consideration. Subsequent to the acquisition, contingent consideration that is based on an earnings target and classified as a liability is measured at fair value with any resulting gains or losses recognised in net income. Transaction related costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to Gamesys Group plc's cash-generating units that are expected to benefit from the combination.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Makers. The Chief Operating Decision Makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified as the management team comprising of the Chair, Chief Executive Officer and Chief Financial Officer.

In December 2019, following the Gamesys Acquisition, the Group determined that Chief Operating Decision Makers will no longer allocate resources and assess performance based on previously established operating segments. Therefore, the Group's reportable operating segments had changed such that the Jackpotjoy and Vera&John segments were aggregated into a single operating segment, being online gaming.

Revenue recognition

The Group earns its revenue from operating online bingo and casino websites ('Net Gaming Revenue'). Other revenue streams, which the Group does not consider material, comprise of licencing of its proprietary platform to third parties, affiliate aggregation services, and game aggregation services (in combination, 'B2B Revenue').

Net Gaming Revenue

Revenue from online bingo and casino consists of the difference between total amounts wagered by players less all winnings payable to players, bonuses allocated and jackpot contributions. Players transact with the Group's businesses under agreed terms, which form the basis for the contractual arrangement. There are no significant judgements required in applying IFRS 15 – *Revenue from Contracts with Customers* to these arrangements.

Net Gaming Revenue is recognised upon satisfaction of the Group's performance obligation to the player, which is the point in time when the player completes one of the games offered by the Group and the outcome of the game is honoured with the appropriate payout being made.

There is no significant degree of uncertainty involved in quantifying the amount of Net Gaming Revenue earned, including bonuses, jackpot contributions, and loyalty points. Bonuses, jackpot contributions and loyalty points are measured at face value when credited to the player's account.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

Gamesys Group plc uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Foreign currency translation

Functional and presentation currency

The Group's Consolidated Financial Statements are presented in pounds sterling. Management determines the functional currency for each subsidiary within the Group based on the principal economic environment in which the subsidiary is active. Items included in the financial statements of each subsidiary are measured using that functional currency. Differences arising on the retranslation of subsidiaries whose functional currency is not pounds sterling are recorded in other comprehensive income and accumulated in translation reserve.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity of Gamesys Group plc, using the exchange rates prevailing at the dates of the transactions (spot rates). Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates as at the reporting date. Foreign exchange gains and losses resulting from the settlement or translation of monetary items are recognised in profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Financial instruments

Financial assets and financial liabilities are recognised when Gamesys Group plc becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognised when extinguished, discharged, cancelled, or when they expire.

The Group classifies its financial assets and liabilities under the following categories: fair value through profit or loss ('FVPL'), fair value through other comprehensive income ('FVOCI'), financial assets at amortised cost and financial liabilities at amortised cost. All financial instruments are recognised initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than at FVPL are added to the carrying amount of the asset or liability.

The accretion of these costs is recognised over the life of the instrument in accretion on financial liabilities under the effective interest rate method described below.

Fair value through profit or loss

The Group's contingent consideration is classified as FVPL. Any gains or losses are recorded in net income in the period in which they arise.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. After initial measurement, such instruments are subsequently measured at amortised cost using the effective interest rate ('EIR') method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income or expense in the Consolidated Statements of Comprehensive Income. This category generally applies to cash, restricted cash, player deposits, trade and other receivables, and other long-term receivables.

The Group uses the simplified Expected Credit Loss model ('ECL') ('ECL Model') for Gamesys Group plc's trade receivables in accordance with IFRS 9 – *Financial Instruments* ('IFRS 9'). Other receivables have been evaluated under the standard ECL Model. Under the ECL Model, Gamesys Group's trade receivables are classified in stage 1 – financially healthy assets that are expected to perform in line with their contractual terms and which show no signs of increased credit risk.

In order to determine the amount of ECL to be recognised in the Consolidated Financial Statements on trade and other receivables, Gamesys Group plc has set up a provision matrix based on its historical credit loss experience. The matrix is adjusted for forward looking estimates and establishes that ECL should be calculated as follows:

- 0-30 days past due: 1% of carrying value (2018 – less than 1% of carrying value)
- 31-60 days past due: 15% of carrying value (2018 – 15% of carrying value)
- 61-90 days past due: 19% of carrying value (2018 – 19% of carrying value)
- More than 90 days past due: 25% of carrying value (2018 – 25% of carrying value)

Balances in transit or receivable from payment service providers are also considered trade and other receivables that fall under the scope of IFRS 9. In order to determine the amount of ECL to be recognised in the Consolidated Financial Statements on these balances, the Group has set up a risk rating system to determine credit risk of each counter party. ECL is calculated as 30% of the balances owing from all payment service providers identified as high-risk.

Financial liabilities at amortised cost

With the exception of contingent consideration and derivatives, all financial liabilities are measured at amortised cost using the effective interest rate method. This category generally applies to interest payable, accounts payable and accrued liabilities, other short-term payables, payable to players, lease liabilities, long-term debt, and other long-term payables. All interest-related charges are reported in profit or loss within interest expense.

Convertible loan receivable

The Group holds convertible loan receivable that can be converted to equity of the borrower after 12 months following the date of the loan agreement.

The convertible loan receivable is shown as a single asset and is measured at fair value through profit or loss. Fair value is established using a risk neutral simulation model.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Balance Sheets if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Gamesys Group plc uses derivative instruments for risk management purposes. Gamesys Group plc does not use derivative instruments for speculative trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting period end. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognising unrealised and realised fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives not designated as hedging instruments, unrealised gains and losses are recorded in interest income/expense on the Consolidated Statements of Comprehensive Income. For derivatives designated as hedging instruments, unrealised and realised gains and losses are recognised according to the nature of the hedged item and where the hedged item is a non-financial asset, amounts recognised in the hedging reserve are reclassified and the non-financial asset is adjusted accordingly.

Hedge accounting

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which are recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The Group elected to use hedge accounting for the purposes of recognising realised and unrealised gains and losses associated with its Interest Rate Swap and Currency Swap.

IFRS 9 permits hedge accounting under certain circumstances provided that the hedging relationship is:

- formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;
- expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured; and
- assessed on an ongoing basis and determined to have been highly effective.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a risk associated with a recognised asset or liability or a highly probable forecast transaction; and
- hedges of a net investment in a foreign operation.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the Consolidated Statements of Comprehensive Income as a financing expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Consolidated Statements of Comprehensive Income as a financing expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

At 31 December 2019, the Group had no hedges designated as fair value hedges.

Cash flow hedges

The Group uses interest rate contracts as hedges of its exposure to interest rate risk in forecast transactions and firm commitments. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The ineffective portion relating to interest rate contracts is recognised in financing expenses. Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the hedging instrument or hedged item expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

At 31 December 2019, the Group designated its Interest Rate Swap and Currency Swap as cash flow hedges.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

The Group uses its EUR Term Facility as a hedge of its exposure to foreign exchange risk on its investments in EUR foreign subsidiaries. Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries.

At 31 December 2019, no material ineffectiveness arising on net investment hedges was included in the Consolidated Statements of Comprehensive Income.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognised in the Consolidated Statements of Comprehensive Income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognised for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realised or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the Consolidated Statements of Comprehensive Income in the period that substantive enactment occurs.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Group does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Where there is uncertainty about the appropriate tax treatment of certain transactions or circumstances, the Group applies the guidance of IFRIC 23 – *Uncertainty Over Income Tax Treatments* and recognises and measures its current and deferred tax assets and liabilities in accordance with its evaluation of the likelihood that a taxation authority will accept the uncertain tax treatment. Where it is considered probable that a taxation authority will accept the Group’s uncertain tax treatment, the Group determines its taxable profit consistently with the tax treatment used or planned to be used in its income tax filings. Where it is considered unlikely that a taxation authority will accept the Group’s uncertain tax treatment, the Group reflects the effect of uncertainty in determining its taxable profit following the method it expects to better predict the resolution of the uncertainty.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, as well as balances with payment processors which are subject to an insignificant risk of change in value.

