# Smarkets Limited

## Annual Report & Financial Statements

For the year ended 31 December 2022

Company registration number 06475845 (England and Wales)

# Who we are

## About Smarkets

Smarkets operates one of the world's largest regulated exchange platforms for betting and trading on sports and politics. Our software operates like a financial exchange, while our focus on price and technology means that we often have the best odds in the world on the biggest sporting and political events. Customers can use either the Smarkets exchange - for a sophisticated betting and trading experience - or our SBK sportsbook app for a simpler presentation of our market-leading prices.

Our mission is to make betting and trading on events fairer, and we believe that betting should be priced like a commodity, because it is one. Founded in 2008, Smarkets is an innovator in the industry, pioneering the use of financial technology in betting. Our state-of-the-art platform is capable of processing hundreds of bets per second and has allowed us to maintain our industry-leading commission rates. Our platform is powered by sophisticated proprietary technology that has been built in-house by world-class engineers and this enables us to run a leaner and more efficient business than any of our competitors.

As an organisation, Smarkets is driving innovation in the workplace and currently employs over 120 individuals in a dynamic structure across our offices in London, Los Angeles and Malta.

## Company information

| | |
|---|---|
| **Director** | Jason R. Trost |
| **Secretary** | Jason R. Trost |
| **Company number** | 06475845 |
| **Registered office** | 1 Commodity Quay<br>London<br>United Kingdom<br>E1W 1AZ |
| **Auditor** | KPMG LLP<br>15 Canada Square<br>London<br>United Kingdom<br>E14 5GL |

# 2022 Highlights

£18m
Revenue

£9m
Gross profit

4b
Trading volume (bets placed)

48m
Avg monthly active users

157%
Increase of active users

140
Total numbers of employees

3
Offices


SBK
Rewriting The
Sportsbook
CURRICULUM VITAE
SBK

# SBK brand campaign

21%
Increase in organic acquisition

22%
Reduce in cost per depositing user (CPDU)

100,000
New registered users

**Rewriting The Sportsbook**

*"For years now, sports betting has been going in the wrong direction. Our competitors started the book on betting and made sure it was written to maximise their profits. Well not anymore.*

*We're here to level the playing field for everyone - by giving our customers the best odds around. No strings attached.*

*We're SBK. And we're here to rewrite the sportsbook."*

## Check out SBK

# Contents

# Chief Executive Officer's Review

*"The year 2022 presented significant financial challenges for our industry, and Smarkets was not exempt from these difficulties. The changing economic climate, characterised by inflation and increased living costs, impacted both our customer base and our operations. Despite these ups and downs, I take pride in the company's resilience and ability to adapt to new world."*


**Jason R. Trost**
CEO Smarkets

# Chief Executive Officer's Review

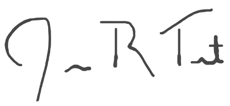
Over the course of the past 12 months, we achieved a revenue of over £18 million and acquired more than 150,000 new depositors on SBK. This growth was bolstered by our inaugural major brand campaign "SBK - rewriting the sportsbook", featuring former Manchester United players Gary Pallister and Lee Sharpe. This campaign proved to be an invaluable learning experience for our business, which has traditionally operated with a constrained marketing budget.

During this period, we also introduced several key product features on SBK, such as Cash Out and Bet Builders, enhancing our offering to customers. Looking ahead, we have exciting product upgrades planned for both SBK and Smarkets, which we eagerly anticipate unveiling to our customers.

In the American market, we successfully launched SBK in Indiana during Q1 and obtained permanent licensing from the regulator in Q4. To further drive our progress in these nascent markets, we appointed a US-based General Manager. While we acknowledge the challenges encountered in our international expansion during 2022, we have made the decision to temporarily pause our US expansion. However, this is not a goodbye to the American market. We are committed to reengaging with better and stronger product, and we remain optimistic about the opportunities it holds. Our focus for 2023 will be narrower and centred on product development.

The economic conditions of 2022 necessitated a thorough review of our operations, leading to a significant cost- cutting exercise in Q4. Unfortunately, this resulted in the loss of talented individuals as we sought more efficient ways to operate and reduce costs. Our efforts in cost reduction, coupled with revenue increases, have transformed us into a leaner organisation and put us on a clear path towards profitability.

Although the past year was filled with obstacles, I am immensely proud of the Company's continued productivity and the efficiencies we have achieved. Our commitment to fixing the betting industry remains steadfast, and while the journey has been challenging, it has also been a remarkable turnaround to reach the point where we stand today.



**Jason R. Trost**
CEO Smarkets

# Strategic report

## How we operate and who we are

Smarkets Limited (the "Company") and its subsidiaries (together "Smarkets" or the "Group") own and operate an online betting exchange platform which enables users to set prices and bet against other traders, rather than against a bookmaker, on sporting and other events. An exchange offers buy and, unlike bookmakers, also sell prices, and these both continually change during the events themselves up until their conclusion. The platform is state of the art - secure, transparent, highly responsive and efficient, and with rapid access to deep resources of market data.

In 2019, Smarkets also released its sportsbook app, SBK, which takes the industry-leading exchange pricing and places it in a sleek and easy-to-use sportsbook format. SBK has been built on top of the exchange, so users of both products enjoy the same odds and variety of markets, but can choose whether they prefer the extra functionality provided by the exchange or the simpler display of a sportsbook which only shows back prices. Ultimately, with sportsbooks accounting for the vast majority of market share in the UK betting industry, SBK allows the company to target a much wider audience and will be a key tool for growth moving forward.

Online betting on sports, politics, and current affairs continues to be a popular and rapidly growing activity in the UK, and more recently in the US as a result of the May 2018 overturning of PASPA (Professional and Amateur Sports Protection Act of 1992) by the US Supreme Court. This decision means that all states can choose to legalise sports betting, whereas before it was mostly limited to only Nevada.

To remain competitive and in order to attract users, the Group has to offer a market-differentiable experience and provide a reliable and robust service. To meet these challenges, Smarkets has developed a website and mobile applications with an innovative underlying betting engine, which are each continually refined and evolving. In particular, the software engineering team at Smarkets works to find faster ways of handling the large volumes of customer, market and transaction data and making it accessible to the community, thus democratising event trading for all.

### Our Mission

Smarkets is fighting for what's right in our corner of the universe, and that means fixing betting with a core focus on price and product.

## Product and Technology

In 2022, we celebrated significant accomplishments and introduced innovations to enhance our product offering. One standout achievement was the successful launch of Bet Builders, a game-changing feature that revolutionises the betting experience for our customers. This addition enabled users to create customised same event combinations across popular sports like football, American football, and basketball, providing them with enhanced flexibility and control over their bets.

Leveraging the power of our data, we introduced the Popular Multiples functionality, a valuable product that grants our users access to the most bought multiples (aka accumulators or parlays) across our platform. This feature not only provided inspiration for users but also offered unparalleled insights into the prevailing betting patterns across our user base, enabling them to make more informed decisions.

Recognizing the passion of horse racing enthusiasts, we launched a streaming service that offers live coverage of races from numerous well-known tracks across the UK and Ireland. This expansion catered to the specific needs of our customers, providing them with the excitement and convenience of watching races in real-time within our apps. Additionally, our focus on compliance led us to develop StreamRg, a cutting-edge real-time compliance data tool. This tool empowered our safer gambling team to proactively identify at-risk customers and provide immediate support and intervention when needed.

To ensure optimal speed and efficiency, we implemented a new internal messaging service for our exchange platform. This upgrade replaced the older service, enabling us to offer lightning-fast price update changes and seamless order placement functionality to our customers utilising websockets. This improvement not only enhanced the overall user experience but also reduced compute resource requirements, allowing us to serve a growing customer base with lower costs.

In line with our commitment to offering a diverse and comprehensive betting experience, we expanded our offering to include over 400 markets across multiple sports. This strategic expansion allowed us to cater to a wider audience of sports betting enthusiasts, ensuring that there was something for everyone. Moreover, we introduced a new promotional engine that empowered our marketing team to offer attractive bonuses and promotions, incentivizing loyalty and engagement among our user base.

Throughout 2022, our focus on innovation and customer-centricity remained steady. These achievements and innovations have further strengthened our position in the industry, enabling us to provide an exceptional betting experience while anticipating and meeting the evolving needs of our valued customers.

## Business model

Smarkets generates revenue primarily through transaction fees to exchange customers based on their net winnings in individual markets. Thanks to our advanced technology, we offer an industry-low flat commission rate of 2%. Additionally, customers introduced from affiliate partners benefit from 0% commission, and certain SBK users are exempt as well. This commitment to exceptional value not only benefits our customers but also attracts a growing user base and increased liquidity to our exchange.

In addition to our standard transaction fee, we have two other tiers. The Pro Tier applies a 1% commission on winnings or losses from each individual trade that settles. The Select Tier is designed for customers with accounts exceeding £25,000 in net profit over the previous 12 months, applying a 3% commission on winnings or losses per trade.

The Group, through its 100%-owned subsidiary Hanson Applied Sciences Limited, also provides liquidity on the exchange - and therefore SBK - through algorithmic trades. These trades are risk managed and serve to enhance the user experience while generating profits. As we continue to expand, our focus remains on offering better prices and further enhancing liquidity in existing and new markets.

While Smarkets has a diverse customer base, a significant proportion of our revenue is currently derived from institutional traders or market professionals. Our products also appeal to sports fans and recreational punters with our sportsbook app SBK specifically aimed at bringing our market-leading pricing to the mainstream market. The overall customer base is built through a number of delivery channels including, notably, our affiliate network, a data- driven approach to digital advertising, and agency partners who focus on customer acquisition.

In 2022, our acquisition efforts grew substantially, resulting in our most successful year for attracting new customers. Specifically, SBK registered over 100,000 new users, a significant increase compared to 39,000 in 2021. Throughout the year, we prioritised retention strategies to drive long-term value from our new customers. These initiatives were built on the foundation of Smarkets's value proposition, including our industry-leading odds, ensuring continued success in delivering exceptional experiences.

## Market context

| £6.4b | $282m | $4.4b |
|---|---|---|
| Gross Gambling Yield (GGY) in 2022 in the UK | Gross Gambling Yield (GGY) in 2022 Colorado | Gross Gambling Yield (GGY) in 2022 Indiana |

Despite a decline of the Gross Gambling Yield (GGY) by 6.2% to £6.4 billion in 2022 in the UK, remote gambling (online) remains the largest sector of the domestic industry. This decrease in the remote sector is not indicative of the demand for online platforms but rather reflects the post-lockdown normalisation and a smaller arbitrage betting market. Even in this case, Smarkets, with its technology platform, has a meaningful opportunity to gain market share through innovation and provide a superior customer experience.

The remote sports betting industry total GGY amounted to £2.4 billion, highlighting the potential for online-only betting companies like Smarkets. The growth of our sportsbook app SBK enabled us to expand our success beyond the exchange by targeting the mainstream UK market and testing our competitive pricing in other territories.

In the United States, the total sports betting revenue in 2021 reached $7.5 billion. Colorado, where sports betting debuted in May 2020, saw a GGY of $282 million in the 12 months ending December 2022, with online wagering accounting for 99% of all bets. Similarly, in Indiana, which introduced sports betting in September 2019, the betting handle reached $4.4 billion in 2022, with online wagering accounting for 90% of all bets. Smarkets launched SBK in Indiana in early 2022.

Smarkets currently holds licences to operate in the UK, Malta, Sweden, and Ireland, as well as in the US states of Colorado and Indiana. The majority of our betting volume in 2022 was generated in the UK, where we face competition from industry leader Betfair and other smaller exchange operators. In 2023, our focus will be on profitability, improving our product offering, and maintaining our position in the UK market.

# Financial review

The Group made a loss before taxation of £17,725,000 in the year ended 31 December 2022 which resulted in a increase in losses of £702,000 from the previous year.

**An overview of the 2022 performance is as follows:**

| | 2022<br>£000 | 2021<br>£000 | 2020<br>£000 | Increase/ Decrease 22/21 |
|---|---|---|---|---|
| Average monthly active users | 48,670 | 45,439 | 35,239 | 7.11% |
| Trading volume (bet placed) | 4,186,000 | 5,224,000 | 3,881,000 | (19.87)% |
| | | | | |
| Revenue | 18,083 | 20,250 | 15,793 | (10.70)% |
| Cost of sales | (9,071) | (7,549) | (5,220) | |
| Gross profit | 9,012 | 12,701 | 10,573 | (29.04)% |
| | | | | |
| Administrative expenses | (27,013) | (30,059) | (14,873) | |
| Other income and expenses | 276 | 335 | 471 | |
| Loss before tax | (17,725) | (17,023) | (3,829) | |
| | | | | |
| Customer deposits held | 24,851 | 30,389 | 25,818 | (18.22)% |

## Customer activity

| 157% | 58% | 152% |
| --- | --- | --- |
| Increase in SBK active users in 2022 | Growth of first-time depositors on both platforms | Increase in organic acquisition on SBK |

In 2022, SBK experienced a remarkable 157% increase in active users compared to 2021, demonstrating strong growth of its user base. The exchange on the other hand witnessed a decrease of 4% in active users during the same period. The number of first-time depositors on both platforms increased by 58% year on year. Despite these positive trends, the betting volume on both of our products has been negatively affected and registered a 33% decrease. This decline can largely be attributed to the churn of users acquired during the Covid-19 global pandemic.

