Annual Report
2017

About Smarkets

Smarkets operates a world-leading exchange platform for trading on sports, politics and current affairs events. Our software operates like a financial exchange while our focus on price and technology means that we often have the best prices in the world.

Our mission is to make trading 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 thousands of bets per second and has allowed us to maintain our industry leading commission rates of 2%.

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 100 empowered individuals in a flat and dynamic structure across our offices in London, Los Angeles and Malta.

2017
Key Financials

TRADED VOLUME

£3.1 billion

REVENUE

£20.6 million

BUSINESS PROFIT[2]

£6.6 million

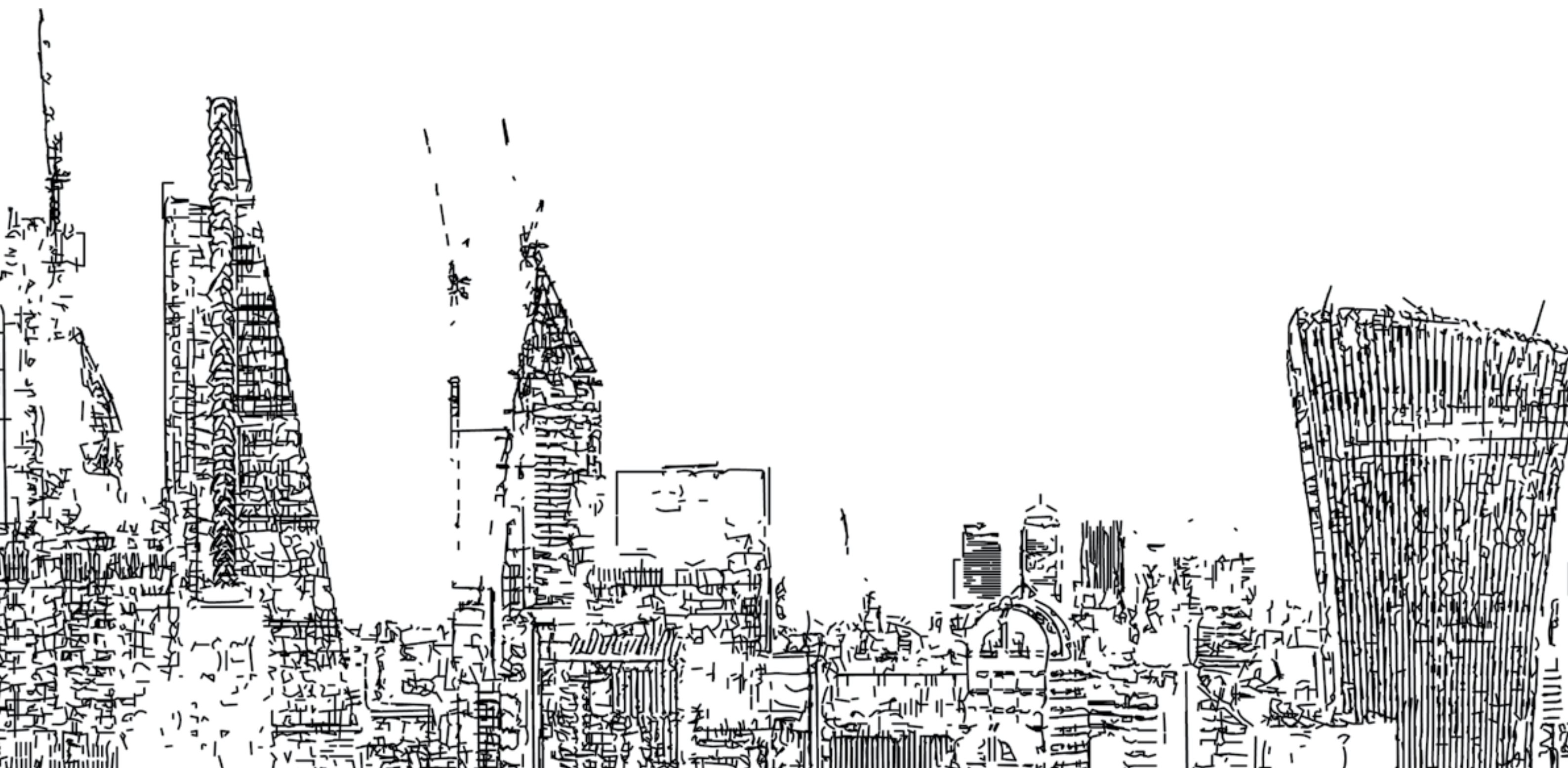
AVERAGE ACTIVE MONTHLY TRADERS

25,309

Year ended 31 December (figures in £'000)	**2017**	2016[1]	2015
Profit before tax	**6,489**	10,378	5,273
Share based payments	**100**	3,230	5
	6,589	13,608	5,278