Cash and cash equivalents exclude restricted cash. Restricted cash is made up of cash held on deposit for the purpose of applying for business and gaming licences, as well as reserves held with payment service providers.

The effect on the Consolidated Statements of Cash Flows of restrictions either taking effect on, or being lifted from, cash balances are reported with regard to the linkage principle, under which changes in cash are classified based on the purpose for which the restricted cash is used. Under this principle, changes (such as cash, which is restricted for the purposes of applying for a business licence and payment service provider reserves) are treated as an operating cash outflow.

Tangible assets

Tangible assets are recorded at cost less accumulated depreciation. These assets are depreciated over their estimated useful lives as follows:

Computer hardware	33% - 50% per annum
Office furniture	20% - 50% per annum
Freehold property	Over 50 years
Leasehold improvements	Over the term of the lease

Depreciation is recorded under administrative costs in the Consolidated Statements of Comprehensive Income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Amortisation expense is reflected in the Consolidated Statements of Comprehensive Income. Amortisation for the material categories of finite life intangible assets is recorded under administrative costs and is calculated at the following rates:

Brand	5% per annum
Gaming licences	5% per annum
Platform and software	7% - 33% per annum
Player relationships and partnership agreements	8% - 20% per annum
	(variable, according to the expected pattern of consumption)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit ('CGU') level. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows independently of other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell (measured according to level 3 in the fair value hierarchy) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

In instances when a part of a particular CGU is disposed of, the value of goodwill associated with the disposal is measured on the basis of the relative value of the operation disposed of as a portion of the unit retained. The relative value is derived by analysing various methods available for the asset being disposed of and concluding on the method that is most appropriate for each individual disposal.

Share-based compensation and long-term incentive plan

Compensation expense for equity-settled stock options awarded under the share option plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognised using the graded vesting method over the vesting period of the options granted. Compensation expense for equity-settled stock options awarded under the LTIP, LTIP2 and LTIP3 (as defined in note 25) is measured at the fair value at the grant date using the Black-Scholes valuation model for the EPS and EPS CAGR Tranches (as defined in note 25) and the Monte Carlo model for the TSR Tranches (as defined in note 25).

Compensation expense recognised is adjusted to reflect the number of options that has been estimated by management for which conditions attached to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognised expense corresponds to the options that have actually vested. The compensation expense credit is attributed to share-based payment reserve when the expense is recognised in the Consolidated Statements of Comprehensive Income.

Earnings per share

Basic earnings per share is calculated by dividing the net income or loss for the period attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the same method as for basic earnings per share and adjusting the weighted average of common shares outstanding during the period to reflect the dilutive impact, if any, of options and warrants assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by Gamesys Group plc when options and warrants are exercised will be used to purchase common shares at the average market price during the reporting period. Convertible debt is considered in the calculation of diluted earnings per share to the extent that it is dilutive.

Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins the same month the asset is recognised and is amortised over the period of expected future economic benefit to the Group. During the period of development, the asset is tested for impairment annually as part of the CGU to which it relates.

Leases

Effective from 1 January 2019, the Group adopted IFRS 16, which replaces IAS 17 – *Leases* and related interpretations.

The Group elected to apply the modified retrospective approach which does not require restatement of comparative periods. As a result, lease liabilities were recognised in the opening consolidated balance sheet as at 1 January 2019 at an amount equal to the Group's remaining lease payments discounted using the Group's incremental borrowing rate. Additionally, the Group elected to measure right-of-use assets by reference to the measurement of the lease liabilities on the same date. As a result, net assets were not impacted. There was also no impact on the Group's equity at 1 January 2019.

On 1 January 2019, the Group recognised right-of-use assets and lease liabilities of £3.2 million related to its existing leases. Furthermore, the Group assumed that leases obtained as part of the Gamesys Acquisition were also subject to IFRS 16 starting on 1 January 2019 and recognised additional right-of-use assets and lease liabilities of £20.7 million as a result.

Under IFRS 16, the Group amortises its right-of-use assets and accretes interest on its lease liabilities. As at 31 December 2019, the carrying value of the right-of-use assets amounted to £22.2 million and the carrying value of lease liabilities amounted to £22.6 million, with £4.7 million of this balance shown in current liabilities with the remaining portion of £17.9 million reflected under non-current liabilities.

The above lease liabilities balances were calculated using an incremental borrowing rate of 5.0%.

4. Summary of significant accounting estimates and assumptions

The preparation of Gamesys Group plc's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The effect of a change in an accounting estimate is recognised prospectively by including it in the Consolidated Statements of Comprehensive Income in the period of the change, if the change affects that period only; or in the period of the change and future periods if the change affects both.

The estimates and judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Business combinations and contingent consideration

Business combinations require management to exercise judgement in measuring the fair value of the assets acquired, equity instruments issued, liabilities and contingent consideration incurred or assumed. In particular, a high degree of judgement is applied in determining which assets and liabilities are included in a business combination, the fair value of the separable intangible assets acquired and their useful economic lives.

Goodwill and intangible assets

Goodwill and intangible assets are reviewed for impairment annually, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgement in estimating the recoverable values of the Group's CGUs and uses internally developed valuation models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

Taxes

Group companies may be subject to indirect taxation on transactions, which have been treated as exempt supplies of gambling, or on supplies which have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from players located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group, its financial position or its reported results. Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date.

The Group is also exposed to a range of different corporation and other tax regimes. Any given tax jurisdiction may have complex legislation operating both domestically and potentially beyond the borders of the country in question. This requires the Group to make judgments on the basis of detailed tax analysis and recognise payables or provisions and disclose contingent liabilities as appropriate in the circumstances. Should the Group's judgement change as it is revisited over time, or the associated estimates be updated as more information comes to light, tax expense recorded in the income statement in future reporting periods will be affected. Further information on recognised provisions is included in note 19.

5. Business combinations

On 26 September 2019, the Group completed the Gamesys Acquisition, which includes the Virgin Games, Heart Bingo, Virgin Casino and Monopoly Casino brands and related assets. The purchase was completed for £237.3 million in cash (net of gains from hedging), of which £173.6 million was funded by an add-on to the Group's existing Term Facility, £9.9 million in deferred consideration (net of working capital adjustments) and 33,653,846 newly issued ordinary shares of the Parent Company, which at the prevailing share price of £7.25 on 26 September 2019 amounted to £244.0 million. The deferred consideration is payable in March 2022 and is subject to an annual interest rate of 5.0% plus LIBOR. The Gamesys Acquisition has been accounted for as a business combination.

The purchase price allocation set forth below represents the allocation of the purchase price to the provisional fair value of assets acquired and liabilities assumed. No indemnification assets have been recognised at this stage due to the uncertainty of any such amounts being agreed.

Effect of acquisition on the financial position of the Group

	26 September 2019 (£000's)
Assets acquired	
Cash	40,274
Restricted cash	1,165
Player deposits	8,960
Trade and other receivables	14,010
Other non-current assets	5,943
Right-of-use assets	18,786
Intangible assets (note 16)	309,000
Goodwill (note 16)	252,718
	650,856
Liabilities assumed	
Accounts payable and accrued liabilities	75,452
Player liabilities	8,960
Deferred tax liabilities (note 27)	52,403
Provisions (note 19)	3,800
Lease liabilities	19,067
	159,682
Net assets acquired	491,174
Consideration	
Cash	240,000
Realised gain on FX Forward (note 15)	(2,717)
Deferred consideration	10,000
Estimated working capital adjustment	(99)
Shares issued	243,990
	491,174

The excess purchase consideration over the net fair value of financial and other tangible and intangible assets and liabilities acquired was allocated to goodwill. The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Gamesys (Holdings) Limited with those of the Group.