During the Cheltenham Festival, we implemented an aggressive acquisition strategy on SBK. As a result, we were ranked as the third most downloaded sports app on the iOS store during that period. This translated into a substantial increase in first time depositors during the first quarter of 2022. However, the retention of this cohort was impacted due to bonus abuse which forced us to implement additional tooling to identify and block fraudulent users.

Recognising the importance of branding, we made significant investment in the SBK. Our campaign coincided with the start of the English Premier League season and ran from July to September 2022. As a result, we gained a 152% increase in organic acquisition and a notable 37% reduction in our cost per depositing user (CPDU). On the exchange, our acquisition strategy remained focused around a reduced commission offer, which attracted over 60,000 new users to the platform. We also maintained our cost control measures in place from 2021, resulting in a consistent CPDU of £32.

Looking towards 2023, our primary focus will be cost control across both SBK and the exchange, ensuring efficient operations while generating value from new and existing customers. We acknowledge the importance of retaining and reactivating our user base, especially on SBK, and we will continue to dedicate effort towards this goal. Simultaneously, we are committed to making improvements to our product offering, enhancing the user experience and addressing any area that let our customers down in the past.

## Profitability

The group reported a loss before taxation of £17,725,000 for 2022 comparable to the loss of £17,023,000 for 2021. After accounting for the Research and Development tax credit claim, the loss after taxation was £15,424,000 down from a loss of £16,445,000 in 2021.

### Loss after taxation


## Balance sheet

As of 31 December 2022, the total assets of the Group amounted to £44.1m, compared to £61.8m in the previous year-end. These assets include segregated short-term bank accounts holding customers deposits for betting purposes which decreased from £37.5m to £32.1m.

## Capital

The Group reported net liabilities of £2.8m contrasting with net assets of £13.8m at the previous year end. This change can be attributed to factors such as the decrease in customer deposits, the disposal of leases and the adjustment of intangible assets related to US market access.

However, despite the current net liabilities, the Group remains optimistic about leveraging its increased user base to return to profitability. Given the current circumstances and assuming other factors remain constant, the Group expects to be able to fully finance its operations with adequate contingency available.

# Risks

**The Company maintains a register of risks that may impact operations or future activities and results. Key risks identified include:**

## Technology

Smarkets, being a technology Company, faces the risk of technological failure which could disrupt its operations. The Group mitigates this risk by investing in our technical workforce, ensuring the robustness of our technology and delivery mechanisms, including disaster recovery plans.

## Regulatory

Changes in licence requirements and regulation can impact the Group's ability to conduct business in certain jurisdictions or increase compliance and regulatory maintenance costs. To manage these risks, the Group monitors regulatory changes, and collaborates with regulators in a proactive fashion to facilitate adherence to requirements as they evolve.

## Events

The Group's revenues are impacted by sporting events outcomes. Risk managers monitor and manage the level of exposure to events, adjusting parameters and hedging positions as and when necessary.

## Force majeure

A pandemic, societal unrest or unforseen forces can disrupt the sporting calendar potentially leading to revenue loss for Smarkets.

## Competition

The online betting market is highly competitive, posing a risk to Smarkets's customer base and expansion plan. The Group faces the challenge of retaining existing customers and attracting new ones amidst fierce competition for share of wallet in the industry.

## Taxation

Changes in Governments taxation policies, related to the betting industry or otherwise, can represent a risk for the Group's revenue.

## People

Smarkets strives to attract and retain exceptional talent by prioritising staff incentives and fostering a progressive company culture. However, changes of circumstances or attitude towards the Group or the betting industry could pose a risk to employee retention.

## Geopolitical

Smarkets is exposed to developments in the European Union ("EU") due to its customer base and workforce in EU member countries. The consequences of the UK withdrawal from the EU still remain negative and could potentially impact Smarkets's activities. However, by holding licences in the UK, Ireland and Malta, the Group tries to mitigate potential risks.
The management conducts reviews of customers, suppliers, and partners to ensure compliance with sanction lists, which is considered a low-risk area.

## Reliance on third parties

Smarkets relies on third-party services, such as financial institutions and payment suppliers to provide these services. Any withdrawal or disruption of these services can impact the Group's operational efficiency. The Company has not experienced significant supply shocks as its products are software- based.

## Financial

The Group is exposed to various financial risks, including credit, liquidity, market (such as sporting outcome), foreign currency and interest-rate risks. These risks are further discussed in note 28 of the financial statements.

## Economic

Although concerns arise about consumer sentiment and anticipation of inflation in the UK and other markets, management has taken these factors into account in their forecasts. They do not believe any decrease in discretionary spend will significantly affect betting.

## Safer Gambling

Smarkets takes its commitment to bettor safety measures seriously. We invest continuously in technological innovations to enhance Safer Gambling initiatives. These include:

- Automated verification processes to verify a customer's age and checks against national databases of self- excluded customers before any betting can occur.
- Proactive automated screening to identify signs of financial stress among our customers, providing support and advice for those experiencing affordability concerns.
- Utilisation of a Safer Gambling behavioural model that analyses live betting data through various methods to identify potential at-risk customers.
- A dedicated Safer Gambling team responsible for interacting with potentially at-risk customers providing them with information and tools needed to bet safely.
- Customer-facing tools for Safer Gambling such as deposit and loss limits, "time-out" options for customers to take a break from their betting as well as self-exclusion tools for customers who would like their account closed for six months or over a longer period.
- Training programs for customer-facing and product employees to promote Safer Gambling practices.
- Providing information and directing employees and customers to organisations that can assist with gambling-related concerns.

Additionally, Smarkets makes annual financial contributions to organisations involved in researching and addressing gambling-related harm, developing prevention approaches, and providing treatment for those affected by gambling.

These efforts demonstrate Smarkets's commitment to promoting responsible and Safer Gambling practices for its customers.

## People

In 2022, Smarkets experienced significant growth in its global headcount starting with 131 employees and peaking at 150 employees. Despite the competitive talent market, our internal talent team successfully attracted great talent to support the company's growth trajectory. With Diversity and Inclusion at the forefront of our hiring strategy, we expanded our criteria for all roles to build a heterogeneous applicant pool.

In November 2022, as part of cost control measures and a new focus on profitability, the company had to make the difficult decision to reduce headcount through redundancies. This resulted in 22 employees across our Malta, London and LA offices being made redundant. As such, all recruitment initiatives were put on hold and, by the end of 2022, Smarkets's global headcount stood at 111 employees.

Throughout the year, we continued to build on our newly established values - Be a Pro, Push to Win, Make Others Better, Give a Shit and Bring the Energy - with various engagement and culture incentives. We introduced additional employee benefits including pensions and health insurance, with the aim of positioning Smarkets as a best-in-class employer. Our Diversity and Inclusion committee played an active role, writing content and organising activities to raise awareness of mental health, Pride month and more.

To build a positive work environment, the People team conducted employee engagement surveys to identify areas of improvement. The data gathered was used to drive cultural initiatives with a focus on Diversity and Inclusion. As a result, employees reported high levels of job satisfaction and a strong sense of engagement at work.

**On behalf of the board**

**Jason R. Trost**

Director

29/09/2023

# Director's report

**The Director presents his Annual Report and Financial Statements for the year ended 31 December 2022. The Chief Executive Officer's review set out on page 1 forms part of this report.**

## Principal Activities

The Group Director's Report should be read in conjunction with the other sections of this Annual Report including the Group Strategic Report on pages 2 to 7 which provides an overview of the Group's principal activities, factors influencing its future development, and a description of its financial position. In addition to these sections, the following information is also included in this report:

- Financial Instruments: Detailed information on the Group's financial instruments is provided in the notes to the financial statements.
- Related Party Transactions: The report includes a disclosure of any transactions between the Group and its related parties, as outlined in the notes to the financial statements.
- Future Developments and Significant Events: The report provides an indication of likely future developments in the business, giving insights into the Group's strategic plans and initiatives.
- Additionally, any significant events that have occurred since 2022, up to the date of this report, are also discussed.

It is important to consider all of these sections together to gain a comprehensive understanding of the Group's performance, financial position, and prospects.

## Results and Dividends

The results for the year are set out on page 17.
No ordinary dividends were paid. The Director does not recommend payment of a final dividend.

## Share capital

During the year ended 31 December 2022, 27,125 Ordinary Shares were issued as a result of the exercise of share options (2021 – 205,336 Ordinary Shares were issued through the exercise of share options). There were no changes to the authorised share capital of the Company during the period.

On 31 January 2022, the Company agreed to buy back 143,956 Ordinary Shares of the Company at a price of £5.04 per share from the Director for a total consideration of £725,000. The shares acquired were cancelled by the Company.

## Director

The Director who held office during the year and up to the date of signature of the financial statements was as follows: Jason R. Trost

## Research and Development

During the year ended 31 December 2022, the Group has dedicated resources to refine and enhance its online betting exchange platform as exposed in the Group Strategic Report on pages 2 to 7. This has involved continuous improvement of the underlying software and infrastructure that supports the Group's operations. The technical development team has been focused on finding innovative solutions to handle the growing volumes of customer, market, and transaction data, ensuring reliable and prompt accessibility for users through the website.

## Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

## Statement of disclosure to auditor

The Director in office at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## Going Concern – Basis of Preparation of Accounts

Notwithstanding net liabilities of £2.8m (2021 - net assets of £13.8m), net current liabilities of £4.5m (2021 - net current assets of £11.3m) and a loss for the year of £15.4m (2021 - loss of £16.4m), the Director has at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Thus the Director continues to adopt the going concern basis of accounting in preparing the financial statements.

At the tail end of the financial year, the Group underwent an efficiency drive to reduce costs and focus marketing efforts on higher quality customers. This allowed losses to be curtailed, resulting in a loss for the year of £15.3m (2021 – loss of £16.4m). Going forward, the Group expects a tilt into a net profit position over the next 12 months, which will allow for a renewed focus on the strategy into the longer term.
Given this, and for the reasons set out below, the financial statements have been prepared on a going concern basis, which the Director considers to be appropriate.

The Director of the Group has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 31 December 2024 to assess whether the Company and the Group will have sufficient funds to meet its liabilities as they fall due for that period.

These forecasts included the modelling of scenarios including consideration of the potential impact of any potential downturn in activity across the Group.

Scenarios modelled for base case models and sever but plausible models have included:

- Revenue shocks leading to a downturn in profitability across all revenue streams
- Reductions in trade volume due to economic conditions
- An immediate payment, in full, of a potential tax liability
- Significant levels of inflation impacting cost levels

In all scenarios where the payment of the potential liability is not required, the Group maintains a strong cash position, resulting in a reduced reliance on external funding under normal operations.

Should the uncertain tax provision disclosed in note 25 materialise and settlement is demanded immediately in full, coupled with a significant downturn in revenue, the Group and Company's ability to continue as a going concern would be dependent on it securing additional funding. Given that scenario, the Director is confident that the Group would be able to obtain the additional funding required to continue operations for at least 12 months from the date of signing the financial statements. The timing and quantum of new funds to be raised is currently outside the control of the director.

The Director, therefore, believes that it remains appropriate to prepare the financial statements on a going concern basis.

However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to continue realising their assets and discharging their liabilities in the normal course of business.
The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## Post Reporting Date Events

Events occurring after the reporting date are discussed in note 32 to the financial statements.