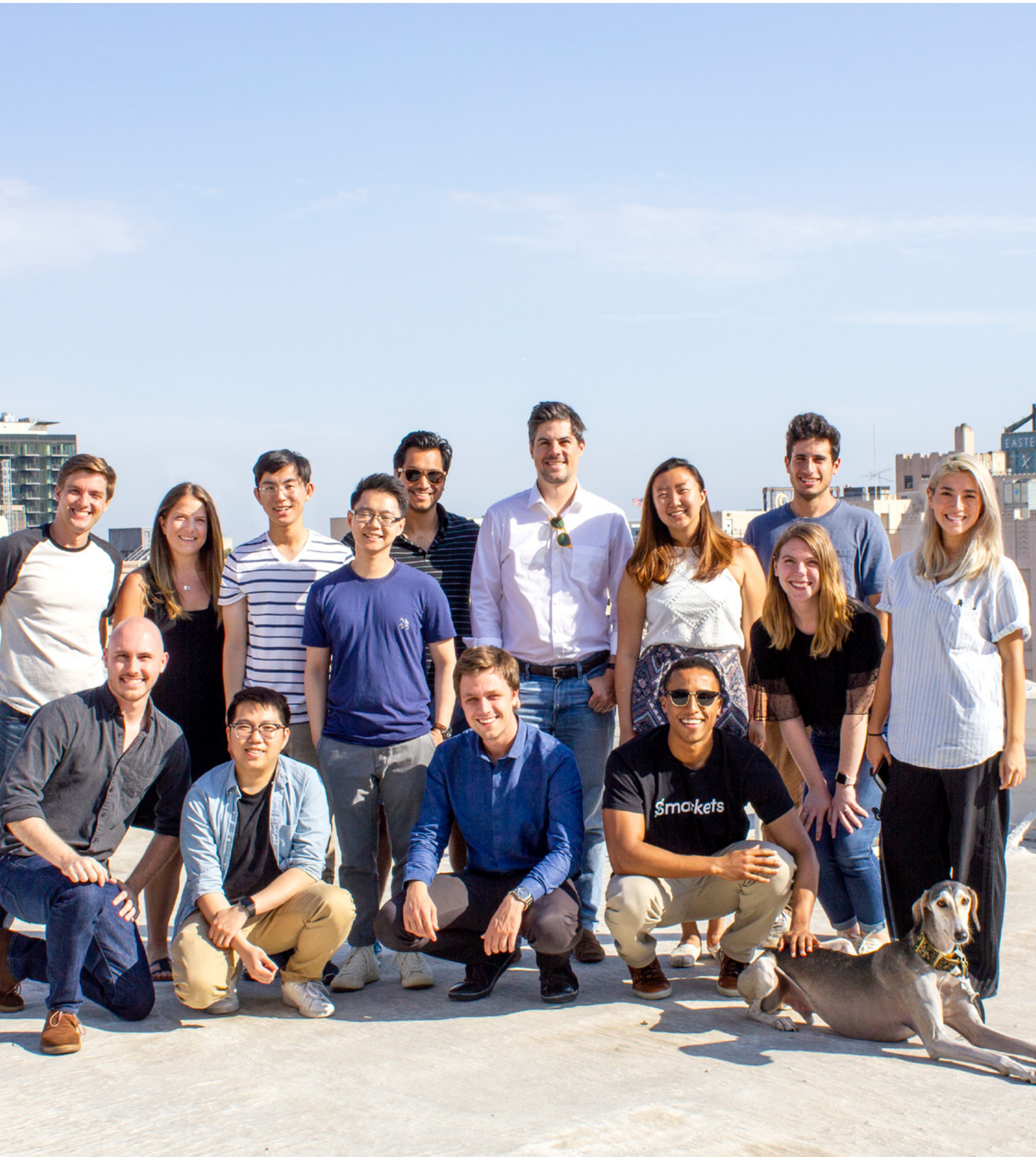
1 Amounts reported in previous financial statements have been restated following the early adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

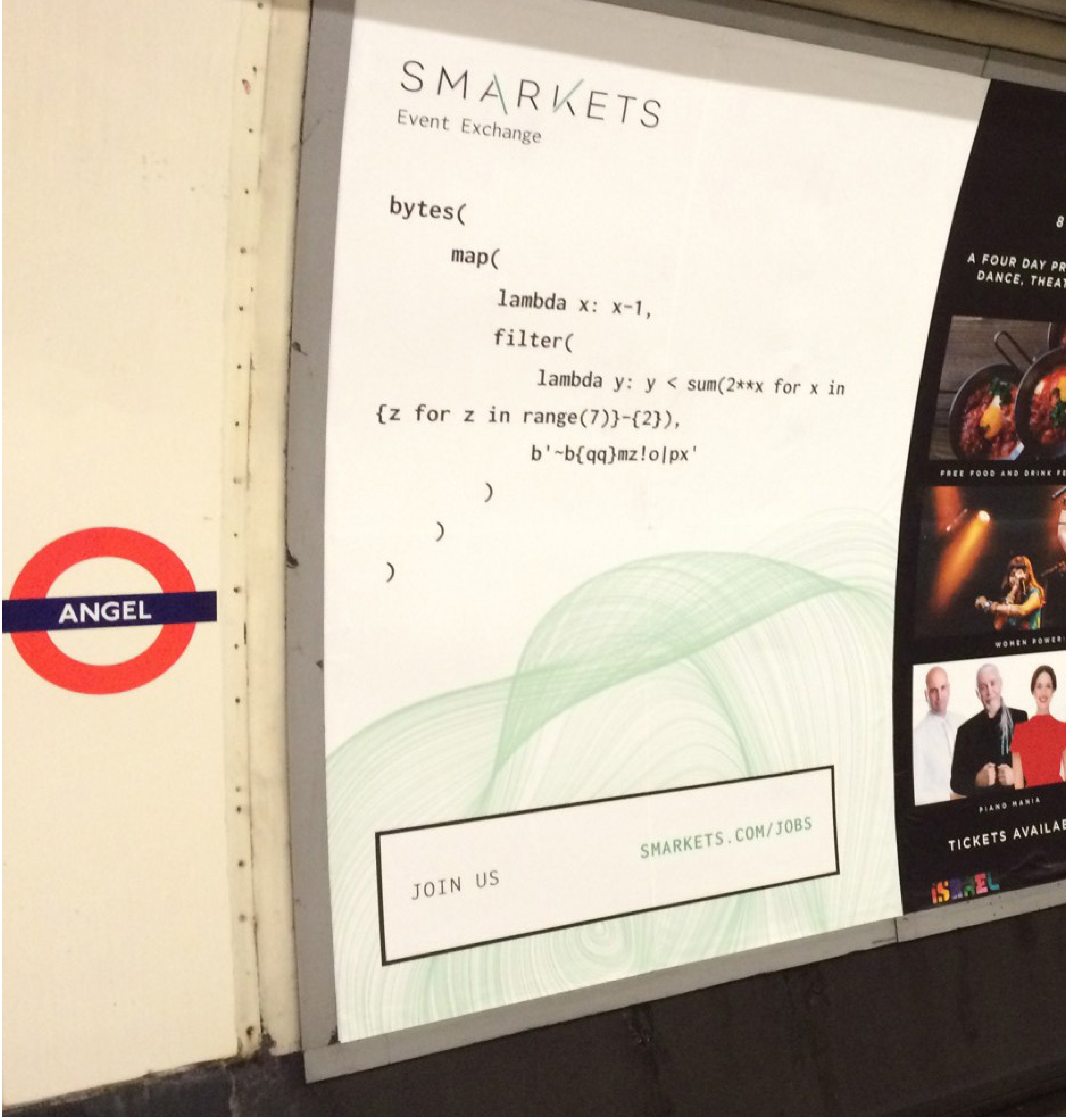
2 Management monitors performance using a measure of pre-tax profit referred to as Business profit which excludes the effect of share-based payment transactions from Administrative Expenses. Business profit may be reconciled to Profit before tax as follows:



Expanding to the United States

In 2017 we opened an office in the United States, choosing Los Angeles as the city for our first American home. Initially, we opened on the beach in Santa Monica, but soon outgrew that space and picked Downtown LA as the area where we wanted to expand newly-formed entity Smarkets Inc.





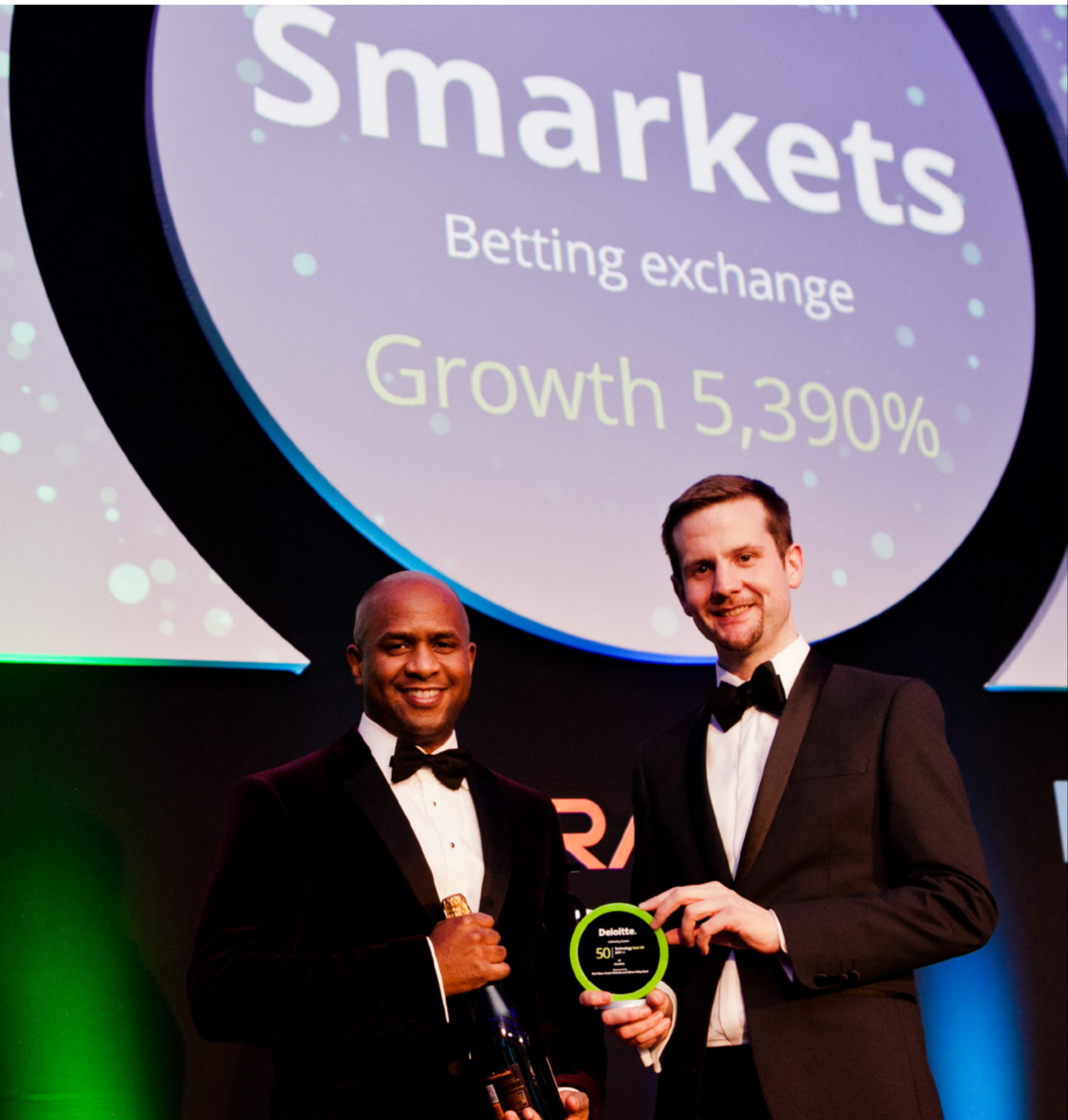
Talking a shared language to attract talent