None of the goodwill is expected to be deductible for income tax purposes.

The Gamesys Acquisition is expected to enhance the Group's scale and will allow it to benefit from a diversified brand portfolio, greater operational control and complementary executive and operational team. Costs relating to this transaction amounted to a total of £15.8 million, with £14.4 million reflected in transaction related costs and £1.4 million reflected as costs of issuance of common shares.

Since the date of acquisition, this business combination has contributed £60.3 million in revenue and £9.9 million in net income to the Group. The results of this business combination are included in the Group's online gaming segment. The Group has used a significant amount of judgement and simplifying assumptions in estimating the net income and operating profits before income taxes had the business combination occurred at the beginning of the year. Had the business combination occurred at the beginning of the year, it would have contributed £210.5 million in revenue and £49.7 million in operating profit before income taxes, making consolidated revenue for the year be £565.3 million and operating profit before income taxes for the year be £51.8 million. Operating profit before income taxes take into account income earned from the software licence fee and other income earned by the acquired business from the reporting entity during the period before the Gamesys Acquisition. As a result of the judgement and simplifying assumptions used to generate these estimates, the amounts should not be used as an indicator of past or future performance of the Group or its acquired subsidiaries.

6. Segment information

Under IFRS 8 – *Operating Segments* ('IFRS 8') segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Makers (as defined in note 3).

In December 2019, following the Gamesys Acquisition, the Group determined that its reportable operating segments had changed such that the Jackpotjoy and Vera&John segments were aggregated into a single operating segment, being online gaming. The online gaming segment consists of online real money and casino operating results of the Jackpotjoy, Starspins, Virgin Games, Heart Bingo, Botemania, Rainbow Riches, Virgin Casino, Monopoly Casino, Vera&John, InterCasino and Solid Gaming brands.

Management believes that this segmentation is most appropriate because online gaming is the Group's primary business that is being managed on a combined basis without central business costs or operating expenses being allocated to any particular geography or product. The new segmentation came into effect on 1 December 2019.

Additionally, as discussed in note 8, the Group sold its Mandalay business in the period ended 31 March 2019 and it sold its social gaming business in the period ended 30 September 2018. All current year and 2018 comparative figures have been restated accordingly.

The following tables present selected financial results for online gaming and the unallocated corporate costs:

Year ended 31 December 2019:

	Online gaming[1] (£000's)	Unallocated corporate costs (£000's)	Total (£000's)
Gaming revenue	**415,078**	**—**	**415,078**
Distribution costs	214,214	25	214,239
Amortisation and depreciation	61,190	963	62,153
Compensation, professional, and general and administrative expenses	71,307	13,972	85,279
Impairment of financial assets	3,879	—	3,879
Transaction related costs	224	15,585	15,809
Foreign exchange loss/(gain)	1,319	(2,789)	(1,470)
Financing, net	483	22,672	23,155
Income/(loss) for the year before taxes from continuing operations	**62,462**	**(50,428)**	**12,034**
Tax expense	2,554	352	2,906
Net income/(loss) for the year after taxes from continuing operations	**59,908**	**(50,780)**	**9,128**
Net income/(loss) for the year after taxes from continuing operations	**59,908**	**(50,780)**	**9,128**
Interest expense, net	483	20,921	21,404
Accretion on financial liabilities	—	1,291	1,291
Tax expense	2,554	352	2,906
Amortisation and depreciation	61,190	963	62,153
EBITDA	**124,135**	**(27,253)**	**96,882**
Share-based compensation	—	483	483
One-off tax charges	6,000	—	6,000
Fair value adjustments on contingent consideration	—	460	460
Transaction related costs	224	15,585	15,809
Foreign exchange loss/(gain)	1,319	(2,789)	(1,470)
Adjusted EBITDA	**131,678**	**(13,514)**	**118,164**
Net income/(loss) for the year after taxes from continuing operations	**59,908**	**(50,780)**	**9,128**
Share-based compensation	—	483	483
One-off tax charges	6,000	—	6,000
Fair value adjustments on contingent consideration	—	460	460
Transaction related costs	224	15,585	15,809
Foreign exchange loss/(gain)	1,319	(2,789)	(1,470)
Amortisation of acquisition related purchase price intangibles	52,701	—	52,701
Accretion on financial liabilities	—	1,291	1,291
Adjusted net income/(loss)	**120,152**	**(35,750)**	**84,402**

[1]*Includes Gamesys Acquisition results from 27 September 2019 to 31 December 2019.*

Year ended 31 December 2018:

	Online gaming (£000's)	Unallocated corporate costs (£000's)	Total (£000's)
Gaming revenue	**308,212**	**—**	**308,212**
Distribution costs	149,793	63	149,856
Amortisation and depreciation	54,937	390	55,327
Compensation, professional, and general and administrative expenses	37,881	11,632	49,513
Impairment of financial assets	1,000	—	1,000
Severance costs	850	—	850
Transaction related costs	139	1,751	1,890
Foreign exchange loss/(gain)	438	(84)	354
Financing, net	(115)	29,788	29,673
Income/(loss) for the year before taxes from continuing operations	**63,289**	**(43,540)**	**19,749**
Tax expense	122	336	458
Net income/(loss) for the year after taxes from continuing operations	**63,167**	**(43,876)**	**19,291**
Net income/(loss) for the year after taxes from continuing operations	**63,167**	**(43,876)**	**19,291**
Interest expense, net	(115)	19,587	19,472
Accretion on financial liabilities	—	2,993	2,993
Tax expense	122	336	458
Amortisation and depreciation	54,937	390	55,327
EBITDA	**118,111**	**(20,570)**	**97,541**
Share-based compensation	—	583	583
Severance costs	850	—	850
Fair value adjustments on contingent consideration	—	7,208	7,208
Transaction related costs	139	1,751	1,890
Foreign exchange loss/(gain)	438	(84)	354
Adjusted EBITDA	**119,538**	**(11,112)**	**108,426**
Net income/(loss) for the year after taxes from continuing operations	**63,167**	**(43,876)**	**19,291**
Share-based compensation	—	583	583
Severance costs	850	—	850
Fair value adjustments on contingent consideration	—	7,208	7,208
Transaction related costs	139	1,751	1,890
Foreign exchange loss/(gain)	438	(84)	354
Amortisation of acquisition related purchase price intangibles	52,752	—	52,752
Accretion on financial liabilities	—	2,993	2,993
Adjusted net income/(loss)	**117,346**	**(31,425)**	**85,921**

During the year ended 31 December 2019, revenue was earned from players situated in the following locations: United Kingdom – 52% (year ended 31 December 2018 – 53%), Japan – 26% (year ended 31 December 2018 – 14%), Spain – 8% (year ended 31 December 2018 – 10%), Sweden – 3% (year ended 31 December 2018 – 8%), rest of Europe – 6% (year ended 31 December 2018 – 7%), rest of world – 5% (year ended 31 December September 2018 – 8%).

During the year ended 31 December 2019, the Group's B2B Revenue comprised 4% (year ended 31 December 2018 – 3%) of total Group revenues, with the remaining portion being revenues earned from Net Gaming Revenue operations.

Non-current assets by geographical location as at 31 December 2019 were as follows: Europe £85.3 million (31 December 2018 – £85.2 million), Americas £383.9 million (31 December 2018 – £436.8 million) and United Kingdom £576.4 million (31 December 2018 – £nil).