## Annual Report and Accounts

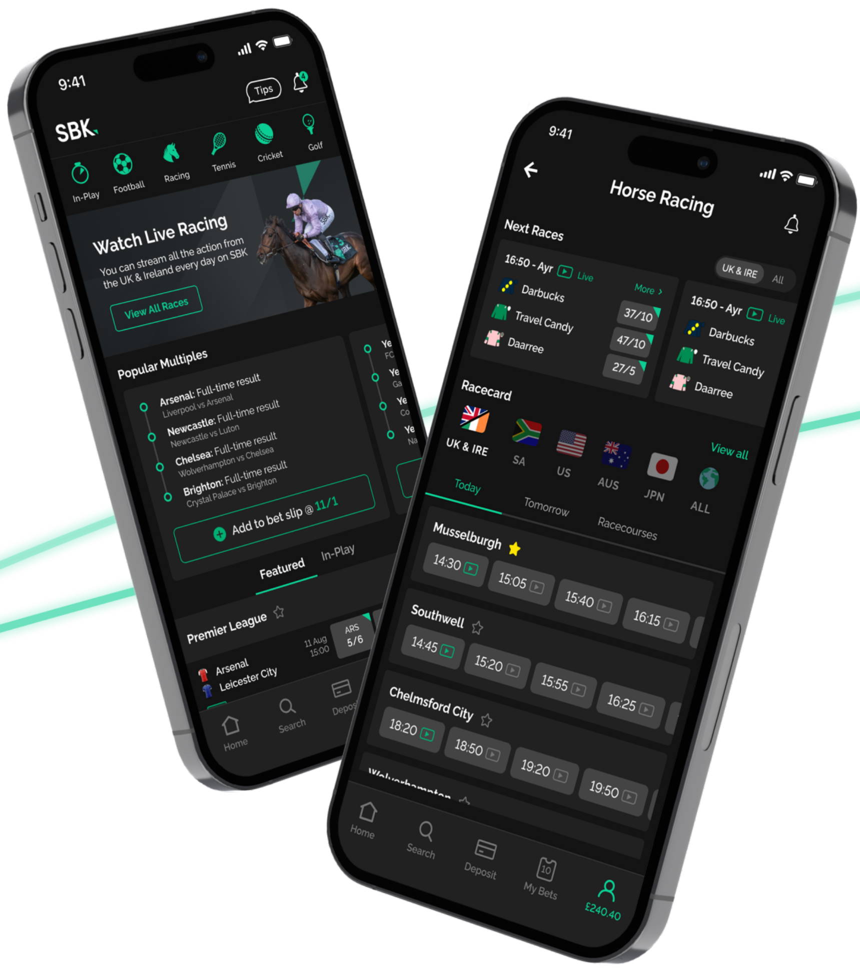
The Director is aware of his responsibilities in respect of the Annual Report. The Director considers that the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.
The Director's Responsibilities Statement appears on page 12.

**On behalf of the board**

**Jason R. Trost**

Director

29/09/2023



# Director's responsibilities statement

The Director is responsible for preparing the Strategic Report, the Director's Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare Group and Parent company financial statements for each financial year. Under that law the Director has elected to prepare the group and parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and has elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for such internal control as he deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Independent auditor's report

**To the members of Smarkets Limited**

## Opinion

We have audited the financial statements of Smarkets Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the group income statement and statement of comprehensive income, the group and parent company statement of financial position, the group and parent company statement of changes in equity, the group statement of cash flows and the group and parent company notes to the financial statements, including the accounting policies in notes 1 and 34.
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) "ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern
## Material uncertainty related to going concern

We draw attention to note 1.3 to the financial statements which indicates that the ability of the Group and Company to continue as a going concern is dependent on its ability to raise additional funding in the event the tax liability materialises. These events and conditions, along with the other matters explained in note 25, constitute a material uncertainty that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

## Going concern basis of preparation

The director has prepared the financial statements on the going concern basis. As stated above, they have
concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

## Fraud and breaches of laws and regulations - ability to detect

### Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the director, and inspection of policy documentation as to the group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board meeting minutes;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the group and company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group audit team to full scope component audit teams of relevant fraud risks identified at the group level and a request to full scope component audit teams to report to the group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that fictitious revenue transactions have been recorded throughout the period and that group management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted to unusual accounts.
- Performing a control testing over the automatic calculation of revenue recorded through gaming commission with involvement of IT specialists.
- Reconciliation of the commission automatically calculated on the backend platform to the general ledger.

### Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the director and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the director and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. These procedures included:

- Review of the relevant gambling licenses in place.
- Review of company's risk register and mitigation factors identified by the management.
- Testing controls over Know Your Customer procedures performed for a sample of new customers.
- Review of compliance with relevant regulatory requirements through search performed on the UK Gambling commission website for any sanctions or non-compliance and requests made directly to the Malta Gaming Authority ("MGA") and Independent Betting Adjudication Service ("IBAS") for log of any disputes or complaints made during audited year.

We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance throughout the audit. This included communication from the group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

For the tax matter arising from prior years discussed in note 1.3, we consulted with tax specialists and inspected the group's external legal counsel's correspondence. We assessed the disclosures made in the context of the correspondence received from these specialists and the tax authorities and the tax environment. We discussed the uncertain tax provision with our internal specialists and concluded that the matter was adequately disclosed within the note and that the matter had been adequately reported to the authorities in good time once a sufficiently clear picture of the authorities' expectations in relation to the matter had been established.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the investigation performed by UK Gambling commission ("UKGC") matter discussed in note 1.3, we assessed, with the support of our own AML specialist and as appropriate the group's external legal counsel, disclosures made in the context of the correspondence received from the UKGC, the matters identified, the regulatory environment and the likely outcome of the matter.

**Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## Strategic report and director's report

The director is responsible for the strategic report and the director's report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the director's report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the direct's report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

## Responsibilities of Director

As explained more fully in the Director's responsibilities statement, the Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https:// www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to him in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Jonathan Tricker (Senior Statutory Auditor)**

For and on behalf of KPMG LLP

KPMG

Chartered Accountants

Date: 2 October 2023

15 Canada Square
London
UK
E14 5GL

# Statements

## Group consolidated income statement and consolidated statement of comprehensive income

| | Notes | 2022 £000 | 2021 £000 |
|---|---|---|---|
| Revenue | 4 | 18,083 | 20,250 |
| Cost of sales | | (9,071) | (7,549) |
| Gross profit | | 9,012 | 12,701 |
| Other operating income | 5 | 128 | 584 |
| Administrative expenses | | (27,013) | (30,059) |
| Operating loss | 6 | (17,873) | (16,774) |
| Financial income | 10 | 264 | 11 |
| Financial expense | 11 | (116) | (260) |
| Loss before taxation | | (17,725) | (17,023) |
| Taxation | 12 | 2,301 | 578 |
| Loss and total comprehensive loss for the year | | (15,424) | (16,445) |

All income and expenditure is related to continuing operations of the Company.

The notes on pages 21 - 54 form an integral part of these financial statements.

# Statements

## Group consolidated statement of financial position

| | Notes | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| Non-current assets | | | |
| Intangible assets | 13 | 5 | 1,385 |
| Property, plant and equipment | 15 | 1,958 | 2,836 |
| Other receivables | 17 | 700 | |
| | | 2,663 | 4,221 |
| Current assets | | | |
| Trade and other receivables | 17 | 803 | 2,094 |
| Tax receivable | 12 | 3,886 | 1,602 |
| Cash and cash equivalents | 20 | 36,606 | 53,771 |
| Other financial assets | 19 | 151 | 96 |
| Assets held for sale | 18 | 15 | |
| | | 41,461 | 57,563 |
| Total assets | | 44,124 | 61,784 |
| | | | |
| Current liabilities | | | |
| Trade and other payables | 21 | 44,911 | 44,908 |
| Current tax liabilities | | 82 | 299 |
| Lease liabilities | 22 | 957 | 972 |
| Other financial liabilities | 19 | 57 | 43 |
| | | 46,007 | 46,222 |
| Net current (liabilities)/assets | | (4,546) | 11,341 |

| | Notes | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Lease liabilities | 22 | 885 | 1,782 |
| **Net (liabilities)/assets** | | (2,768) | 13,783 |
| | | | |
| Equity attributable to equity holders of the Parent | | | |
| Share capital | 28 | 15 | 15 |
| Share premium | 29 | 27,816 | 27,813 |
| Capital redemption reserve | 31 | 3 | 3 |
| Retained earnings | | (30,602) | (14,049) |
| **Total equity** | | (2,768) | 13,783 |

The notes on pages 21 - 54 form an integral part of these financial statements.
The financial statements were approved and signed by the Director and authorised for issue on 29/09/2023

On behalf of the board

Jason R. Trost

Director

29/09/2023

# Statements

## Group statement of changes in equity

| | Notes | Share capital £000 | Share premium account £000 | Capital redemption reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2021 | | 13 | 3,791 | 2 | 3,616 | 7,422 |
| Year ended 31 December 2021: | | | | | | |
| Loss and total comprehen... | | | | | (16,445) | (16,445) |
| Issue of share capital | 28 | 2 | 24,022 | | | 24,024 |
| Own shares acquired | | | | | (1,275) | (1,275) |
| Share based payment tran... | 27 | | | | 113 | 113 |
| Redemption of shares | 28 | | | 1 | | 1 |
| Exchange movements | | | | | (57) | (57) |
| Balance at 31 December 2021 | | 15 | 27,813 | 3 | (14,048) | 13,783 |
| Year ended 31 December 2022: | | | | | | |
| Loss and total comprehen... | | - | - | - | (15,424) | (15,424) |
| Issue of share capital and... | 28 | - | 3 | - | - | 3 |
| Own shares acquired | 27 | - | - | - | (735) | (735) |
| Share based payment tran... | | - | - | - | 102 | 102 |
| Exchange movements | | - | - | - | (497) | (497) |
| Balance at 31 December 2022 | | 15 | 27,816 | 3 | (30,602) | (2,768) |

All income and expenditure is related to continuing operations of the Company.

The notes on pages 21 - 54 form an integral part of these financial statements.

# Statements

## Group consolidate statement of cash flows

| | Notes | 2022 £000 | 2021 £000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Loss for the year | | (15,424) | (16,445) |
| Adjustments for: | | | |
| Depreciation and amortisation | 13, 15 | 1,068 | 1,033 |
| Write-off of intangible | | 1,756 | |
| Share option expense | | 102 | 113 |
| Net financial expense | | (148) | 252 |
| Effect of foreign exchange movements | | (820) | (145) |
| Taxation | 12 | (2,301) | (578) |
| | | (15,767) | (15,770) |
| | | | |
| Increase/(decrease) in trade and other receivables | | 553 | (837) |
| Increase in other financial assets | | (55) | (34) |
| Increase in trade and other payables | | 3 | 14,991 |
| Decrease in other financial liabilities | | 14 | 25 |
| | | (15,252) | (1,625) |
| Tax recovered / (Paid) | | (199) | 841 |
| Net cash (outflow) from operating activities | | (15,451) | (784) |

| | Notes | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| Purchase of intangible assets | 13 | (406) | |
| Proceeds on disposal of intangibles | | 30 | 60 |
| Purchase of property, plant and equipment | 15 | (244) | (322) |
| Proceeds on disposal of property, plant and equipment | 15 | 30 | |
| Interest received | 10 | 264 | 8 |
| Net cash used in investing activities | | (326) | (254) |
| | | | |
| Proceeds from issue of shares | 28 | 3 | 24,024 |
| Share buyback | 28 | (735) | (1,275) |
| Interest paid | 11 | (116) | (260) |
| Payment of lease liabilities | | (718) | (878) |
| Net cash (used in)/generated from financing activities | | (1,566) | 21,611 |
| Net (decrease)/increase in cash and cash equivalents | | (17,343) | 20,573 |
| Cash and cash equivalents at beginning of year | | 53,771 | 33,152 |
| Effect of foreign exchange rates | | 178 | 46 |
| Cash and cash equivalents at end of year | 20 | 36,606 | 53,771 |

The notes on pages 21 - 54 form an integral part of these financial statements.


Nicola Currie
Jockey
Sean Levey
Jockey
SBK
SBK
SBK
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SBK

# Notes to the group financial statements

## 1 Accounting policies

### Company information

Smarkets Limited (the "Company" or the "Parent") is a private company limited by shares incorporated in England and Wales. The registered office is 1 Commodity Quay, Floor 7, St Katharine Docks, London, United Kingdom, E1W 1AZ. The Company's principal activities and nature of its operations are disclosed in the Director's report.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

## 1.1 Accounting convention

The Group consolidated financial statements have been prepared and approved by the Director in accordance with UK-adopted international accounting standards ("UK-adopted IFRS").

The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 59 to 74.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group consolidated financial statements.

The preparation of financial statements in conformity with UK-adopted IFRS requires management to exercise its judgement in the process of applying the Group's accounting policies. However, the Director has not had to make any judgments resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

The financial statements are prepared in Pound Sterling, which is the functional currency of the Group.

The financial statements are prepared under the historical cost basis, except that are stated at their fair value. The principal accounting policies adopted are set out below.

## 1.2 Basis of consolidation

### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries are consolidated in the Group's financial statements from the date that control commences until the date that control ceases.

## 1.3 Going concern

Notwithstanding net liabilities of £2.8m (2021 - net assets of £13.8m), net current liabilities of £4.5m (2021 - net current assets of £11.3m) and a loss for the year of £15.4m (2021 - loss of £16.4m), the Director has at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Thus the Director continues to adopt the going concern basis of accounting in preparing the financial statements.