We created a cryptic advert, which turned a few heads when it went live across the London Underground network. The message with a hidden puzzle was written entirely in Python code and squarely targeted London's tech talent in a language only they would understand.

Another award-winning year

Our fast growth was recognised with a second-place finish in the Sunday Times Tech Track 100, a fourth-placed ranking in the Deloitte Fast 50, while WIRED magazine picked us out as one of London's hottest start-ups and City A.M. named us Leap 100 Company of the Year.

CEO Jason Trost also spoke at the prestigious NOAH and Web Summit conferences.



Cheltenham Festival 2017

The Cheltenham Festival in mid-March is always one of our busiest weeks and in 2017 we saw record volume across the week, while the site performed with 100% uptime.

28/28

RACES BEST PRICED VS. SP

COMMISSION SAVED ON 0% PROMOTION

£61,495

LARGEST TRADED MARKET

£9,606,187

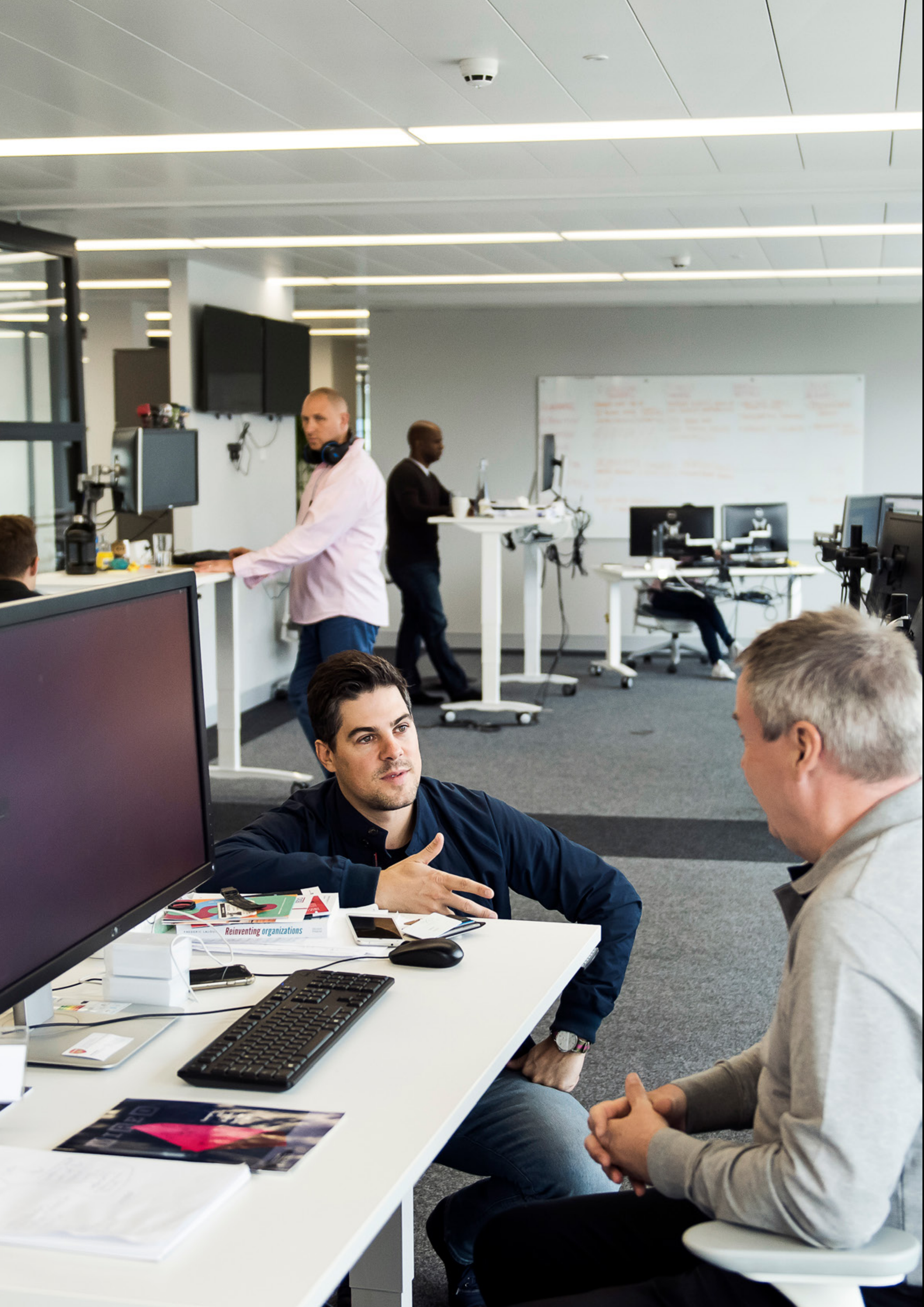
SUPREME NOVICES' HURDLE

TOTAL WINNINGS PAID OUT

£13,615,871

OVERALL TRADED VOLUME

£137,881,943


Reinventing organizations

Contents

We approach 2018 with huge optimism and hunger to make a difference in the industry. We will keep on developing our product to deliver the best value to customers with superior technology. This will see us integrate more market-makers via our API, bringing increased liquidity for trading, and we will also launch a new sportsbook product, which will bring exchange prices to the wider retail market.