7. Costs and expenses

As discussed in note 8, the Group sold its Mandalay business in the period ended 31 March 2019 and its social gaming business in the period ended 30 September 2018. All current year and 2018 comparative figures have been restated accordingly. The results of the Gamesys Acquisition for the period from 27 September 2019 to 31 December 2019 are included in the tables below.

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Distribution costs:		
Selling and marketing	**81,740**	54,523
Licensing fees[1]	**45,318**	38,094
Gaming taxes	**59,165**	38,670
Processing fees	**28,016**	18,569
	214,239	149,856
Administrative costs:		
Compensation and benefits	**55,635**	31,582
Professional fees	**5,086**	4,300
General and administrative[1]	**24,558**	13,631
Tangible asset depreciation	**4,361**	538
Intangible asset amortisation	**57,792**	54,789
	147,432	104,840

[1]Certain changes were reallocated from licensing fees to general and administrative to match presentation following the Gamesys Acquisition.

8. Discontinued operations

On 12 March 2019, the Group completed the sale of its Mandalay business for a cash consideration of £18.0 million. The Mandalay business was not previously classified as held-for-sale. As discussed in note 7 of the Group's 2018 Consolidated Financial Statements, the Group disposed of its social gaming business in the period ended 30 September 2018. The comparative consolidated statements of comprehensive income are presented below to show the Mandalay and social gaming business discontinued operations separately from continuing operations. The results of the Mandalay and social gaming businesses have been excluded from notes 6 and 7 above.

Results of discontinued operations

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Gaming revenue	**1,595**	11,376
Social gaming revenue	**—**	7,495
Expenses	**2,229**	19,208
Results from operating activities	**(634)**	(337)
Income tax	—	—
Loss for the year	**(634)**	(337)
Loss on disposal of discontinued operations	**(26)**	(4,477)
Income tax on loss on disposal of discontinued operations	—	—
Loss from discontinued operations, net of tax	**(660)**	(4,814)
Basic loss per share from discontinued operations	**£(0.01)**	£(0.06)
Diluted loss per share from discontinued operations	**£(0.01)**	£(0.06)

Cash flows from discontinued operations

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Net cash provided by operating activities	**525**	6,090
Net cash provided by investing activities	**18,000**	16,140
Net cash from financing activities	**—**	—
Net cash flows for the period	**18,525**	22,230

Effect of disposal on the financial position of the Group

	31 December 2019 (£000's)	31 December 2018 (£000's)
Trade and other receivables	**—**	184
Non-current assets	**3,753**	10,365
Goodwill	**14,273**	9,638
Net assets	**18,026**	20,187
Working capital adjustments payable	**—**	(1,203)
Costs of disposal	**—**	(1,118)
Consideration received, satisfied in cash	**18,000**	18,031
Loss on disposal of discontinued operations	**(26)**	(4,477)

Goodwill disposed of was allocated to the Mandalay business on the basis of earnings before interest, taxes, depreciation and amortisation, relative to that of the overall segment.

9. Interest income/expense

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Total interest income	**420**	349
Interest accrued and paid on long-term debt	**21,435**	19,815
Fair value adjustment on secured convertible loan	**(248)**	—
Interest accrued and paid on lease liabilities	**637**	—
Interest accrued and paid on convertible debentures	**—**	6
Total interest expense	**21,824**	19,821
Accretion of discount recognised on contingent consideration	**—**	1,204
Interest accretion recognised on convertible debentures	**—**	8
Debt issue costs and accretion recognised on long-term debt	**723**	576
Interest accretion recognised on other long-term liabilities	**568**	1,205
Total accretion on financial liabilities	**1,291**	2,993

10. Earnings per share

The following table presents the calculation of basic and diluted earnings per share:

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Numerator:		
Net income attributable to owners of the parent – basic	**8,468**	14,477
Net income attributable to owners of the parent – diluted	**8,468**	14,477
Numerator:		
Net income from continuing operations – basic	**9,128**	19,291
Net income from continuing operations – diluted	**9,128**	19,291
Numerator:		
Net loss from discontinued operations – basic	**(660)**	(4,814)
Net loss from discontinued operations – diluted[1]	**(660)**	(4,814)
Denominator:		
Weighted average number of shares outstanding – basic	**83,326**	74,241
Weighted average effect of dilutive share options	**266**	592
Weighted average number of shares outstanding – diluted	**83,592**	74,833

Net income per share[2,3]		
Basic	**£0.10**	£0.20
Diluted	**£0.10**	£0.19

Net income per share[2,3] – continuing operations		
Basic	**£0.11**	£0.26
Diluted	**£0.11**	£0.26

Net loss per share[1,2,3] – discontinued operations		
Basic	**£(0.01)**	£(0.06)
Diluted	**£(0.01)**	£(0.06)

1 *In case of a net loss, the effect of share options potentially exercisable on diluted loss per share will be anti-dilutive; therefore, basic and diluted net loss per share will be the same.*

2 *Basic income per share is calculated by dividing the net income by the weighted average number of shares outstanding during the year.*

3 *Diluted income per share is calculated by dividing the net income by the weighted average number of shares outstanding during the year and adjusted for the number of potentially dilutive share options and contingently issuable instruments.*

11. Liabilities arising from financing activities

The following is a reconciliation of liabilities arising from financing activities:

	Long-term debt (£000's)	Interest payable (£000's)	Non-compete clauses (£000's)	Interest rate swap liability (£000's)	Currency swap liability (£000's)	Contingent consideration (£000's)	Lease liabilities (£000's)	Total (£000's)
Balance, 1 January 2018	369,487	924	16,912	—	—	59,583	—	446,906
Cash flows	—	(20,351)	(8,000)	(656)	—	(63,455)	—	(92,462)
Non-cash flows:								
Fair value adjustments	—	—	—	1,141	—	7,208	—	8,349
Interest expense	—	19,815	—	—	—	—	—	19,815
Accretion	576	—	1,184	—	—	1,204	—	2,964
Foreign exchange translation	1,387	(124)	—	—	—	—	—	1,263
Balance, 31 December 2018	371,450	264	10,096	485	—	4,540	—	386,835
Cash flows	170,961	(20,391)	(6,000)	(583)	—	—	(3,643)	140,344
Non-cash flows:								
Fair value adjustments	—	—	—	1,238	9,251	460	—	10,949
Interest expense	—	21,435	—	—	—	—	637	22,072
Lease liabilities	—	—	—	—	—	—	25,643	25,643
Accretion	723	—	568	—	—	—	—	1,291
Set-off against acquired assets	—	—	—	—	—	(5,000)	—	(5,000)
Foreign exchange translation	(12,815)	(349)	—	—	—	—	(3)	(13,167)
Balance, 31 December 2019	**530,319**	**959**	**4,664**	**1,140**	**9,251**	**—**	**22,634**	**568,967**

12. Cash, restricted cash and player deposits

	31 December 2019 (£000's)	31 December 2018 (£000's)
Cash	**100,299**	84,383
Restricted cash[1]	**6,324**	3,912
	106,623	88,295
Player deposits – restricted cash[2]	**12,444**	3,853
Player deposits – other[3]	**—**	5,179
	12,444	9,032

1 *The Group has elected to present £2.2 million of its 31 December 2018 balance related to reserves held with payment service providers as trade and other receivables (note 13).*

2 *Player deposits – restricted cash consists of cash held by the Group in relation to amounts payable to players where the Group acts as operator. In this regard, the Group has elected to split player deposits into sub-categories and present £3.9 million of its 31 December 2018 balance as player deposits – restricted cash, rather than player deposits, to improve comparability with the balances at the current reporting date.*

3 *Player deposits – other includes balances held by third party operators on behalf of the Group in relation to amounts payable to players.*

13. Trade and other receivables

Trade and other receivables consist of the following items:

	31 December 2019 (£000's)	31 December 2018 (£000's)
Due from the Gamesys group	—	8,764
Due from the 888 group	—	1,665
Due from payment service providers[1]	**12,218**	2,249
ECL on payment service providers (note 3)	**(3,579)**	—
B2B Revenue receivable	**5,453**	2,722
ECL on B2B Revenue receivable	**(107)**	(334)
Sales tax refund receivable	**4,806**	1,461
ECL on sales tax refund receivable	**(521)**	(266)
Prepaid expenses	**10,443**	2,925
Other receivables	**4,791**	533
ECL on other receivables	**(322)**	(39)
	33,182	19,680

1 *The Group has elected to present £2.2 million of its 31 December 2018 balance related to reserves held with payment service providers as trade and other receivables (note 12).*

The following table summarises the Group's expected credit loss on its trade receivables and other long-term receivables at 31 December 2019:

	0-30 days (£000's)	31-60 days (£000's)	61-90 days (£000's)	90 days + (£000's)	**Total (£000's)**
Trade and other receivables	116	12	30	792	**950**
Other long-term receivables	—	—	—	350	**350**
	116	12	30	1,142	**1,300**

The following table summarises the Group's expected credit loss on its trade receivables and other long-term receivables at 31 December 2018:

	0-30 days (£000's)	31-60 days (£000's)	61-90 days (£000's)	90 days + (£000's)	**Total (£000's)**
Trade and other receivables	—	91	131	417	**639**
Other long-term receivables	—	—	—	361	**361**
	—	91	131	778	**1,000**

14. Other long-term receivables

In connection with the Gaming Realms Transaction, the Group recognised a long-term receivable of £3.8 million (31 December 2018 – £3.6 million) for the secured convertible loan, in accordance with IFRS 9, based on the calculation of fair value at 30 September 2019, as explained in note 23.

As at 31 December 2019, the remaining balance of £1.4 million (31 December 2018 – £1.1 million), net of an ECL provision discussed in note 13, relates to a long-term loan receivable by the Group.

15. Interest rate swap, currency swap and foreign exchange forward

Foreign exchange forward

On 26 June 2019, Gamesys Group plc entered into a foreign exchange forward agreement (the 'FX Forward') in order to minimise the Group's exposure to foreign exchange rate fluctuations between GBP and EUR as the Group added €196.0 million to its EUR Term Facility in relation to the Gamesys Acquisition. Under the FX Forward, the Group was able to convert €193.0 million to £173.7 million at an exchange rate of 0.89970 on 26 September 2019, giving rise to a £2.7 million realised gain on settlement of the foreign exchange forward.

Prior to being utilised, the FX Forward was designated as a cash flow hedge. As a result, upon utilising the FX Forward, the entire gain in the amount of £0.3 million previously shown in other comprehensive income was reclassified, in accordance with IFRS 9, and formed part of the realised gain on foreign exchange forward discussed above.

Currency swap

On 1 August 2019, the Group entered into a cross currency swap agreement (the 'Currency Swap') in order to minimise the Group's increased exposure to exchange rate fluctuations between GBP and EUR impacting the Group's EUR Term Facilities. The Currency Swap had an effective date of 30 September 2019 and a maturity date of 30 September 2022.

As at 31 December 2019, the fair value of the Currency Swap was a £9.3 million payable (31 December 2018 – £nil). The Group has included £3.4 million of this amount in current liabilities with the remaining balance included in other long-term payables, as discussed in note 24. An unrealised loss of £9.3 million for the year ended 31 December 2019 related to the Currency Swap was recognised in other comprehensive income (year ended 31 December 2018 – £nil).

Interest rate swap

On 5 August 2019, Gamesys Group plc amended the terms of its existing Interest Rate Swap to further minimise its exposure to interest rate fluctuations. Under the new terms, the Group will pay a fixed 6.08% rate of interest in place of floating GBP interest payments of GBP LIBOR plus 5.00%. On 15 August 2019, the starting Notional Amount went back to being 60% of the GBP Term Facility (£150.0 million) and will decrease to £69.0 million by 15 June 2021.

As at 31 December 2019, the fair value of the Interest Rate Swap was a £1.1 million payable (31 December 2018 – £0.5 million). The Group has included £0.4 million of this payable in current liabilities (31 December 2018 – £0.1 million), with the value of the remaining balance included in other long-term payables, as discussed in note 24. For the year ended 31 December 2019, the Group recognised an unrealised loss of £1.2 million in other comprehensive income (year ended 31 December 2018 – £1.1 million).

16. Intangible assets and goodwill

As at 31 December 2019

	Gaming licences (£000's)	Player relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-compete clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2019	91	320,060	30,955	70,326	12,900	20,434	309,121	**763,887**
Additions (note 5)	—	223,300	93,974	—	4,600	—	252,718	**574,592**
Disposals (note 8)	—	(27,200)	(350)	(1,610)	—	—	(14,273)	**(43,433)**
Translation	(2)	(1,209)	(1,614)	(536)	(43)	—	(3,149)	**(6,553)**
Balance, 31 December 2019	**89**	**514,951**	**122,965**	**68,180**	**17,457**	**20,434**	**544,417**	**1,288,493**
Accumulated amortisation/impairment								
Balance, 1 January 2019	56	172,574	18,280	13,577	6,080	17,875	20,766	**249,208**
Amortisation	47	41,571	8,650	3,442	2,609	2,559	—	**58,878**
Disposals (note 8)	—	(24,700)	(329)	(378)	—	—	—	**(25,407)**
Translation	(14)	(1,133)	(1,043)	(129)	(42)	—	(557)	**(2,918)**
Balance, 31 December 2019	**89**	**188,312**	**25,558**	**16,512**	**8,647**	**20,434**	**20,209**	**279,761**
Carrying value								
Balance, 31 December 2019	**—**	**326,639**	**97,407**	**51,668**	**8,810**	**—**	**524,208**	**1,008,732**

As at 31 December 2018

	Gaming licences (£000's)	Player relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-compete clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2018	93	337,655	25,211	70,019	12,900	20,434	316,386	**782,698**
Additions	—	—	5,318	—	—	—	—	**5,318**
Disposals (note 8)	—	(18,000)	—	—	—	—	(9,638)	**(27,638)**
Translation	(2)	405	426	307	—	—	2,373	**3,509**
Balance, 31 December 2018	**91**	**320,060**	**30,955**	**70,326**	**12,900**	**20,434**	**309,121**	**763,887**
Accumulated amortisation/impairment								
Balance, 1 January 2018	81	139,333	12,551	10,005	4,458	7,661	19,605	**193,694**
Amortisation	44	40,496	5,518	3,502	1,622	10,214	—	**61,396**
Disposals (note 8)	—	(7,635)	—	—	—	—	—	**(7,635)**
Translation	(69)	380	211	70	—	—	1,161	**1,753**
Balance, 31 December 2018	**56**	**172,574**	**18,280**	**13,577**	**6,080**	**17,875**	**20,766**	**249,208**
Carrying value								
Balance, 31 December 2018	**35**	**147,486**	**12,675**	**56,749**	**6,820**	**2,559**	**288,355**	**514,679**

Goodwill impairment testing

For the purpose of the annual impairment test, goodwill has been allocated to each CGU of the business.

The recoverable amount of the Jackpotjoy CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14.0% (2018 – 14.0%) and cash flows beyond the five-year period are extrapolated using a 2.0% (2018 – 2.5%) growth rate. At 31 December 2019, the carrying amount of goodwill related to the Jackpotjoy CGU is £469.8 million (2018 – £231.3 million).

The recoverable amount of the Vera&John CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 19.0% (2018 – 18.0%) and cash flows beyond the five-year period are extrapolated using a 2.0% (2018 – 2.5%) growth rate. At 31 December 2019, the carrying amount of goodwill related to the Vera&John CGU is £54.4 million (2018 – £57.0 million).