At the tail end of the financial year, the Group underwent an efficiency drive to reduce costs and focus marketing efforts on higher quality customers. This allowed losses to be curtailed, resulting in a loss for the year of £15.3m (2021 – loss of £16.4m). Going forward, the Group expects a tilt into a net profit position over the next 12 months, which will allow for a renewed focus on the strategy into the longer term.

Given this, and for the reasons set out below, the financial statements have been prepared on a going concern basis, which the Director considers to be appropriate.
The Director of the Group has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 31 December 2024 to assess whether the Company and the Group will have sufficient funds to meet its liabilities as they fall due for that period.

These forecasts included the modelling of scenarios including consideration of the potential impact of any potential downturn in activity across the Group.

Scenarios modelled for base case models and sever but plausible models have included:

- Revenue shocks leading to a downturn in profitability across all revenue streams
- Reductions in trade volume due to economic conditions
- An immediate payment, in full, of a potential tax liability
- Significant levels of inflation impacting cost levels

In all scenarios where the payment of the potential liability is not required, the Group maintains a strong cash position, resulting in a reduced reliance on external funding under normal operations.
Should the uncertain tax provision disclosed in note 25 materialise and settlement is demanded immediately in full, coupled with a significant downturn in revenue, the Group and Company's ability to continue as a going concern would be dependent on it securing additional funding. Given that scenario, the Director is confident that the Group would be able to obtain the additional funding required to continue operations for at least 12 months from the date of signing the financial statements. The timing and quantum of new funds to be raised is currently outside the control of the director.

The Director, therefore, believes that it remains appropriate to prepare the financial statements on a going concern basis.

However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## 1.4 Revenue

The Group recognises Revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has applied the five-step model set out in IFRS 15, Revenue from Contracts with Customers, in order to determine the revenues to be recognised, the five steps being: Identify the contract, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognise the revenue when the entity satisfies the performance obligation.

The Group recognises revenue from the following major sources:

- Commission revenue
- Net gaming revenue
- Customer bonuses granted (reduction to revenue)

The nature, timing of satisfaction of performance obligations and significant payment terms of the Group's major sources of revenue are as follows:

### Commission revenue

Revenue from the Group's online betting exchange arises from the commission earned on betting transactions on individual sporting and other events entered into by customers of the exchange. The obligation of the exchange is to facilitate and settle these bets to the respective customer accounts once the outcome of the sporting or other event is known and hence the amount of the winning and losing customer bets is determinable. The commission, calculated on the amount of the winning customer bets, is recognised on this settlement date. The commission is recognised and measured in accordance with IFRS, 15 Revenue from Contracts with Customers, and as such the commissions are not accounted for as derivatives, because the fair value of such contracts does not fluctuate based on an underlying variable.

### Net gaming revenue

Revenue from betting activities on individual sporting and other events comprises income from remote gaming transactions i.e. bets entered into on sporting and other events made with counterparties, these being either online betting exchanges or other gaming transaction providers. This income comprises the aggregate amount due in respect of winning bets shown after deduction of the amounts lost on losing bets and any commissions incurred. This revenue is recognised once the outcome of the sporting or other event is known and hence the amount of the winning and losing bets is determinable.

The value of open betting positions is recognised in revenue based on the best estimate of the amount that will be required to settle the position at the balance sheet date. The transactions are accounted for as derivatives at fair value in accordance with note 1.12 below with the change in value being recognised in revenue.

### Customer bonuses granted (reduction to revenue)

Bonuses granted to customers of the exchange are recognised as a liability when the customer fulfils the criteria to qualify for the bonus offered and the cost is accounted for as an offset to revenue.

## 1.5 Intangible assets other than goodwill

Expenditure on internally generated software, goodwill and other intangibles is recognised in the income statement as an expense as incurred.

Expenditure on research activities is recognised in the income statement as an expense as incurred.
All intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets.

The estimated useful lives are as follows:

| | |
|---|---|
| Access intangibles | Contractual period of the market access rights granted |
| Other intangibles | 3 years |

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

## 1.6 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation,
net of depreciation and any impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are recognised and measured as described in note 1.18.

Depreciation is recognised on a straight-line basis so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

| | |
|---|---|
| Leasehold land and buildings | Life of lease |
| Leasehold improvements | 10 years or the remaining life of the lease, if shorter |
| Fixtures and fittings | 5 years |
| Computers | 3 years |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the income statement.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

## 1.7 Impairment of tangible and intangible assets

At each reporting end date, the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 1.8 Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## 1.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, deposits with payment
providers, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Amounts deposited with banks and payment service providers that are held on behalf of customers, and which represent the amounts that those customers have deposited in order to transact on the group's betting exchange, are recognised as Cash and Cash Equivalents. The majority of the cash held on behalf of customers is deposited within a trust (the trustee is Smarkets (Clients) Limited) with the remainder deposited in segregated accounts.

## 1.10 Financial assets

Financial assets are recognised in the group's statement of financial position when the group becomes party to the contractual provisions of the instrument. The Group recognises financial assets at either Amortised cost, Fair value through other comprehensive income ("FVOCI") and Fair value through profit and loss ("FVTPL"). The classification of financial assets is generally based on the business model on which a financial asset is managed and its contractual cash flow characteristics.

On initial recognition, a financial asset is classified as being measured at either Amortised cost, FVOCI – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

### Financial assets at fair value through profit or loss

When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised initially at fair value and any transaction costs are recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in profit or loss, and is included within finance income or finance costs in the statement of income for the reporting period in which it arises.

### Financial assets held at amortised cost

Financial instruments are classified as financial assets measured at amortised cost where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They arise principally from the provision of goods and services to customers (eg trade receivables). They are initially recognised at fair value plus transaction costs directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment where necessary.

### Financial assets at fair value through other comprehensive income

Debt instruments are classified as financial assets measured at fair value through other comprehensive income where the financial assets are held within the group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument measured at fair value through other comprehensive income is recognised initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, each asset is measured at fair value, with changes in fair value included in other comprehensive income. Accumulated gains or losses recognised through other comprehensive income are directly transferred to profit or loss when the debt instrument is derecognised.

The parent company has made an irrevocable election to recognise changes in fair value of investments in equity instruments through other comprehensive income, not through profit or loss. A gain or loss from fair value changes will be shown in other comprehensive income and will not be reclassified subsequently to profit or loss. Equity instruments measured at fair value through other comprehensive income are recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, each asset is measured at fair value, with changes in fair value included in other comprehensive income. Accumulated gains or losses recognised through other comprehensive income are directly transferred to retained earnings when equity instrument is derecognised or its fair value substantially decreased. Dividends are recognised as finance income in profit or loss.

### Impairment of financial assets

The Group recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets at amortised cost.
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. In the case of interest free financial assets, such as trade receivables, ECLs are not discounted. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Loss allowances are measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

### Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

#### Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non- derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

## 1.11 Financialliabilities

The group recognises financial debt when the group becomes a party to the contractual provisions of the
instruments. Financial liabilities are classified as either ‘financial liabilities at fair value through profit or loss’ or ‘other financial liabilities’.

### Financial liabilities at fair value through profit or loss

Financial liabilities are classified as measured at fair value through profit or loss when the financial liability is held for trading. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of selling or repurchasing it in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and has a recent actual pattern of short-term profit taking, or
- it is a derivative that is not a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at fair value through profit or loss are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss.

### Other financial liabilities

Other financial liabilities, including borrowings, trade payables and other short-term monetary liabilities, are initially measured at fair value net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

### Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Group’s obligations are discharged, cancelled, or they expire.

### Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

### Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 Income taxes.

## 1.12 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non- derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

## 1.13 Derivative financial instruments

Derivatives are recognised at fair value. Gains or losses on re-measurement are recognised in profit or loss immediately unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

## 1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

### Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The Company incurs research and development expense for which it is entitled to UK Corporation Tax relief on eligible expenditure enhanced in accordance with the rules of the scheme. Historically, the Company has calculated the amounts reclaimable and booked the associated tax receivable at the time of submission. During the year ended 31 December 2020, this policy was amended so that the tax receivables arising are accrued in the year to which they relate. See note 12 for further details.

### Current tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

## 1.15 Employee benefits

### Current tax

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## 1.16 Retirement benefits

### Defined contribution pension plans

A defined contribution pension plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

## 1.17 Share-based payments

Share-based payment arrangements in which the Group receives goods or services as consideration for its
own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

## 1.18 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non- lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of- use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise,
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

From 1 January 2021, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Group remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

## 1.19 Grants

In March 2020, in response to the Covid-19 coronavirus pandemic the government of the United Kingdom introduced a wage subsidy programme for companies that had to shut or curtail their operations and furlough staff. The Group has recognised this wage subsidy in the statement of profit or loss and other comprehensive income as "other operating income" in full as the conditions of the wage subsidy were met for the periods ended 31 December 2022 and 2021.

## 1.20 Foreign exchange

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement [except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income]. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the FCTR, net of amounts previously attributed to non- controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

## 1.21 Financing income and expense

Financing expense comprises interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

## 1.22 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from a past event that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

## 1.23 Other operating income

Other operating income normally comprises predominantly inactive account fees. Inactive account fees are charged in arrears at a fixed amount each month following 12 months of account inactivity, in accordance with the terms and conditions of account usage.

## 2 Critical accounting estimates and judgments

The preparation of financial statements in accordance with the Group's accounting policies, may require the Director to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions used are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, the Director was required to estimate the amount of a potential tax liability, discussed in note 25, by consulting with legal advisors and making judgments based on that feedback. Further details are disclosed in note 25, but this estimate has been made based on the information available at the date of approving the financial statements, and the actual amount that may be settled in future could be materially more or less than this amount.

Additionally, for the year ended 31 December 2022, the Director was required to estimate the amount of Research and Development tax credit receivable for that year. This was achieved based on prior experience of such claims and the percentage that these claims formed of relevant payroll totals. Given the availability of the payroll information, and on preliminary discussions around the continuation of the platform development from the prior year, as well as new initiatives in the current year, the Director is able to estimate that the claim for the current year would likely be of the same value, or potentially higher, than the prior year. On that basis, the amount recognised in the current year is similar to the amount recognised in the prior year, and the director is confident that that amount is recoverable in full.

## 3 Adoption of new and revised standards and changes in accounting policies

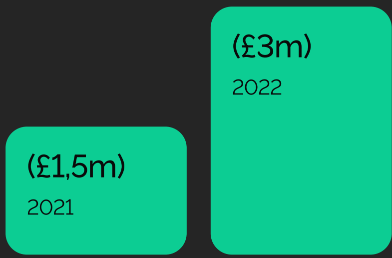
In the current year, the following UK-adopted IFRSs have been issued but have not been applied by the Group in these consolidated financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Annual Improvements to IFRS Standards 2018-2020 (effective 1 January 2022).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making
- Materiality Judgments (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective 1 January 2024).

# 4 Revenue

**Commission earned from betting activity on sporting and other events**


**Customer bonuses granted**




**Net revenue from betting activity on sporting and other events**


£18m
Revenue 2022

£20m
Revenue 2021

96%
Revenue was generated in the UK in 2022 with 4% of revenue generated from other jurisdictions

88%
Revenue was generated in the UK in 2021

| | 2022<br>£000 | 2021<br>£000 |
|---|---|---|
| Revenue analysed by class of business | | |
| Commission earned from betting activity on sporting and other events | 6,793 | 8,712 |
| Net revenue from betting activity on sporting and other events | 14,311 | 13,081 |
| Customer bonuses granted | (3,021) | (1,543) |
| | 18,083 | 20,250 |

In 2022, 96% of revenue was generated in the UK (2021 - 88%) with 4% of revenue generated from other jurisdictions.