Jason R. Trost
Chief Executive Officer

Chief Executive Officer's Review

The year 2017 was a year of major significance for Smarkets. It marked a decade since the Company was founded with a mission to build the world's most advanced betting exchange and to offer customers the best value in the market. Ten years on and we are as committed as ever to this vision.

We still offer customers outstanding value, and our 2% commission on net winnings remains the lowest pricing structure in the industry, excluding temporary offers from our competitors.

We also continue to bring cutting-edge technology to market. In 2017, we placed considerable emphasis on improving our technology stack, and we lead the way in providing customers with a truly innovative trading platform based on a clean user interface that is free from distractions. Among many developments, we migrated to React to power our interfaces for an improved mobile and web experience, and also introduced real industry innovation by adding dynamic live charts to our event pages - enabling customers to see market movement in real-time. We have cleaned our technical legacies and we are in a very strong position to move forward in 2018.

From a strategic standpoint, we decided to streamline our affiliate network and withdrew from several jurisdictions, which meant that our average number of monthly active traders increased by 1.4% year-on-year, lower than the significant growth experienced over the previous two years. Combined with adverse outcomes from sporting events in the second half of the year, revenues fell by 17.7% to £20.9m for the year.

Conversely, trading volume remained strong and is a good indicator of customer commitment to our platform. Our exchange has now seen £8 billion in trading volume after £3.1 billion was traded in 2017 alone, a year-on-year increase of 15.9%. As a result, the business remains in a healthy position with Business profit of £6.59m for 2017, as compared to £13.6m in 2016, a year which significantly exceeded our forecast expectations.

During 2017, I was extremely proud to open our first U.S. office. Based in Los Angeles, we have been steadily tapping into the technology talent-pool in California, so we are primed for sports betting legalisation as the American market liberalises.

Even across three offices in two continents, we are pioneering a self-management approach to the workplace. Our Company culture - reflected in our outstanding 4.8* Glassdoor rating - remains a big pull for the very best engineers as we compete with other major technology companies for tech talent. This has seen the Company grow its headcount to over 100 talented and self-motivated individuals. We will continue to invest in hiring the best but also in retaining our cultural values as we grow our team in each of our three offices.

We were also delighted to be recognised for our business success and innovation, which notably saw Smarkets finishing second in the Sunday Times Tech Track 100, named as the City AM Leap 100 Company of the Year and placing 4th Deloitte Fast 50, to mention some examples.

We approach 2018 with huge optimism and hunger to make a difference in the industry. We will keep on developing our product to deliver the best value to customers with superior technology. This will see us integrate more market-makers via our API, bringing increased liquidity for trading, and we will also launch a new sportsbook product, which will bring exchange prices to the wider retail market.

Further and for the first time, we will invest significantly in marketing and will move into new regulated markets to grow our customer base. As part of this push, Smarkets will partner with The Jockey Club where we will be the sole sponsor of 35 leading Jockey Club horse racing fixtures (240 races in total), across 11 of their 15 racecourses. This represents more than one tenth of the 348 fixtures Jockey Club Racecourses are scheduled to stage this year.

As a result, we expect that 2018 will be a year of expansion for Smarkets as we aim to reach our goals of being the leading global betting operator and establishing ourselves as a top-tier technology company.

Finally, I would like to thank everyone for their contribution and commitment to Smarkets during the past year and I look forward to another exciting year of evolution ahead.

Jason R. Trost
Chief Executive Officer

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 which enables traders to set prices and bet against other traders, rather than against a bookmaker, on sporting and other events. Unlike bookmakers, an exchange offers buy and sell prices which continually change during the events themselves up until their conclusion. The platform is state of the art being secure, transparent, highly responsive and efficient, and with rapid access to deep resources of market data.

Online betting on sports, politics, and current affairs continues to be a popular and rapidly growing activity in the UK and around the world, and the market for exchange services is competitive. As a result, 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 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 via to the community.

Technology

Smarkets develops technology in order to provide scalable, reliable and highly available systems. The betting exchange software operates like a financial exchange and is straightforward to use. It allows users to trade on anything from sporting events to political elections in a matter of seconds and with clearly defined potential trading outcomes. This focus on the product and user experience means that the Smarkets platform is fast and efficient, capable of processing a transaction in milliseconds and coping with thousands of transactions per second.

In 2017, we introduced a number of new initiatives to improve the customer experience. We rebuilt key components of our technology stack to provide a more stable and scalable trading platform. We also migrated our mobile applications to the React Native platform to improve our mobile performance and launched our first iOS and Android apps to capitalise on the trend of increasing smartphone technology usage. For customers, we added a refer-a-friend scheme offering both the existing customer and their referral a bonus.

Business model

Smarkets generates revenue from most customers by levying a transaction fee, or commission, which is paid on net winnings on individual markets. Thanks to our technology, we are able to offer customers what is still an industry-low flat commission rate of 2%. This represents exceptional value to our customers and, in turn, attracts more users and liquidity to our exchange. For institutional market making customers that are connecting to the exchange through our API, we are also implementing an alternative model to generate revenue.