The fair value less selling costs calculations are based on level 3 in the fair value hierarchy.

As at 31 December 2019, there was no indication of impairment of goodwill, nor does senior management expect any reasonably possible change in a key assumption that may give rise to an impairment.

17. Leases

As discussed in note 3, on 1 January 2019, the Group adopted IFRS 16. The tables below provide a reconciliation between operating lease commitments disclosed at 31 December 2018 and balances presented in the Group's Consolidated Financial Statements:

Right-of-use assets

	31 December 2019 (£000's)
Balance, 1 January 2019	3,189
Additions	5,254
Additions arising on business combination	18,691
Depreciation	(2,614)
Effect of modification of lease terms	(2,346)
Foreign exchange movements	2
Balance, 31 December 2019	**22,176**

Lease liabilities

	31 December 2019 (£000's)
Balance, 1 January 2019	3,189
Additions	5,254
Additions arising on business combination	18,825
Interest expense	637
Effect of modification of lease terms	(1,625)
Lease payments	(3,643)
Foreign exchange movements	(3)
Balance, 31 December 2019	**22,634**

The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 Consolidated Financial Statements to the lease liabilities recognised on 1 January 2019:

	1 January 2019 (£000's)
Lease commitments at 31 December 2018	1,623
Short-term leases not recognised under IFRS 16	(93)
Effects of extension options reasonably certain to be exercised	2,005
Undiscounted lease payments	3,535
Effect of discounting	(346)
Lease liabilities at 1 January 2019	**3,189**

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following items:

	31 December 2019 (£000's)	31 December 2018 (£000's)
Affiliate/marketing expenses payable	**11,148**	7,038
Payable to game suppliers	**10,414**	3,181
Compensation payable	**21,833**	5,773
Professional fees	**2,137**	1,231
Gaming tax payable	**24,434**	1,174
Other	**8,004**	2,209
	77,970	20,606

19. Provisions

Provisions consist of:

	31 December 2019 (£000's)
Balance,1 January 2019	—
Arising on business combination (note 5)	3,800
Provision in the year	6,000
Balance, 31 December 2019	**9,800**

The Group has taken external legal advice in respect of the impact of new legislation introduced in the UK relating to tax on income derived from the UK players. Management has determined that there is a reasonable argument that the Group does not fall under the new legislation; however, it is noted that this is not certain due to ambiguity in the legislation and its practical operation. Management considers that the liability based on payments made in the period would result in a provision of approximately £6.0 million.

Provisions arising on business combination include a probability based estimate of the fair value of potential UK tax liabilities of £3.8 million which have been disclosed under HMRC's Profit Diversion Compliance Facility.

The Group has included £3.8 million of these provisions in current liabilities (31 December 2018 – £nil million), with the value of the remaining balance included in non-current liabilities.

20. Other short-term payables

Other short-term payables consist of:

	31 December 2019 (£000's)	31 December 2018 (£000's)
Transaction related payables	**953**	516
Current portion on non-compete clauses payable	**4,664**	8,667
Working capital adjustment payable	—	429
	5,617	9,612

21. Financial risk management

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. As at 31 December 2019, the Group is largely exposed to credit risk through its relationship with its service providers as well as its cash balances. Credit risk also arises from payment services providers ('PSPs'). Prior to accepting new PSPs, credit checks are performed using a reputable external source, where available. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. As at 31 December 2019 the Group recognised a £4.9 million provision for potentially uncollectable trade and other receivables and other long-term receivables, as explained in Note 3. With the exception of the balances discussed in note 13, no other receivables are considered past due or impaired. Quantitative analysis of the Group's exposure to credit risk arising from its receivables is included in note 13 and analysis of the Group's exposure to its credit risk arising from cash is presented below.

A significant amount of cash is held with the following institutions:

Financial Institution Rating	**31 December 2019 (£000's)**	31 December 2018 (£000's)
AA-	**3,693**	17,786
A	**61,099**	43,946
A-	**5,305**	31
BBB+	**—**	1,969
BBB	**1,948**	5,975
BBB-	**2,245**	—
BB	**2,410**	4,002

The Group monitors the credit ratings of counterparties regularly and at the reporting date does not expect any losses from non-performance by the counterparties. The Group's policy is to transfer significant concentrations of cash held at lower-rated financial institutions to higher-rated financial institutions as swiftly as possible.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Gamesys Group plc is exposed to cash flow interest rate risk on its credit facilities, described in note 22, which bear interest at variable rates. A one percentage point increase (decrease) in interest rates would have decreased (increased) net earnings before income taxes by approximately £4.2 million for the year ended 31 December 2019 (31 December 2018 – £3.7 million), with all other variables held constant.

Management monitors movements in interest rates by reviewing the LIBOR on a frequent basis.

On 16 February 2018, Gamesys Group plc entered into an Interest Rate Swap to mitigate its exposure to interest rate volatility. On 5 August 2019, the Group amended the terms of its existing Interest Rate Swap to further minimise its exposure to interest rate fluctuations. A one percentage point increase (decrease) in interest rates would have increased (decreased) the fair value of the Interest Rate Swap by approximately £2.7 million for the year ended 31 December 2019 (31 December 2018 – £2.9 million), with all other variables held constant.

Foreign exchange risk

Foreign exchange risk arises when individual group entities enter into transactions denominated in a currency other than their functional currency. Gamesys Group plc's policy is, where possible, to allow the Group's entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Gamesys Group plc's entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within Gamesys Group plc.

Apart from these particular cash flows, the Group aims to fund expenses and investments in their respective currencies and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred, as well as by matching the currency of its debt structure with the currency cash is generated in.

The following table summarises the Group's discounted net financial assets/liabilities by currency and the approximate effects on total comprehensive income, and therefore total equity as a result of a 10% change in the value of the foreign currencies against pounds sterling where the Group has significant exposure. The analysis assumes that all other variables remain constant.

At 31 December 2019	**Net foreign currency financial assets/(liabilities) (£000's)**	**Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)**	**Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)**
Canadian dollar	(92)	(9)	9
EURO	(245,476)	(24,548)	24,548
United States dollar	5,122	512	(512)

At 31 December 2018	**Net foreign currency financial assets/(liabilities) (£000's)**	**Effect of 10% strengthening in foreign exchange rates on comprehensive income (£000's)**	**Effect of 10% weakening in foreign exchange rates on comprehensive income (£000's)**
Canadian dollar	(237)	(24)	24
EURO	(99,546)	(9,955)	9,955
United States dollar	1,471	147	(147)

Liquidity risk

The Group requires capital and liquidity to fund existing and future operations and future cash payments. The Group's policy is to maintain sufficient capital levels to fund its financial position and meet future commitments and obligations in a cost-effective manner.

Liquidity risk arises from the Group's ability to meet its financial obligations as they become due. The following tables summarise the Group's undiscounted financial and other liabilities as at 31 December 2019 and 31 December 2018:

At 31 December 2019	On demand (£000's)	Less than 1 year (£000's)	2-3 years (£000's)	4-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	77,970	—	—	—	—
Other payables	953	8,383	16,724	—	—
Lease liabilities	—	4,727	8,866	7,995	5,795
Payable to players	12,444	—	—	—	—
Long-term debt	—	—	—	536,306	—
Interest payable on long-term debt	—	25,844	51,547	52,578	—
	91,367	**38,954**	**77,137**	**596,879**	**5,795**

At 31 December 2018	On demand (£000's)	Less than 1 year (£000's)	2-3 years (£000's)	4-5 years (£000's)	After 5 years (£000's)
Accounts payable and accrued liabilities	20,606	—	—	—	—
Other payables	1,612	8,097	2,388	—	—
Payable to players	9,032	—	—	—	—
Contingent consideration	—	4,670	—	—	—
Long-term debt	—	—	—	—	375,692
Interest payable on long-term debt	—	19,763	39,580	39,526	20,081
	31,250	**32,530**	**41,968**	**39,526**	**395,773**

The Group manages liquidity risk by monitoring actual and forecasted cash flows in comparison with the maturity profiles of financial assets and liabilities. The Group does not anticipate fluctuations in its financial obligations as they largely stem from interest payments related to the EUR Term Facility (as defined below) and the GBP Term Facility (as defined below). Management believes that the cash generated from the Group's business activities is sufficient to fund the working capital and capital expenditure needs in the short and long term, assuming there are no significant adverse changes in the markets in which the Group operates. The Group is actively managing its capital resources to ensure sufficient resources will be in place when Term Facilities (as defined below) repayments and interest payments become due.