# 5 Other operating income

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Grants received | | 227 |
| Inactive account fees | 123 | 149 |
| Other | 5 | 208 |
| | 128 | 584 |

# 6 Operating loss

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Included in operating loss for the period are the following: | | |
| Exchange losses/(gains) | 173 | (101) |
| Government grants | | (227) |
| Depreciation of property, plant and equipment (note 15) | 905 | 887 |
| Amortisation of intangible fixed assets (note 13) | 163 | 146 |
| Impairment of intangible assets (note 14) | 1,756 | |
| Share-based payments (note 27) | 102 | 113 |

# 7 Auditor's remuneration

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Fees payable to the Company's auditor and associates: | | |
| For audit services | | |
| Audit of the financial statements of the Group and Company | 121 | 113 |
| Audit of the financial statements of the Company's subsidiaries | 124 | 91 |
| | 246 | 204 |
| For other services | | |
| Tax services | 22 | 33 |
| Other services | 26 | 25 |
| Total non-audit fees | 48 | 58 |

# 8 Employees

The average monthly number of persons (including the Director) employed by the Company during the year was:

**2022**

**34**
Business Operations

**70**
Software Engineers

**11**
Management and Administration

**2021**

**65**
Business Operations

**56**
Software Engineers

**19**
Management and Administration

**140**

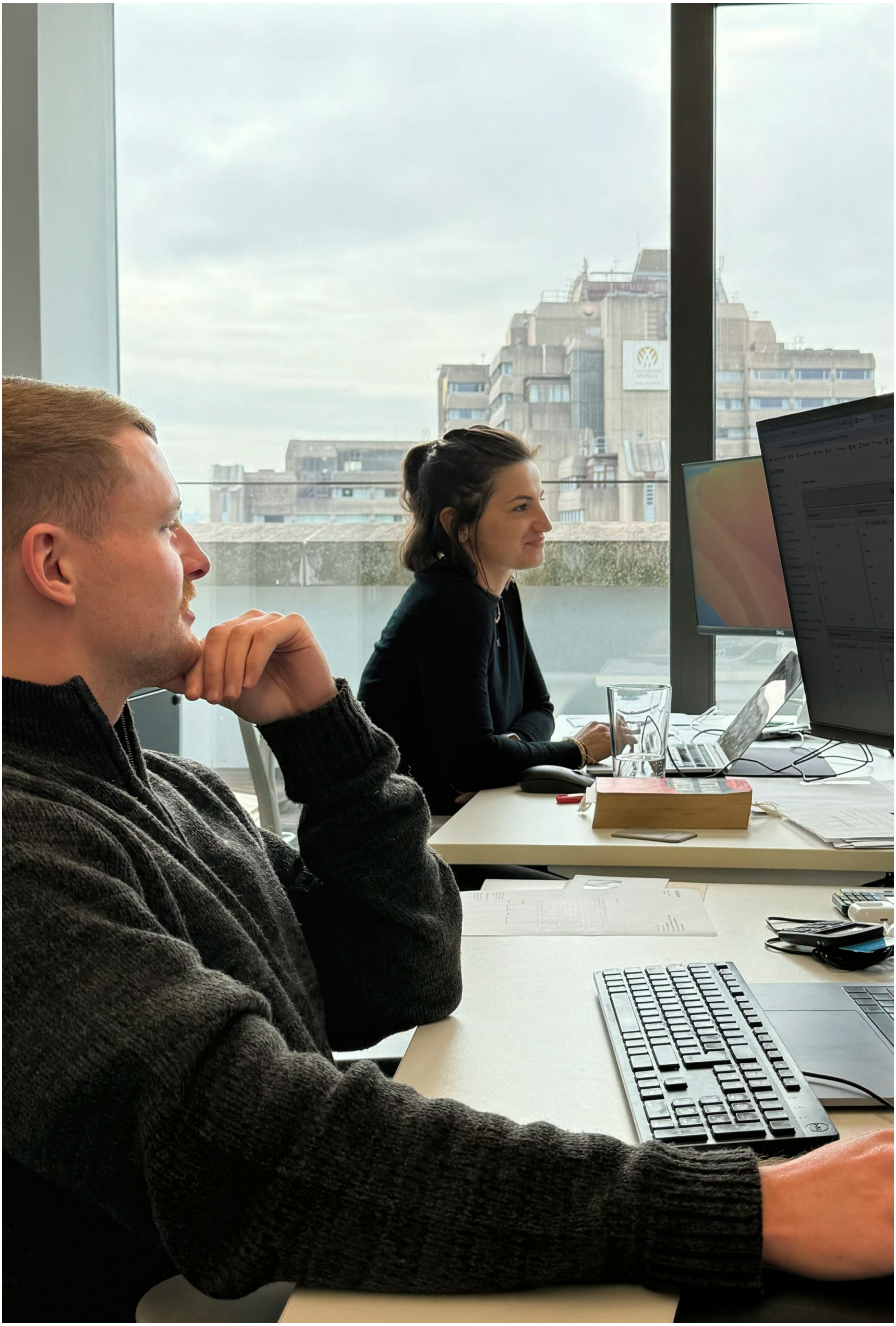
Total number of employees in 2022

**115**

Total number of employees in 2021

## Their aggregate remuneration comprised:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 10,231 | 7,565 |
| Share based payments (note 27) | 102 | 113 |
| Social security costs | 1,180 | 810 |
| Pension costs | 461 | 181 |
| | 11,974 | 8,669 |



## 9 Director's remuneration

The compensation of Jason Trost, the Chief Executive Officer of the Company, was as follows:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Remuneration for qualifying services | 171 | 163 |
| Social security costs | 13 | 17 |
| Company pension contributions to defined contribution schemes | 3 | |
| Medical insurance | | 4 |
| | 187 | 184 |

The Company has a sole Director.

## 10 Financial income

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Interest income | | |
| Bank deposits | 264 | 11 |

## 11 Financial expense

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Interest on lease liabilities | 116 | 152 |
| Other interest payable | - | 108 |
| Total financial expense | 116 | 260 |

## 12 Income tax

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Current tax | | |
| UK corporation tax on profits for the current period | (2,301) | (578) |

The charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

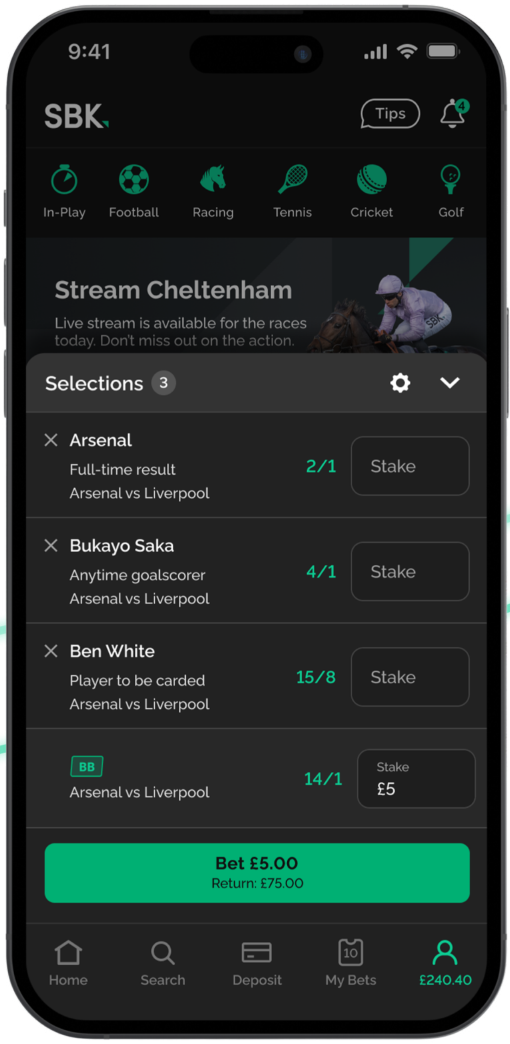
| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Profit/(loss) before taxation | (17,725) | (17,023) |
| Expected tax credit based on a corporation tax rate of 19% (2021: 19%) | (3,368) | (3,234) |
| Effect of expenses not deductible in determining taxable profit | 700 | 669 |
| Unutilised tax losses carried forward | 2,814 | 2,445 |
| Change in unrecognised deferred tax assets | (1,135) | (693) |
| Adjustment in respect of prior years | 749 | (12) |
| Research and development tax credit | (2,284) | (801) |
| Effect of overseas tax rates | 32 | 1,071 |
| Foreign exchange differences | 373 | (4) |
| Adjustment related to IFRS16 | 46 | |
| Effect of Government Covid-19 schemes | 9 | (38) |
| Other | (237) | 19 |
| Taxation credit for the year | (2,301) | (578) |

UK Corporation Tax was charged at 19% (effective from 1 April 2017). In the 3rd March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge.

Maltese income taxes are initially levied on Maltese tax resident companies at 35% of taxable income (2021 – 35%). The Group has formed an income tax grouping, encompassing all of the Maltese activities of the Group. As a result of this, as done previously, the reclaiming of tax credits on dividends paid within the grouping, no longer requires a separate process of reclaiming the six sevenths of the income taxes originally paid and tax liabilities are calculated and accounted for net of the reclaim amount.

**Tax Receivable**

| | | |
|---|---|---|
| Research and development tax credits receivable | 3,886 | 1,602 |



# 13 Intangible assets

| | Patents & licences £000 | Access intangibles £000 | Total £000 |
|---|---|---|---|
| Cost | | | |
| At 1 January 2021 | 239 | 1,464 | 1,703 |
| Disposals | (168) | | (168) |
| Foreign currency adjustments | | 14 | 14 |
| At 31 December 2021 | 71 | 1,478 | 1,549 |
| Additions - purchased | | 406 | (406) |
| Disposals | (30) | | (30) |
| Foreign currency adjustments | | 183 | 183 |
| At 31 December 2022 | 41 | (2,067) | 2,108 |
| Amortisation and impairment | | | |
| At 1 January 2021 | 77 | 49 | 126 |
| Charge for the year | 66 | 80 | 146 |
| Eliminated on disposals | (108) | | (108) |
| Foreign currency adjustments | | (3) | |
| At 31 December 2021 | 35 | 126 | 161 |
| Charge for the year | | 162 | 163 |
| Impairment loss | | 1,756 | 1,756 |
| Foreign currency adjustments | | 23 | 23 |
| At 31 December 2022 | 36 | 2,067 | 2,103 |
| Carrying amount | | | |
| At 31 December 2022 | 5 | | 5 |
| At 31 December 2021 | 36 | 1,349 | 1,385 |
| At 31 December 2020 | 163 | 1,414 | 1,577 |

The amortisation charge is recognised in the Administrative Expenses line in the Income Statement.

Access intangibles represent rights acquired from licensed sports gaming market participants in the United States to access those markets in individual states for periods of 10 years. The assets were acquired in 2019 with the amortisation commencing at the launch of the Group's operations in those states in 2020. In 2022, an additional access market was added for Iowa state, however, as of year end, as part of a strategic decision regarding US markets, management has decided to fully impair the value of the US access intangible.

## 14 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| In respect of: Intangible assets | 1,756 | |
| Recognised in: Administrative expenses | 1,756 | |

## 15 Property, plant and equipment

| | Leasehold land and buildings £000 | Leasehold improvements £000 | Fixtures and fittings £000 | Computers £000 | Total £000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2021 | 5,899 | 688 | 302 | 341 | 7,230 |
| Additions | 130 | | 38 | 154 | 322 |
| Foreign currency adjustments | 2 | | | | 2 |
| At 31 December 2021 | 6,031 | 688 | 340 | 495 | 7,554 |
| Additions | 106 | | 7 | 141 | 254 |
| Disposals | (594) | | | (38) | (632) |
| Transfer to held for sale | (5) | | 4 | (10) | (15) |
| Foreign currency adjustments | 25 | | | 6 | 35 |
| At 31 December 2022 | 5,563 | 688 | 351 | 594 | 7,196 |
| Accumulated depreciation and impairment | | | | | |
| At 1 January 2021 | 2,937 | 340 | 255 | 297 | 3,829 |
| Charge for the year | 747 | 72 | 30 | 38 | 887 |
| Foreign currency adjustments | 2 | | | | 2 |
| At 31 December 2021 | 3,686 | 412 | 285 | 335 | 4,718 |
| Charge for the year | 733 | 68 | 23 | 81 | 905 |
| Eliminated on disposal (406) | (406) | | | (8) | (414) |
| Foreign currency adjustments | 22 | | 3 | 4 | 29 |
| At 31 December 2022 | 4,035 | 480 | 311 | 412 | 5,238 |
| Carrying amount | | | | | |
| At 31 December 2022 | 1,528 | 208 | 40 | 182 | 1,958 |
| At 31 December 2021 | 2,345 | 276 | 55 | 160 | 2,836 |
| At 31 December 2020 | 2,962 | 348 | 47 | 44 | 3,401 |

All Leasehold land and buildings are a right-of-use assets.

## 16 Subsidiaries

The investments in subsidiaries by the Group, the financial statements of which have been included in these consolidated financial statements at 31 December 2022, are as follows:

| Name of undertaking | Address | Principal activities | Class of shares held | % Held Direct |
|---|---|---|---|---|
| 1.Hanson Applied Sciences Limited | Malta | Sports trading | Ordinary Shares | 100.00 |
| 2.Smarkets Holdings (Malta) Limited | Malta | Holding company | Ordinary Shares | 100.00 |
| 3.Smarkets (Clients) Limited | United Kingdom | Customer funds trust | Ordinary Shares | 100.00 |
| 4.Smarkets Holdings (USA) Inc. | United States | Holding company | Ordinary Shares | 100.00 |
| 5.Smarkets (Malta) Limited | Malta | Operate remote gaming license | Ordinary Shares | 100.00 |
| 6.Smarkets Inc. | United States | Software development | Ordinary Stock | 100.00 |
| 7.Smarkets USA Op Co | United States | Operate remote gaming license | Ordinary Stock | 100.00 |
| 8.OddsIndex Holdings, LLC | United States | Holding company | Ordinary Stock | 100.00 |
| 9.OddsIndex, LLC | United States | Marketing | Ordinary Stock | 100.00 |

Registered office addresses (all UK unless otherwise indicated):

| | |
|---|---|
| 1, 3 | 7th floor Commodity Quay, St. Katharine Docks, London, E1W 1AZ, United Kingdom |
| 2, 5 | Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta |
| 6 | 527 W. 7th St., Suite 601, Los Angeles, CA 90014, United States |
| 4, 7, 8, 9 | 251 Little Falls Drive, Wilmington, Delaware, 19808, United States |

The activities of Smarkets (Malta) Limited are operated under a B2C Type 3 remote gaming licence granted by the Malta Gaming Authority, as well as licences granted by the UK Gambling Commission, the Irish Office of the Revenue Commissioners, and the Swedish Spelinspektionen.