The Group, through its 100% owned subsidiary, Hanson Applied Sciences Limited, also provides liquidity on the exchange by entering into algorithmic trades on the market to enhance the user experience and for profit making purposes. The positions arising from these activities are closely risk managed. As we grow, our aim is to offer better prices and further enhance the liquidity of existing and new markets.

Whilst Smarkets has a diverse customer base by channel and by nature, a significant proportion of our revenue is currently derived from institutional traders or market professionals. Our product also appeals to sports fans and recreational punters. The overall customer base is expanded through a number of delivery channels including, notably, our affiliate network and a partnership established during the year with Income Access, a marketing agency.

Customer acquisition through marketing has not been a focus to date and marketing spend has been low as a result, however we do plan to invest in this approach moving forward. Irrespective of the delivery channel, the exchange product continues to attract new users to the platform by offering unparalleled value.

Market context

Remote gambling (online) is the largest industry sector in the UK and grew by 1% to constitute 35% of the overall market with £4.9 billion gross gambling yield (up 3.7% year-on-year). Betting exchanges account for approximately 4% of the UK remote market by this measure, according to the latest UK Gambling Commission Industry Statistics, October 2016 - September 2017. The continued growth in the remote sector demonstrates increased appetite in online and digital platforms, which presents an opportunity for technology companies like Smarkets to acquire market share through technological innovation. Our proprietary technology platform allows us to deliver faster solutions than our competitors and offer an enhanced customer experience as a result.

The Group, through its subsidiary Smarkets (Malta) Limited, holds licences to operate in the UK, Malta and Ireland and over 96% of turnover was generated from these markets in 2017. The principal competition in these jurisdictions, and particularly the UK, is provided by the exchange-leading competitor Betfair, as well as other smaller exchange operators such as Betdaq and Matchbook.

Looking forward to 2018, we intend to significantly upgrade our mobile apps and launch an entirely new sportsbook product with a simplified design to target a more mass-market audience. We also intend to secure licenses in new territories, starting with Denmark, and are actively exploring and preparing for potential opportunities in the U.S. should sports betting be legalised. Market share is expected to rise as a result of these initiatives.

Financial review

An overview of the 2017 performance is as follows:

As £000 unless otherwise stated

	2017	(Restated)* 2016[3]	(Restated)* 2015	Increase 2016/17
Average monthly active traders	**25,309**	24,958	11,429	**1.4%**
Trading volume (bets placed)	**3,117,000**	2,689,000	1,114,000	**15.9%**
Revenue	**20,589**	24,861	10,004	**(17.7)%**
Cost of sales	**(3,388)**	(3,097)	(1,663)	
Gross profit	**17,201**	21,764	8,341	**(21.0)%**
Administrative expenses	**(10,622)**	(8,084)	(3,141)	
Other income and expense	**10**	(72)	78	
Business Profit before tax [4]	**6,589**	13,608	5,278	**(51.6)%**
Liabilities to customers	**16,829**	17,485	9,385	**(3.8)%**

3. See footnote 1 on page 3 *4. See footnote 2 on page 3*

Customer activity: During 2017, the Group streamlined its affiliate network and elected to withdraw from activity in certain jurisdictions. As a result, the average number of monthly active traders increased only 1.4% from 2016 to 2017, a much lower rate than the significant expansion seen in the previous two years. The number of active traders is expected to return to a greater rate of acquisition in 2018 due to the planned new licences, the new network of affiliates, and the anticipated investment in marketing referred to above. The expected legalisation of sports betting in the U.S. also presents a huge growth opportunity for the business.

Whilst customer numbers did not increase substantially during the year, trading volume, i.e. bets placed, increased by 15.9%. This is indicative of customer commitment to the platform as functionality and breadth of event coverage, user friendliness, reliability and robustness have all improved. It also reflects an acceptance across the market of exchange-based betting.

Revenues: The volume of betting translated into commission revenues of £9,231,000 up from £8,072,000 in 2016, an increase of 14.4%. However, revenues in total fell from £24,861,000 in 2016 to £20,589,000 in 2017. This was largely due to adverse outcomes from sporting events in the second half of the year, as compared to the prior year, when such outcomes were relatively consistently favourable throughout the period.

Costs: Total costs of the Group comprise Cost of sales, which includes betting taxes, payment service provider costs for customer deposits, and costs of new customer incentive schemes such as bonuses, and Administrative Expenses, which largely comprise employee and office related costs.

Cost of Sales included the effect of the introduction of the Horserace Betting Levy from 25 April 2017 but otherwise remained fairly consistent with the previous year. However, Administrative expenses, excluding share-based transactions, rose from £8,084,000 to £10,622,000. This was due to the opening of a new office in Los Angeles and average headcount rising throughout the Group from 62 in 2016 to 88 in 2017 to support increased demands for functionality and support increased customer support functions.

Profitability: Management monitors a measure of net profit referred to as Business Profit that excludes the effect of share-based payments. Business Profit for the Group for 2017 was £6.59million as compared to £13.6million for 2016.

Despite this, Profit after Taxation, inclusive of the effect of share-based payments, rose for the period from £6.0million to £8.5million due to an overall tax credit for the year. This effect was due mainly to timing differences arising in the recognition of tax income and expense which had resulted in a disproportionate effective tax rate on profit of 42% in 2016.