Subject to meeting certain financial covenants, the Group may have the ability to draw on the £13.5 million RCF (as defined below) as a further capital resource.

22. Credit facilities

	EUR Term Facility (£000's)	GBP Term Facility (£000's)	Total (£000's)
Balance, 1 January 2018	122,903	246,584	369,487
Accretion[1]	172	404	576
Foreign exchange translation	1,387	—	1,387
Balance, 31 December 2018	124,462	246,988	371,450
Add-on Debt	173,578	—	173,578
Debt financing costs	(2,617)	—	(2,617)
Accretion[1]	293	430	723
Foreign exchange translation	(12,815)	—	(12,815)
Balance, 31 December 2019	**282,901**	**247,418**	**530,319**
Current portion	—	—	—
Non-current portion	282,901	247,418	530,319

[1]*Effective interest rates are as follows: EUR Term Facility – 4.26% (2018 – 4.44%), GBP Term Facility – 5.97% (2018 – 6.01%).*

On 6 December 2017, Gamesys Group plc entered into a senior facilities agreement ('Senior Facilities Agreement') pursuant to which debt facilities were made available to Gamesys Group plc and certain of its subsidiaries in an aggregate sterling equivalent amount of approximately £388.5 million, comprised of (i) a €140.0 million term facility (the 'EUR Term Facility', (ii) a £250.0 million term facility (the 'GBP Term Facility and, together with the EUR Term Facility', the 'Term Facilities') and (iii) a £13.5 million revolving credit facility (the 'RCF' and, together with the Term Facilities, the 'Facilities'). Proceeds from the Term Facilities were used in part to repay the Group's existing First and Second Lien Facilities on 14 December 2017, at which point, the accretion of the remaining debt issue costs on the First and Second Lien facilities was accelerated. Proceeds from the RCF can be applied to, among other things, working capital and general corporate purposes and financing or refinancing capital expenditure.

On 1 July 2019, the Group completed the syndication of a €196.0 million additional term loan facility (the 'Add-on Debt') to fund the Gamesys Acquisition. The Group's new incremental term loan facility is fungible with the Group's existing EUR Term Facility and the syndication came into effect on 26 September 2019.

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023 and remains undrawn as at 31 December 2019.

The EUR Term Facility has an interest rate of EURIBOR (with a 0% floor) plus an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.25% to 3.50% based on reductions in the senior secured net leverage ratio ('SSLR') and meeting certain ratings requirements. The GBP Term Facility has an interest rate of LIBOR (with a 0% floor) plus an opening margin of 5.25% per annum, subject to a margin ratchet with step downs of 0.25% to 4.50% based on reductions in the SSLR and meeting certain ratings requirements. The RCF has an interest rate of EURIBOR (for Euro loans, with a 0% floor) or LIBOR (for GBP loans, with a 0% floor) plus, in each case, an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.50% to 3.25% based on reductions in the SSLR.

The Senior Facilities Agreement contains certain restrictions on, amongst other things, asset disposals, debt incurrence, loans and guarantees, joint ventures and acquisitions, subject in each case to various permissions. The Senior Facilities Agreement also contains a senior secured leverage ratio maintenance covenant and an interest cover maintenance covenant.

Gamesys Group plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2019.

23. Financial instruments

The principal financial instruments used by the Group are summarised below:

Financial assets

	Financial assets as subsequently measured at amortised cost	
	31 December 2019 (£000's)	31 December 2018 (£000's)
Cash and restricted cash	**106,623**	88,295
Trade and other receivables	**33,182**	19,680
Other long-term receivables	**1,391**	1,101
Player deposits	**12,444**	9,032
	153,640	118,108

Financial liabilities

	Financial liabilities as subsequently measured at amortised cost	
	31 December 2019 (£000's)	31 December 2018 (£000's)
Accounts payable and accrued liabilities	**77,970**	20,606
Other short-term payables	**5,617**	9,612
Other long-term payables	**10,052**	1,429
Interest payable	**959**	264
Payable to players	**12,444**	9,032
Lease liabilities	**22,634**	—
Long-term debt	**530,319**	371,450
	659,995	412,393

The carrying values of the financial instruments noted above approximate their fair values.

Other financial instruments

	Financial instruments at fair value through profit or loss – assets/(liabilities)	
	31 December 2019 (£000's)	31 December 2018 (£000's)
Interest Rate Swap	**(1,140)**	(485)
Currency Swap	**(9,251)**	—
Contingent consideration	**—**	(4,540)
Other long-term receivables	**3,825**	3,574
	(6,566)	(1,451)

Fair value hierarchy

The hierarchy of the Group's financial instruments carried at fair value is as follows:

	Level 2		Level 3	
	31 December 2019 (£000's)	31 December 2018 (£000's)	**31 December 2019 (£000's)**	31 December 2018 (£000's)
Interest Rate Swap	**(1,140)**	(485)	—	—
Currency Swap	**(9,251)**	—	—	—
Other long-term receivables	**3,825**	3,574	—	—
Contingent consideration	—	—	—	(4,540)

The Interest Rate Swap and Currency Swap balances represent the fair values of expected cash flows under the Interest Rate Swap and Currency Swap agreements.

Other long-term receivables represent the fair value of the loan receivable from Gaming Realms. The key inputs into the fair value estimation of this balance include the share price of Gaming Realms on the date of cash transfer, a 3.2-year risk-free interest rate of 0.6019%, and an estimated share price return volatility rate of Gaming Realms of 47.8%.

Following completion of the Gamesys Acquisition, the Group was able to set off the remaining milestone payment for the Jackpotjoy acquisition. As a result, at 31 December 2019 the remaining milestone payment is considered settled.

The movement in Level 3 financial instruments is detailed below:

	(£000's)
Contingent consideration, 1 January 2018	59,583
Fair value adjustments	7,208
Payments	(63,455)
Accretion of discount	1,204
Contingent consideration, 31 December 2018	4,540
Fair value adjustments	460
Set-off against acquired assets	(5,000)
Contingent consideration, 31 December 2019	**—**

24. Other long-term payables

Other long-term payables consist of:

	31 December 2019 (£000's)	31 December 2018 (£000's)
Deferred consideration payable (note 5)	**10,052**	—
Interest Rate Swap (note 15)	**784**	388
Currency Swap (note 15)	**5,888**	—
Non-compete clauses payable	—	1,429
	16,724	1,817

25. Share capital

As at 31 December 2019, Gamesys Group plc's issued share capital consisted of 108,665,248 ordinary shares, each with a nominal value of £0.10.

		Ordinary shares of £0.10
	(£000's)	#
Balance, 1 January 2018	7,407	74,064,931
Conversion of convertible debentures, net of costs	6	56,499
Exercise of options	21	207,500
Balance, 31 December 2018	7,434	74,328,930
Issuance, net of costs	3,365	33,653,846
Exercise of options	68	682,472
Balance, 31 December 2019	**10,867**	**108,665,248**

Ordinary shares

During the year ended 31 December 2019, Gamesys Group plc issued 33,653,846 additional ordinary shares as part of the consideration paid for the Gamesys Acquisition.