Both Smarkets Holdings (USA) Inc. and Smarkets USA OpCo were incorporated in Delaware on 3 September 2019. On 6 September 2019, Smarkets Limited transferred its holding of common stock of Smarkets Inc. to Smarkets Holdings (USA) Inc. None of the subsidiary companies incorporated in the United States required an audit for the years ended 31 December 2021 and 2020.

On 27 February 2023, a new company, Hanson Applied Sciences II Limited was incorporated in Malta and is fully owned by Smarkets Holding (Malta) Limited. On 1 March 2023, the ownership of Hanson Applied Sciences Limited was transferred to the newly incorporated entity, Hanson Applied Sciences II Limited.
On 27 March 2023, the Company registered a branch of Smarkets Limited in Malta.

## 17 Trade and other receivables

The compensation of Jason Trost, the Chief Executive Officer of the Company, was as follows:

| | Current | | Non-Current | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £000 | £000 | £000 | £000 |
| Trade receivables | | 271 | | |
| VAT recoverable | 161 | 231 | | |
| Amounts owed by fellow group undertakings | 1 | | | |
| Other receivables | 206 | 728 | 700 | |
| Prepayments | 435 | 864 | | |
| | 803 | 2,094 | 700 | |

At 31 December 2022, there were no receivables that were past due nor considered to be impaired (2021 - £Nil).

The non-current asset represents a deposit that Smarkets holds with one of the payment providers as part of the contractual agreement.

## 18 Assets and liabilities classified as held for sale

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| | 15 | |

## 19 Other financial assets and liabilities

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Current assets | | |
| Fair value of open betting positions | 151 | 96 |
| Current liability | | |
| Fair value of open betting positions | (57) | (43) |
| | 94 | 53 |

Open betting asset and liability positions are derivative transactions which are valued at fair value in the balance sheet. These fair values are calculated based upon the latest open market prices on the relevant underlying sporting or other events available at the close of business at the valuation date. The profit for the year ended 31 December 2022 on other financial assets and liabilities was £41,000 (2021 – £12,000).

## 20 Cash and cash equivalents

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Cash at bank | 36,606 | 53,771 |

Cash and cash equivalents comprised short-term interest-bearing bank deposits and includes £24,851,000 (2021 - £30,389,000) of assets held in separate bank accounts on behalf of customers and which represent the amounts that those customers have deposited in order to transact on the Group's betting exchange.

## 21 Trade and other payables

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Customer account liabilities | 24,903 | 28,026 |
| Trade payables | 1,236 | 720 |
| Amount owed to parent undertaking | | 1 |
| Accruals | 946 | 1,369 |
| Social security and other taxation | 104 | 107 |
| Other payables | 4,922 | 2,585 |
| Provision - see note 24 | 12,800 | 12,100 |
| | 44,911 | 44,908 |

The customer account liabilities are covered by assets held in separate bank accounts and assets held with payment providers.

## 22 Lease liabilities

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Current assets | 957 | 972 |
| Non-current liabilities | 885 | 1,782 |
| | 1,842 | 2,754 |

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Amounts recognised in profit or loss include the following: | | |
| Interest on lease liabilities | 116 | 152 |

The borrowing rate implicit in the leases is 4.75%.

## 23 Other leasing information

Set out below are the future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Within one year | (915) | (961) |
| Between two and five years | (990) | (2,092) |
| | (1,905) | (3,053) |

On 4 September 2015, the Company entered into a 10-year lease, with a tenant exercisable break clause after 7 years, for the 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 25 September 2015 with an annual rental of £580,000, but with the first nine months being rent free.

On 13 January 2017, the Company entered into a 5-year lease, terminatable by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review. The lease was terminated on 12 August 2019 and replaced with a new 5-year lease commencing on the same date, with an unchanged annual rental of £282,948.

On 5 February 2016, Smarkets (Malta) Limited entered into a 5-year lease, with a tenant exercisable break clause after 1 year, for office space on Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 15 February 2016 with an annual rental of €35,400 increasing by 3% on an annual basis.

On 1 August 2018, Smarkets (Malta) Limited entered into a 7-year and 2-month lease, with a tenant exercisable break clause after 1 year, for office space on Level 2, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 August 2018 with an annual rental of €43,800 increasing by 3% on an annual basis. On 18 November 2022, the Company gave notice to terminate the lease for office space on Level 2, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta and vacated the premises on 18 February 2023.

On 17 February 2021, Smarkets (Malta) Limited entered into a lease addendum for a 4-year lease, with a tenant exercisable break clause after 1 year, for office space on Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 15 February 2021 with an annual rental of €35,000 increasing by 3% on an annual basis.

On 16 September 2016, Hanson Applied Science Limited entered into a 5-year lease, with a tenant exercisable break clause after 2 years, for office space on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 February 2017 with an annual rental of €27,260.

On 01 October 2021, Hanson Applied Science Limited entered into a 3-year and 8-month lease, replacing the lease noted above, with a tenant exercisable break clause after 1 years, for office space on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 February 2022 with an annual rental of EUR30,682. The borrowing rate implicit in the lease is 4.75%. On 18 November 2022, Hanson Applied Sciences Limited served notice on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta and vacated on 1 May 2023.

The lease liabilities are denominated in Euro and Euro interest rates have not varied sufficiently in the period from lease inception to 31 December 2022 for the fair value of the lease contracts to diverge materially from carrying value.

Information relating to lease liabilities is included in note 22.

## 24 Deferred taxation

Deferred tax assets and liabilities were attributable to the following:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Tax effected temporary timing differences | | |
| Property, plant and equipment | (78) | (73) |
| Short term temporary differences | 78 | 73 |
| Net deferred tax | | |
| Movement recognised in income | | |
| Property, plant and equipment | (6) | (39) |
| Short term temporary differences | (10) | 10 |
| Tax value of loss carry-forwards utilised | 16 | 29 |

Unused tax losses in the Group for which no deferred tax asset was recognised amounted to £37,802,000 (2021 - £35,218,000).

# 25 Regulatory and other matters

### Possible tax matter arising from prior years

In the periods 2012 to 2017 the Company operated in one jurisdiction where the local authorities, following a court process against a competitor business and following submission by the Company to the authorities of all relevant information in relation to its activities in that jurisdiction from 2012 to 2017, claim that additional tax is outstanding.
The Company contests both the existence and quantum of the amount claimed by the authorities. Based on the latest correspondence from the authorities requesting submission of tax fillings, and given the advice received from its solicitors, the Company has recorded an estimated provision of £12.8m (€14.4m) as at 31 December 2022 (£12.1m as at 31 December 2021).

The Board continues to monitor the impact of any new regulatory or fiscal arrangements and their potential impact on the business, however due to exiting the aforementioned jurisdiction in 2017, these uncertain tax positions are not expected in the future.

### General regulatory matters

In July 2022 the Gambling Commission concluded its review into Smarkets Malta Limited's operating licence. The outcome of this review included the identification of several historic failings in relation to compliance with the Company's operating licence conditions, and as a result a financial penalty of £630,000 was imposed. This penalty was recorded as a provision as at 31 December 2021. At all times the Company co-operated fully with the Commission and took corrective steps to address all identified failings.

# 26 Retirement benefit schemes

### Defined contribution schemes

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Charge to profit or loss in respect of defined contribution schemes | 461 | 181 |

From 1 April 2016, the Company has operated a defined contribution pension plan for the benefit of qualifying UK based employees. Up until 5 April 2018, the Company made contributions to the plan of up to 1% of salary with employees also contributing 1%. From 6 April 2018, the Company has made contributions of 3% of salary with employees contributing 5% in accordance with relevant legislation. From 01 November 2021, the Company increased the contributions to 6% of salary with employees contributing 6%.

Also on 01 November 2021, the Group introduced a defined contribution pension plan for qualifying Maltese and US based employees, with the same terms as above.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

## 27 Share-based payment transactions

The Company operated an employee share-based incentive scheme granting options to eligible employees of the Group during the year ended 31 December 2022.

The options grant the holder the right to acquire Ordinary shares in the Company and vest over a four-year period commencing from the employee's employment start date. The first 25% of the number of options granted vest after 1 year of service, and the remainder vest in equal monthly tranches over the following three years of service. If the employee leaves the employment of the Company during this period, then all unvested options are forfeited.

On 23 February 2021, the Company carried out a share split to subdivide the Ordinary and Preference shares of £0.005 each into 10 shares of £0.0005 each, such shares having the same rights and being subject to the same restrictions. The effects of the stock split are shown below, and when applicable prices disclosed are post stock split.
Options granted in the year ended 31 December 2022 have an exercise price of £5.59. Options granted in the year ended 2021 have an exercise price of £0.10 and £1.995.

On 25 November 2022, the Company issued two grants of 835,451 options each to Jason Trost, a related party. The option grants are exercisable at any time at a price of £5.59.

During the year ended 31 December 2022 holders exercised 27,125 options resulting in a payment of £3,095 to receive 27,125 Ordinary shares. In 2021 holders exercised 205,336 options resulting in a payment of £24,253 to receive 205,336 Ordinary shares.

The options issued under this scheme to UK resident employees have been issued under the Enterprise Management Initiative ('EMI') arrangements as the Company has met and continues to meet the qualifying criteria. These EMI arrangements provide tax advantages to the option holders.

| | Number of share options | |
|---|---|---|
| | **2022** | **2021** |
| Outstanding at 1 January 2022 | 827,250 | 55,125 |
| Granted in the period | 1,997,352 | 57,475 |
| Effect of stock split (10:1) | | 1,013,400 |
| Exercised in the period | (27,125) | (205,336) |
| Expired in the period | (274,141) | (93,414) |
| Outstanding at 31 December 2022 | 2,523,336 | 827,250 |
| Exercisable at 31 December 2022 | 606,876 | 442,594 |

The options outstanding at 31 December 2022 had an exercise price ranging from £0.10 to £5.59, and a remaining weighted average contractual life of 4.2 years.

During 2022, options were granted on 17 March 2022, 25 March 2022, 01 August 2022, 08 August 2022, 06 September 2022 and 25 November 2022, with a weighted average fair value of options grants on the measurement date between £4.00 and £5.59. During 2021 options were granted on 08 February and 23 February 2023 with a weighted average fair value on the date of measurement of £5.59. Fair value was measured using the Black-Scholes model.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined using a Black-Scholes model. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the relevant vesting period based upon provision of service by the employees and an estimate of the number of share options that will eventually vest.

Inputs were as follows:

| | 2022 | 2021 |
|---|---|---|
| Weighted average share price | £5.59 | £5.59 |
| Weighted average exercise price | £4.00 - £5.59 | £0.10 - £5.59 |
| Expected volatility | 12.79% - 15.31% | 20.36% |
| Expected option life | 5.0 years | 4.0 years |
| Weighted average contractual life of outstanding share options | 4.2 years | 2.5 years |
| Risk free rate | | |
| Expected dividend yield | 0.00% | 0.00% |

Volatility for the options issued in 31 December 2022 was determined by reference to movements in the share prices of the FTSE 350 index for the previous 12 months adjusted for the increased risk of a private company.

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments was £102,000 for the year ended 31 December 2022 (2021 - £113,000).

The Director did not exercise any share options for the years ended 31 December 2022 and 2021.

Subsequent to the period covered by these financial statements, on 30 March 2023, the Company granted 234,000 share options to employees with an exercise price of £1.75.