Balance sheet: The Total Assets of the Group at year end remained fairly consistent at £42.1million as compared to £43.4million the previous year end. Included in these balances are segregated short-term bank accounts which hold the monies deposited by customers to allow them to make bets. The Liabilities to Customers in respect of these monies amounted to £16.8million at 31 December 2017 and £17.5million at the previous year end.

Shareholders' Equity at 31 December 2017 was £16.8million as compared to £15.4million at the previous year end, with the increase largely arising from reduced tax payable balances.

Risks

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

Technology: Smarkets is primarily a technology company, with all bets taking place digitally. This exposes the business to the risk of technological failure for whatever reason. To mitigate this, the group invests in its technical workforce and the robustness of its technology and delivery mechanisms, including disaster recovery..

Regulatory: License requirements and other regulatory changes can affect the ability of the Group to conduct business in particular jurisdictions or by limiting activities. Further, regulation imposed on Group companies or customers can increase compliance and regulatory maintenance costs, and thus impact profits. To mitigate these risks, the Group monitors key markets for regulatory changes, and works with regulators in a pro-active fashion to facilitate adherence to new requirements as they evolve.

Event risk: The Group derives part of its revenues from the outcomes of sporting events, with some outcomes being more favourable than others. As such, poor results can negatively impact profits over a reporting period. The level of exposure to events is actively monitored managed on a real time basis throughout the day by risk managers who adjust parameters and hedge positions when it is considered prudent so to do.

Competition: TThe online betting market has many providers and the Smarkets customer base and plans for growth are at risk from competitors attracting existing customers and from not being able to attract new customers.

Taxation: Governments may change their approach to the taxation of businesses either generally or with regards to betting markets specifically, and such changes in individual jurisdictions could have a material impact on the cash-flow and profitability of the Group.

People: Although management prioritises staff incentives, the working environment and the self-management approach, there remains a risk that Smarkets may not be able to continue to attract or retain key employees should circumstances change or attitudes to the Group or betting industry change.

Geopolitical: Smarkets is exposed to developments in the European Union ("EU") as predominantly all of the customer base and most of the workforce are based in countries that are members of the EU. It remains unknown what the wider regulatory and legal consequences of the UK leaving the EU will be and whilst the risk to Smarkets is mitigated to an extent by the holding of licences both in the UK and elsewhere in the EU (including Malta and Ireland), there remains a risk that the activities of Smarkets might be affected under such circumstances.

Reliance on third parties: Smarkets is reliant on certain third party services, such as those provided by financial institutions, banking and payment suppliers to provide its services. Any withdrawal of such services can have an impact on the Group's ability to operate efficiently.

Financial risks: The Group is exposed to credit risk, liquidity risk, market risk (including open betting position risk), foreign currency risk and interest rate risk arising from its day to day operations. These are discussed further in note 20 to the financial statements.

Responsible Gambling

Smarkets is committed to ensuring that we maintain and develop a platform that encourages responsible betting activities. Thus, we have invested and continue to invest in technological innovations to facilitate us in this effort. In particular, we have fully established:

- A specialist KYC ('Know Your Customer') team responsible for verifying the age and identity of customers, including their nationality and country of residence, as well as reviewing links to anyone identified as having a problem with their gambling.
- A monitoring programme based on machine learning to review customer transactions and identify issues of irresponsible gambling, as well as any suspicious activity.
- Customer driven deposit and loss limits with "cooling-off" periods that have to be observed before they can be increased.
- "Time-out" options for customers to take a short break from their gambling and reassess their choices, as well as self-exclusion tools for customers who would like their account closed for a minimum of six months or over a longer period.
- Responsible gambling training for all customer-facing staff.
- Information sources directing employees and customers to organisations that can help people work through their concerns.

People

Recruiting, developing and retaining talented and motivated technical and non-technical employees are management priorities. It is essential in a competitive market, that we continue to recruit the engineers, researchers, mathematicians, quantitative analysts and other specialists to help us to continue to evolve and add fresh perspectives to our innovations. Further, integrating new talent in the right way has been key to retention, and we have enjoyed extremely low levels of staff churn for a technology company.

Diversity: We pride ourselves in a workforce with representation from over 30 nationalities who have made Smarkets their home. Our hiring efforts are aimed at capturing the brightest talent from around the world irrespective of gender, age, disability, ethnicity, nationality, sexual orientation, and religion or other beliefs.

Culture: At Smarkets, trust is a driving force. We are revolutionising the way companies work in Europe by being one of the first to advocate and implement a self-management culture. We believe humans work better, are more motivated and more efficient when given the freedom to thrive as part of a functioning neural network. Being given the freedom to self-manage whilst bringing their true identities to work every day is a novel idea but an important part of our employee brand. The transparent culture makes everyone more involved in the Company giving them a clearer path towards what they are working on and ensuring people are committed and challenged. The lack of cumbersome layers of friction and bureaucracy means we are left with a leaner, smarter workforce that can use their full talents to fulfil our purpose.

By order of the Board,

Jason R. Trost
Chief Executive Officer

Directors' Report

The Board of Directors (the "Directors") present their Report and the audited financial statements for the year ended 31 December 2017.

The Directors' Report should be read in conjunction with the other sections of this Annual Report including the Strategic Report on page 5 in which the principal activities of the Group and those factors likely to affect its future development, together with a description of its financial position are described. The following also form part of this report:

- The information relating to financial instruments, as provided in the notes to the financial statements.
- The related party transactions as set out in the notes to the financial statements.
- An indication of likely future developments in the business and details of significant events which have occurred since 31 December 2017.