Share options

The share option plan (the 'Share Option Plan') was approved by the Board of Directors on 5 September 2016. Upon completion of the plan of arrangement, all options over common shares of Intertain under Intertain's stock option plan were automatically exchanged for options of equivalent value over ordinary shares of Gamesys Group plc on equivalent terms and subject to the same vesting conditions under Intertain's share option plan. The strike price of each grant was converted from Canadian dollars to pound sterling at the foreign exchange rate of 0.606, being the exchange rate at the date of the plan of arrangement. Following the grant of the replacement options, no further options were, or will be, granted under the Share Option Plan.

The changes in the number of share options outstanding during the year ended 31 December 2019 were as follows:

	Number of options #	Weighted average exercise price (£)
Outstanding, 1 January 2018	3,027,990	6.79
Forfeited	(425,000)	9.51
Exercised	(207,500)	2.70
Outstanding, 31 December 2018	2,395,490	6.66
Forfeited	(121,166)	7.53
Exercised	(682,472)	3.93
Outstanding, 31 December 2019	**1,591,852**	**7.76**

Long-term incentive plan

On 30 September 2019, Gamesys Group plc granted additional equity-settled awards over ordinary shares of Gamesys Group plc under the Group's long-term incentive plan ('LTIP3') for key management personnel. The awards will (i) vest on the date on which the remuneration committee determines the extent to which the performance conditions (as described below) have been met and (ii) are subject to a holding period of two years beginning on the vesting date. At 31 December 2019, the number of ordinary shares that may be allotted under the Group's 2019 LTIP3 awards is 778,100.

The performance condition as it applies to 25% of each LTIP3 award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 1 January 2019. The performance condition as it applies to another 25% of the award is based on the Group's total shareholder return compared with the total shareholder return of certain companies in a peer group over three years commencing on 1 January 2019. The performance condition as it applies to the remaining 50% of the award is based on the compound annual growth rate ('CAGR') of the Group's earnings per share over a three year period commencing on 1 January 2019 ('EPS CAGR Tranche') and vests as to 25% if the EPS CAGR equals 5.0%, between 25% and 100% (on a straight-line basis) if final year EPS CAGR is more than 5.0% but less than 14.0%, and 100% if final year EPS CAGR is 14.0% or more.

During the year ended 31 December 2019, the Group recorded £0.5 million (year ended 31 December 2018 – £0.3 million) in share-based compensation expense relating to its long-term incentive plans with a corresponding increase in share-based payment reserve.

Reserves

The following describes the nature and purpose of each reserve within the Group's Consolidated Statements of Changes in Equity.

Share capital

The purpose of this reserve is to show Gamesys Group plc's issued share capital at its nominal value of £0.10 per share.

Share premium

The purpose of this reserve is to show amount subscribed for Gamesys Group plc's issued share capital in excess of nominal value.

Merger reserve

The purpose of this reserve is to present the Consolidated Statements of Changes in Equity under the merger method of accounting, as if Gamesys Group plc has always been the Parent Company and owned all of the subsidiaries.

Share-based payment reserve

The purpose of this reserve is to show cumulative share-based compensation expense relating to the Group's Share Option Plan, LTIP, LTIP2 and LTIP3.

Translation reserve

The purpose of this reserve is to show gains and losses arising on retranslating the financial information of the Group companies with functional currencies other than GBP.

Hedge reserve

The purpose of this reserve is to show unrealised gains and losses arising from the changes in the fair value of the Group's Interest Rate Swap and Currency Swap.

Retained earnings

The purpose of this reserve is to show cumulative net gains and losses recognised in the Consolidated Statements of Comprehensive Income.

26. Capital management

Gamesys Group plc defines the capital that it manages as its aggregate shareholders' equity. Its principal source of cash is operating activities and, in earlier periods, the issuance of common shares, and long-term debt. Gamesys Group plc's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to meet its financial obligations as they become due. To maintain or adjust the capital structure, Gamesys Group plc may attempt to issue new shares, issue new debt, or acquire or dispose of assets.

The Group monitors its SSLR, which is calculated in accordance with the Senior Facilities Agreement, on a frequent basis as this ratio impacts, among other things, the amount of excess cash flow required to be applied in prepayment of the Term Facilities. Commencing on 31 December 2018, if the Group's SSLR is greater than 2.5, 50% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls between 2.0 and 2.5, 25% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls below 2.0, 0% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. At 31 December 2019 the Group's SSLR is greater than 2.5.

Excess cash flow is calculated in accordance with the Senior Facilities Agreement and is based on consolidated EBITDA (also calculated in accordance with the Senior Facilities Agreement) to which certain adjustments are made (such as the deduction of certain items such as debt prepayments). Gamesys Group plc is not subject to any externally imposed capital requirements. Gamesys Group plc manages the Group's capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Group's underlying assets.

There have been no changes to Gamesys Group plc's approach to capital management or in the items the Group manages as capital during the year ended 31 December 2019.

27. Taxes and deferred taxes

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Current tax expense		
Total current tax on profits for the year	**10,285**	853
Deferred tax		
Origination and reversal of temporary differences related to business combinations	**(7,379)**	(395)
Total tax expense	**2,906**	458

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Profit for the year before taxes	**11,374**	14,935
Tax using Gamesys Group plc's domestic tax rate of 19% (2018 – 19%)	**2,160**	2,838
Effect of different tax rates applied in overseas jurisdictions	**(915)**	(3,754)
Non-capital loss for which no tax benefit has been recorded	**1,661**	1,374
Total tax expense	**2,906**	458

As at 31 December 2019, taxes payable and receivable balances consist primarily of taxes related to the 2018 and 2019 fiscal years.

The Group generated unused UK tax losses of approximately £8.7 million (2018 — £7.1 million) that are available indefinitely for offsetting against future taxable profits. There is no certainty over the use or timing of use of tax losses and as a result, no deferred tax assets have been recognised.

Deferred tax liabilities relate exclusively to balances arising on business combination.

28. Contingent liabilities

Indirect taxation

Gamesys Group plc subsidiaries may be subject to indirect taxation on transactions that have been treated as exempt supplies of gambling, or on supplies that have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from players located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group or on its financial position.

Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date. As at 31 December 2019 the Group had recognised £nil (31 December 2018 – £nil) potential contingent indirect taxation liabilities.

29. Related party transactions

Compensation of key management

Key management is comprised of the Board of Directors, officers, and members of management of the Group. The number of individuals included in key management increased as a result of the Gamesys Acquisition. Key management personnel compensation for services rendered is as follows:

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Salaries, bonuses and benefits	**8,994**	4,619
Share-based compensation	**412**	404
	9,406	5,023

30. Employees

	31 December 2019 (£000's)	31 December 2018 (£000's)
Wages and salaries[1]	**37,303**	16,071
Pensions	**916**	545
Social security	**3,747**	1,846
Benefits	**513**	300
	42,479	18,762

[1]Wages and salaries figures include severance costs.

The average headcount of employees on a full-time and part-time basis during the year was as follows:

	31 December 2019 (#)	31 December 2018 (#)
Group	**600**	293

31. Auditors' remuneration

BDO LLP's remuneration for the auditing of these Consolidated Financial Statements and for other services provided is as follows:

	Year ended 31 December 2019 (£000's)	Year ended 31 December 2018 (£000's)
Audit fees	**698**	335
Audit related assurance services	**167**	100
Services relating to corporate finance transactions	**1,528**	239
	2,393	674

32. Subsequent events

On 6 February 2020, the Group completed the repricing of its Facilities to lower the overall cost of the Group's debt by 50 bps while maintaining the interest rate step downs based on future leverage ratios.

On 2 March 2020, the Group voluntarily made the first paydown of £40.0 million towards its GBP Term Facility.