## 28 Share capital

| | 2022 | 2021 | 2022 | 2021 |
|---|---|---|---|---|
| **Ordinary share capital** *Issued and fully paid* | **Number** | **Number** | **£000** | **£000** |
| Ordinary shares of 0.5p each | 17,352,749 | 17,469,586 | 8 | 8 |
| Deferred shares of 0.5p each | | | 1 | 1 |
| | 17,352,749 | 17,469,586 | 9 | 9 |

| | 2022 | 2021 | 2022 | 2021 |
|---|---|---|---|---|
| **Preference share capital** *Issued and fully paid* | **Number** | **Number** | **£000** | **£000** |
| Series A of 0.5p each | 751,468 | 751,468 | 4 | 4 |
| Series B of 0.5p each | 428,893 | 428,893 | 2 | 2 |
| | 1,180,361 | 1,180,361 | 6 | 6 |
| Preference shares classified as equity | | | 6 | 6 |
| Total equity share capital | | | 15 | 15 |

On 23 February 2021, the Company carried out a share split to of £0.005 each into 10 shares of £0.0005 each, such shares having the same rights and being subject to the same restrictions. On the same day, the deferred shares of the Company were cancelled. The effects of this are shown as follows:

| | Number | Number | Number | Number |
|---|---|---|---|---|
| | **Ordinary shares** | **Deferred shares** | **Series A shar...** | **Series B shar...** |
| At 1 January 2022 | 17,469,580 | | 7,514,680 | |
| Issue of fully paid shares | 27,125 | | | 4,288,930 |
| Share buyback/cancellation | (143,956) | | | |
| Share buyback/cancellation | 17,352,749 | | 7,514,680 | 4,288,930 |

During the year ended 31 December 2022, 27,125 ordinary shares were issued as a result of the exercise of share options. In 2021 the Company issued 205,336 shares.

On 14 May 2021, the Group issued 1,314,752 Series B Preference shares of £0.0005 each at a premium of £5.59 per share, and 2,616,768 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1%, both to new investors to provide funding for the expansion of the Group's US operations. On 18 November 2021, the Company issued a further 357,410 convertible loan notes at a price of £5.59 each carrying an annual interest rate of 1% to the aforementioned investor. Conversion of the loan notes into fully paid Series B Preference Shares is dependent on the granting of certain licences relating to operating in US markets. On 23 December 2021, following granting of these licences, all 2,974,178 convertible loan notes were converted into 2,974,178 Series B Preference Shares.

On 18 November 2021, the Company agreed to buy back 253,166 Ordinary Shares of the Company at a price of £5.04 per share from the Director for a total consideration of £1,275,000. The shares acquired were cancelled by the Company.

On 31 January 2022, the Company agreed to buy back 143,956 Ordinary Shares of the Company at a price of £5.04 per share from the Director for a total consideration of £725,000. The shares acquired were cancelled by the Company.

### Classes of share

The Ordinary Shares, the Series A Preference Shares, and the Series B Preference Shares each constitute a separate class of shareholders of Ordinary Shares in the Company and, except as set out below, rank pari passu in all respects. All such shares confer equal rights to dividend payments and equal rights to vote at meetings of the Company on a show of hands, each holder of such shares having one vote. On a poll, each holder shall have one vote for each such share held.

The Deferred Shares confer no rights to vote or any right to receive dividends.

The Series A Preference Shares and Series B Preference Shares are automatically converted into Ordinary Shares immediately upon the occurrence of a qualifying IPO otherwise they may be converted at the option of the holder at the issue price of the shares held. They are not redeemable for cash.

In the event of liquidation, dissolution or winding up of the Company, the deferred shareholders will receive £1 for the entire issue and the remaining proceeds shall be distributed among the holders of the Ordinary, Series A Preference Shares, and Series B Preference Shares pro rata to the number of shares held plus any arrears of dividend, provided that the amount of the distribution per share exceeds £15.54. Below this threshold amount, holders of the Series A Preference shares will receive an amount of up to £0.3108 per share, the holders of the Series B Preference shares will receive an amount of up to £5.59 per share, and then the deferred shareholders will receive £1 for the entire issue. Any remaining proceeds, if any, will then be distributed among the holders of the Ordinary Series A Preference Shares, and Series B Preference Shares pro rata to the number of shares held plus any arrears of dividend.

### Dividends

No dividends were paid during the year or the preceding year. No dividends have been proposed by the Director.

## 29 Share premium account

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| At the beginning of the year | 27,813 | 3,791 |
| Issue of new shares | 3 | 24,022 |
| At the end of the year | 27,816 | 27,813 |

## 30 Financial Instruments

### Fair values of financial instruments

Financial assets and liabilities of the Group comprise trade and other receivables, cash and cash equivalents
and other betting related financial assets and liabilities including open betting transactions, assets held on trust for customers and amounts owing to customers.

The fair values of all financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

| | Carrying amount | Fair Value | Carrying amount | Fair Value |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £000 | £000 | £000 | £000 |
| Trade and other receivables (note 17) | 911 | 911 | 1,006 | 1,006 |
| Cash and cash equivalents (note 20) | 36,606 | 36,606 | 53,771 | 53,771 |
| Other financial assets (note 19) | 151 | 151 | 96 | 96 |
| Total Financial assets | 37,668 | 37,668 | 54,873 | 54,873 |

| | Carrying amount 2022 £000 | Fair Value 2021 £000 | Carrying amount 2022 £000 | Fair Value 2021 £000 |
|---|---|---|---|---|
| Trade and other payables (note 21) | (28,736) | (28,736) | (30,636) | (30,636) |
| Other financial liabilities (note 19) | (57) | (57) | (43) | (43) |
| Non-current liabilities (note 22) | (885) | (803) | (1,782) | (1,719) |
| Total Financial liabilities | (29,678) | (29,596) | (32,461) | (32,398) |
| Net Financial assets | 7,990 | 8,072 | 22,412 | 22,475 |

The carrying value of open betting transactions equates to fair value as such transactions are accounted for as derivatives. Non-current liabilities comprise lease liabilities (note 22) for which fair value has been calculated using a discounted cashflow model. For all other financial assets and liabilities, carrying value approximates to fair value because of their short-term nature. Open betting asset and liability transactions are derivative positions which are valued at fair value in the balance sheet. These fair values are calculated based upon the latest open market prices on the relevant underlying sporting or other events available at the close of business at the valuation date. As such, the valuation method used falls into Level 2 of the standard financial instruments fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The financial instrument credit risk of the Group arises principally from the Group's receivables from other betting businesses. Customers of the Group are required to deposit monies with the Group sufficient to cover any exposure arising from betting transactions that they then proceed to undertake and, as such, no credit risk arises from such activities.

The exposure to credit risk of other betting businesses comprises deposits made with such businesses so that the Group can undertake betting transactions. These funds, classified as other debtors, may be withdrawn at will to the extent that the amount exceeds the exposure created by open betting transactions entered into with the particular counterparty. As most betting activity occurs on the day of the event to which the transaction relates, the amount of outstanding transactions at the end of any trading day tends to be small.

The credit risk arising from deposits with other betting businesses is best represented by their balance sheet carrying value which at 31 December 2022 amounted to £106,000 (2021 - £669,000).

No impairment losses have been recognised against such assets.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, to the extent practicable, that there will always be sufficient liquid resources to meet any liabilities or other contractual obligations as they fall due.

The betting transactions of the Group are to a very large extent of a short-term nature, much of it occurring on the day of the sporting or other event to which the transactions relate. As such, the Group is well able to monitor its potential liquidity risks and take action accordingly if those risks become exacerbated by stressed conditions.

Further, as customers of the Group are required to deposit monies with the Group sufficient to cover any exposure arising from betting transactions that they then proceed to undertake, and these customer assets are held in segregated cash accounts, the risk of failing to meet the obligations arising on the customer transactions is minimised.

With the exception of long-term finance lease liabilities (note 22) and other borrowings (note ), the Group has no outstanding borrowings, nor financial liabilities for which the contractual maturity extends beyond one year.

### Market Risk

Market risk is the risk that changes in market prices, such as betting prices, foreign exchange rates, and interest rates, will affect the Group's income or the value of its holdings of financial instruments.

### Betting position risk

The Group monitors its price risks to open events on an ongoing basis.

Open betting positions on individual events tend to remain limited until the day of the sporting or other event concerned but can then expand rapidly, in the immediate period before the event takes place. When positions arise that exceed the risk appetite of the Risk Manager, hedging transactions are undertaken with other betting businesses to mitigate the exposure.

Management of the Group actively discusses the extent of risk to be taken and also monitors the performance of the risk taking and hedging activities on a daily basis.

### Interest rate risk

Subsequent to the period covered by these financial statements, central banks across the world began to raise interest rates to address inflation. The Group has no borrowings nor other financial instruments linked to interest rates and, as such, is only affected to a limited extent by these rises through interest earned on customer deposits invested with financial institutions. The effect of this is slightly positive to profit and loss. Similarly, the effect of interest rate benchmark reforms is of only marginal impact to the Group.

### Foreign currency risk

The Group is exposed to foreign currency risk primarily from:

- Commissions earned from betting transaction activity where the customer has a settlement currency other than GBP.
- Expenses incurred in operations in jurisdictions in which the local currency is not GBP. In particular, the Group incurs expenses in EUR in connection with the operation of the betting exchange in Malta.

Assets deposited by customers are retained in the currencies in which they were deposited so mitigating the outstanding liabilities to the customers. All betting risk is monitored, and settlements are calculated, in GBP.

At 31 December 2022, the Group's exposure to foreign currency risk was as follows. This is based on the carrying amount for monetary financial instruments.

| 31 December 2022 | GBP | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Other financial assets | 150 | | | | 150 |
| Trade and other receivables | 806 | | 34 | 71 | 911 |
| Cash and cash equivalents | 34,188 | 1,268 | 639 | 511 | 36,606 |
| Non-current liabilities | (838) | (47) | | | (885) |
| Other financial liabilities | (57) | | | | (57) |
| Trade and other payables | (24,847) | (1,971) | (1,599) | (319) | (28,736) |
| | 9,402 | (750) | (926) | 263 | 7,989 |

| 31 December 2021 | GBP | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Other financial assets | 96 | | | | 96 |
| Trade and other receivables | 461 | 511 | 34 | | 1,006 |
| Cash and cash equivalents | 51,334 | 1,152 | 962 | 323 | 53,771 |
| Non-current liabilities | (1,590) | (192) | | | (1,782) |
| Other financial liabilities | (43) | | | | (43) |
| Trade and other payables | (28,218) | (1,641) | (688) | (90) | (30,637) |
| | 22,040 | (170) | 308 | 233 | 22,411 |

A 10% weakening of GBP against all other currencies at 31 December 2022 would have decreased equity and profit and loss by £157,000 (2021 – decrease of £58,000). This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date and assumes that all other variables and other exchange rates remain constant.

A 10% strengthening of GBP against all other currencies at 31 December 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### Capital management

The capital structure of the Group consists of the equity attributable to equity holders of the Company comprising Capital and Reserves and Retained Earnings. The Group finances its operations through generation of retained earnings and management of the cash and cash equivalent balances and has sufficient capital to meet its regulatory and operational needs. The Director has prepared forecasts of future profitability, cash flow and capital adequacy of the Group for the period up to 31 December 2024 incorporating the modelling of scenarios including consideration of the potential impact of any further restrictions on sporting activities as well as the increased expenditure in the US, heightened expectations of inflation and other factors. None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions to keep the business operating.

As a result, the Director has no expectation that under any reasonable scenario, that the financing of the Company and of the Group would be insufficient to fully finance its operations with adequate contingency available for unexpected events for the foreseeable future.

### Dividends

Management do not propose any dividends or other distributions for the year ended 31 December 2022 (2021 - £Nil).

# Company statement of financial position

## 34 Ultimate parent company

The Company is the ultimate parent company of the Group. There is no one ultimate controlling party.

| | | 2022 | 2021 |
|---|---|---|---|
| | Notes | £000 | £000 |
| Non-current assets | | | |
| Intangible assets | 37 | 5 | 6 |
| Property, plant and equipment | 39 | 1,845 | 2,499 |
| Investments | 41 | 99 | 95 |
| Trade and other receivables | 42 | | 16,419 |
| | | 1,949 | 19,019 |
| Current assets | | | |
| Trade and other receivables | 42 | 448 | 8,923 |
| Tax recoverable | | 3,886 | 1,602 |
| Cash at bank and in hand | | 2,447 | 12,144 |
| | | 6,781 | 22,669 |
| | | | |
| Current liabilities | | | |
| Trade and other payables | 44 | 3,973 | 1,343 |
| Lease liabilities | 43 | 854 | 854 |
| | | 4,827 | 2,197 |
| Net current assets | | 1,954 | 20,472 |

| | Notes | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Lease liabilities | 43 | 838 | 1,590 |
| Net assets | | 3,065 | 37,901 |
| Equity | | | |
| Called up share capital | | 15 | 15 |
| Share premium account | 46 | 27,816 | 27,813 |
| Capital redemption reserve | | 3 | 3 |
| Retained earnings | | (24,769) | 10,070 |
| Total equity | | 3,065 | 37,901 |

The notes on pages 57 - 69 form an integral part of these financial statements.
The financial statements were approved and signed by the Director and authorised for issue on 29/09/2023

On behalf of the board

J~R Tait

Director

Company Registration No. 06475845

# Company statement of changes in equity

| | Notes | Share capital £000 | Share premium account £000 | Capital redemption reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2021 | | 13 | 3,791 | 2 | 8,876 | 12,682 |
| Year ended 31 December 2021: | | | | | | |
| Profit and total comprehensive income for the year | | | | | 2,356 | 2,356 |
| Issue of share capital | 46 | 2 | 24,022 | | | 24,024 |
| Own shares acquired | | | | | (1,275) | (1,275) |
| Share based payment transactions | | | | | 113 | 113 |
| Redemption of shares | 46 | | | 1 | | 1 |
| Balance at 31 December 2021 | | 15 | 27,813 | 3 | 10,070 | 37,901 |
| Year ended 31 December 2022: | | | | | | |
| Loss and total comprehensive income for the year | | | | | (34,206) | (34,206) |
| Issue of share capital and share premium | 46 | | 3 | | | 3 |
| Own shares acquired | | | | | (735) | (735) |
| Share based payment transactions | | | | | 102 | 102 |
| Balance at 31 December 2022 | | 15 | 27,816 | 3 | (24,769) | 3,065 |

The notes on pages 57 - 69 form an integral part of these financial statements.

# Notes to the group financial statements

## 35 Accounting policies

### Company information

The following accounting policies below have, unless otherwise stated, been applied consistently in dealing with items which are considered material in relation to the financial statements.

## 35 Accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 and UK adopted IFRSs, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on a going concern basis. For full details of the going concern assessment performed by the Director please see note 1.3 to the Consolidated Financial Statements.
Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The Company's loss for the financial year was £34,206,000 (2021 – profit of £2,356,000).
The financial statements are prepared in Pound Sterling, which is the functional currency of the company.
The company applies accounting policies consistent with those applied by the group. To the extent that an accounting policy is relevant to both group and parent company financial statements, please refer to the group financial statements for disclosure of the relevant accounting policy.
In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.
- The effects of new but not yet effective IFRSs.

The preparation of financial statements in conformity with FRS101 requires management to exercise its judgement in the process of applying the Company's accounting policies. However, the Director have not had to make any judgments resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

The financial statements have been prepared prepared under the historical cost convention. The principal accounting policies adopted are set out below.

## 35.2 Going concern

The financial statements have been prepared on a going concern basis. For full details of the going concern assessment performed by the Director please see note 1.3 to the Consolidated Financial Statements.

## 35.3 Foreign Currency

Transactions in foreign currencies are translated to the Company's functional currency of United Kingdom Pounds Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

## 35.4 Intangible fixed assets and amortisation

Expenditure on internally generated software and other intangibles is recognised in the income statement account as an expense incurred.
Expenditure on research activities is recognised in the income statement account as an expense as incurred.
Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

| | |
|---|---|
| Other intangibles | 3 years |

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

## 35.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.
Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are recognised and measured as described in note 34.7.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

| | |
|---|---|
| Leasehold property | Life of the lease |
| Leasehold improvements | 10 years or the remaining life of the lease, if shorter |
| Computer equipment | 3 years |
| Fixtures and fittings, including office equipment | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

## 35.6 Investments in subsidiaries

Investments in subsidiaries are recognised at cost less any provision for impairment.

## 35.7 Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract
is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee
At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

From 1 January 2021, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Company remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

## 35.8 Non-derivative financial instruments

The Company recognises financial assets at either amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification of financial assets is generally based on the business model on which a financial asset is managed and its contractual cash flow characteristics.

### Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.
Financial assets (other than trade receivables without a significant financing component) and financial liabilities are initially measured at fair value plus, for an item not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

### Classification and subsequent measurement

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

On initial recognition, a financial asset is classified as being measured at either amortised cost, FVOCI – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and management does not designate that it should be measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets meeting these criteria which includes trade receivables and cash and cash equivalents, subsequent measurement of the amortised cost uses the effective interest method reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is measured at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated by management as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities, which includes trade and other payables, are subsequently measured at amortised cost using the effective interest method, and interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

### Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

### Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 Income taxes.

## 35.9 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

## 35.10 Impairment excluding deferred tax assets

### Financial assets (including receivables)

The Company recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. In the case of interest free financial assets, such as trade receivables, ECLs are not discounted. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances are measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months);
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

### Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 35.11 Employee benefits

### Defined contribution pension plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

### Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non- market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

## 35.12 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non- derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

## 35.13 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

## 35.14 Revenue

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has applied the five-step model set out in IFRS 15 Revenue from Contracts with Customers in order to determine the revenues to be recognised, the five steps being: Identify the contract, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognise the revenue when the entity satisfies the performance obligation.

The Company enters into two forms of contract with other Group companies, as follows:

- To grant intellectual property rights to exclusive use of software owned and developed by the Company. The contract transaction price is based on a percentage of revenues generated by the counterparty on a monthly basis, the percentage having been determined by comparison with available market information.
- To commit to provide specified management services, including software development and support services. The contract sets out the specific service obligations as well as the transaction price which is determined and charged on a monthly basis.

For both types of contract, the whole transaction price is recognised as revenue by the Company at the end of each month, at which point the Company has fulfilled its performance obligation to provide either exclusive use of the software or the specified services for that period.

## 35.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The Company incurs research and development expense for which it is entitled to UK Corporation Tax relief on eligible expenditure enhanced in accordance with the rules of the scheme. Historically, the Company has calculated the amounts reclaimable and booked the associated tax receivable at the time of submission. During the year ended 31 December 2020, this policy was amended so that the tax receivables arising are accrued in the year to which they relate.

When losses made by Group companies are surrendered to other Group companies by way of Group Relief, payment is made by the receiving company for the tax effect of those losses.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for.

## 36 Adoption of new and revised standards and accounting policies

In the current year, the following UK-adopted IFRSs have been issued but have not been applied by the Group in these consolidated financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgments (effective 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective 1 January 2024).
- IFRS 17 Insurance Contracts (effective date 1 January 2023).
- Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a
- Single Transaction (effective date 1 January 2023).

# 37 Intangible assets

| | Patents & licenses |
|---|---|
| | £000 |
| Cost | |
| At 1 January 2021 | 41 |
| At 31 December 2021 | 41 |
| At 31 December 2022 | 41 |
| | |
| Amortisation and impairment | |
| At 1 January 2021 | 34 |
| Charge for the year | 1 |
| At 31 December 2021 | 35 |
| Charge for the year | 2 |
| At 31 December 2022 | 37 |
| | |
| Carrying amount | |
| At 31 December 2022 | 5 |
| At 31 December 2021 | 6 |
| At 31 December 2020 | 7 |

## 38 Critical accounting estimates and judgements

The preparation of financial statements in accordance with the Group's accounting policies, may require the Director to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions used are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, the Director was required to estimate the amount of a potential tax liability, discussed in note 25, by consulting with legal advisors and making judgements based on that feedback. Further details are disclosed in note 25, but this estimate has been made based on the information available at the date of approving the financial statements, and the actual amount that may be settled in future could be materially more or less than this amount.

Additionally, for the year ended 31 December 2022, the Director was required to estimate the amount of Research and Development tax credit receivable for that year. This was achieved based on prior experience of such claims and the percentage that these claims formed of relevant payroll totals. Given the availability of the payroll information, and on preliminary discussions around the continuation of the platform development from the prior year, as well as new initiatives in the current year, the Director is able to estimate that the claim for the current year would likely be of the same value, or potentially higher, than the prior year. On that basis, the amount recognised in the current year is similar to the amount recognised in the prior year, and the director is confident that that amount is recoverable in full.

# 39 Property, plant and equipment

| | Leasehold land and buildings | Leasehold improvements | Fixtures and fittings | Computers | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Cost | | | | | |
| At 1 January 2021 | 5,077 | 667 | 234 | 283 | 6,261 |
| Additions | | | 29 | 151 | 180 |
| | | | | | |
| At 31 December 2021 | 5,077 | 667 | 263 | 434 | 6,441 |
| Additions | | | 7 | 109 | 116 |
| Disposals | | | | (38) | (38) |
| At 31 December 2022 | 5,077 | 667 | 270 | 505 | 6,519 |
| Accumulated depreciation and impairment | | | | | |
| At 1 January 2021 | 2,437 | 325 | 212 | 261 | 3,235 |
| Charge for the year | 596 | 67 | 17 | 28 | 708 |
| At 31 December 2021 | 3,033 | 392 | 229 | 289 | 3,943 |
| Charge for the year | 596 | 67 | 14 | 64 | 741 |
| Eliminated on disposal | | | | (8) | (8) |
| At 31 December 2022 | 3,629 | 459 | 243 | 345 | 4,676 |

| | Leasehold land and buildings | Leasehold improvements | Fixtures and fittings | Computers | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Carrying amount | | | | | |
| At 31 December 2022 | 1,448 | 208 | 27 | 160 | 1,843 |
| At 31 December 2021 | 2,044 | 275 | 34 | 140 | 2,499 |
| At 31 December 2020 | 2,640 | 342 | 22 | 22 | 3,026 |

All Leasehold land and buildings are a right-of-use assets.

## 40 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

| | 2022 Number | 2021 Number |
|---|---|---|
| | £000 | £000 |
| Software Engineers | 56 | 47 |
| Business Operations | 43 | 34 |
| Management and Administration | 17 | 11 |
| Total | 116 | 92 |

Their aggregate remuneration comprised:

| | 2022 Number | 2021 Number |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 8,802 | 6,332 |
| Social security costs | 1,079 | 720 |
| Pension costs | 420 | 179 |
| | 10,301 | 7,231 |

# 41 Investments

| | Current | | Non-current | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £000 | £000 | £000 | £000 |
| Investments in subsidiaries | | | 99 | 95 |

### Fair value of financial assets carried at amortised cost

The director considers that the carrying amounts of financial assets carried at amortised cost in the financial statements approximate to their fair values.

### Investment in subsidiary undertakings

Details of the Company's principal operating subsidiaries are included in note 16.

# 42 Trade and other receivables

| | Current | | Non-current | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £000 | £000 | £000 | £000 |
| Income and other taxes recoverable | 161 | 231 | | |
| Amounts owed by subsidiary undertakings | - | 8,126 | | 16,419 |
| Other receivables | - | 10 | | |
| Prepayments | 287 | 556 | | |
| | 448 | 8,923 | | 16,419 |

In reviewing the carrying amounts of debtors due within 1 year and due to after more than 1 year, management decided to book a full provision against the intercompany receivable balances associated with the subsidiaries Smarkets (Malta) Limited, Smarkets Holdings (USA) Inc, Smarkets Inc, Smarkets Op Co and Oddsindex LLC totalling £35.4M.

# 43 Lease liabilities

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Maturity analysis | | |
| Within one year | 854 | 854 |
| In two to five years | 838 | 1,590 |
| Total undiscounted liabilities | 1,692 | 2,444 |

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date.

On 4 September 2015, the Company entered into a 10-year lease, with a tenant exercisable break clause after 7 years, for the 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 25 September 2015 with an annual rental of £580,000, but with the first nine months being rent free.

On 13 January 2017, the Company entered into a 5-year lease, terminatable by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review. The lease was terminated on 12 August 2019 and replaced with a new 5-year lease commencing on the same date, with an unchanged annual rental of £282,948.

The borrowing rate implicit in the leases is 4.75%. The fair value of the company's lease obligations is approximately equal to their carrying amount.

## 44 Trade and other payables

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Trade payables | 777 | 442 |
| Amounts owed to subsidiary undertakings | 1,724 | 253 |
| Accruals | 293 | 272 |
| Social security and other taxation | 65 | 58 |
| Other payables | 1,114 | 318 |
| | 3,973 | 1,343 |

## 45 Deferred taxation

Deferred tax assets and liabilities were attributable to the following:

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Tax effected temporary timing differences | | |
| Property, plant and equipment | 78 | 73 |
| Short term temporary differences | (78) | (73) |
| Tax value of loss carry-forwards | | |
| Net deferred tax | | |

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| Movement recognised in income | | |
| Property, plant and equipment | 6 | 39 |
| Short term temporary differences | 10 | (10) |
| Tax value of loss carry-forwards utilised | (16) | (29) |

Unused tax losses in the Group for which no deferred tax asset was recognised amounted to £37,802,000 (2021 - £32,499,000).

## 46 Share capital

Refer to note 28 of the group financial statements.

## 47 Subsequent events

Other than the matters discussed in note 25 in respect of the issuance of share options and note 15 in respect of the new company and branch, no other matters arose in the period from the balance sheet up to the date of approval of these financial statements that require further disclosure.

Smarkets Limited

1 Commodity Quay
London
United Kingdom
E1W 1AZ

smarkets.com