Directors

The Directors who held office throughout the year and the preceding year were as follows:

- Jason Reinert Trost *Chief Executive Officer and Company Secretary*
- Robert Simon Dighero
- Randeep Singh Wilkhu

Share capital

On 19 January 2017, an offer was made by the Directors to the holders of all Ordinary shares in the Company to buy back those shares at a price of £19.95 per share subject to the aggregate purchase consideration not exceeding £10,000,000. Acceptances of this offer were received from holders of 358,132 Ordinary shares which were bought back for a total consideration of £7,144,340. The shares acquired were cancelled by the Company.

During the year ended 31 December 2017, 19,156 Ordinary shares (2016 – 157,531 Ordinary shares) were issued as a result of the exercising of share options. There were no changes to the authorised share capital of the Company during the period.

Dividends

The directors do not recommend the payment of a dividend.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Research and development

In developing the online betting exchange platform discussed in the Strategic Report on page 5, the Group has continually to refine and develop the underlying software and infrastructure that supports its operation. In particular, the Company's technical development team has to continually work to find innovative ways of handling the increasingly large volumes of customer, market and transaction data and making it accessible via its website to the user community.

Subsequent events

No matters arose in the period from the balance sheet up to the date of approval of this Directors' report that merit further disclosure.

Annual Report and Accounts

The Directors are aware of their responsibilities in respect of the Annual Report. The Directors consider that the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Statement of Directors' Responsibilities appears on page 12.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the Directors considered the going concern status for a period in excess of 12 months from the date of signing this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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.

By order of the Board,

J. R T

Jason R. Trost
Chief Executive Officer

Statement of Directors' responsibilities in respect of the Annual Report and financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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 Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them 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 Company”) for the year ended 31 December 2017 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet and Company Statement of Changes in Equity and related notes, including the accounting policies in note 1.

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 2017 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced disclosure Framework;
- 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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic Report and Directors’ Report

The Directors are responsible for the Strategic report and the Directors’ 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 Directors’ 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 Directors’ 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 Directors’ 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.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the Directors are 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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 them 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.

Ashley Rees

Ashley Rees (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
26 June 2018

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

As £000 unless otherwise stated

	Note	2017	(Restated)* 2016
Revenue	2	**20,589**	24,861
Cost of sales		**(3,388)**	(3,097)
Gross profit		**17,201**	21,764
Other operating income	3	**228**	117
Administrative expenses		**(10,722)**	(11,314)
Operating profit	4	**6,707**	10,567
Financial income	7	**6**	14
Financial expenses	7	**(224)**	(203)
Net financial income		**(218)**	(189)
Profit before tax		**6,489**	10,378
Taxation	8	**2,017**	(4,361)
Profit for the year		**8,506**	6,017
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive income for the year		**8,506**	6,017

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

The notes on pages 21 to 40 form an integral part of these financial statements.

**Refer to note 24.*

Consolidated Balance Sheet

at 31 December 2017

As £000 unless otherwise stated

	Note	31 December 2017	(Restated)* 31 December 2016	(Restated)* 1 January 2016
Non-current assets				
Property, plant and equipment	9	**5,407**	4,536	4,577
Intangible assets	10	**42**	9	1
		5,449	4,545	4,578
Current assets				
Tax receivable		**1,062**	803	-
Other financial assets	12	**120**	7	9
Trade and other receivables	13	**1,600**	1,227	1,136
Cash and cash equivalents	14	**34,383**	36,916	15,500
		37,165	38,953	16,645
Total assets		**42,614**	43,498	21,223
Non-current liabilities	15	**(4,079)**	(3,496)	(3,783)
Current liabilities				
Trade and other payables	16	**(18,957)**	(19,645)	(10,284)
Income and Corporation taxes payable		**(2,717)**	(4,936)	(1,115)
Other financial liabilities	12	**(8)**	(11)	(35)
		(21,682)	(24,592)	(11,434)
Total liabilities		**(25,761)**	(28,088)	(15,197)
Net assets		**16,853**	15,410	6,006
Equity attributable to equity holders of the Parent				
Share capital	19	**13**	15	14
Capital redemption reserve		**2**	-	-
Share premium		**3,758**	3,737	3,581
Retained earnings		**13,080**	11,658	2,411
Total equity		**16,853**	15,410	6,006

The notes on pages 21 to 40 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 June 2018 and were signed on its behalf by:

Jason R. Trost
Director
Company registered number: 06475845

Refer to note 24.

Consolidated Statement of Changes in Equity

As £000 unless otherwise stated

	Share capital	Capital redemption	Share premium	Retained earnings	Total equity
Balance at 1 January 2016 (Restated)*	14	-	3,581	2,411	**6,006**
Total comprehensive income for the year					
Profit for the year (Restated)*	-	-	-	6,017	**6,017**
Total comprehensive income for the period	-	-	-	6,017	**6,017**
Total transactions with owners of the Company					
Issue of shares (note 19)	1	-	156	-	**157**
Share based payment transactions (note 18)	-	-	-	3,230	**3,230**
Total transactions with owners of the Company	1	-	156	3,230	**3,387**
Balance at 31 December 2016 (Restated)*	**15**	**-**	**3,737**	**11,658**	**15,410**

As £000 unless otherwise stated

	Share capital	*Capital redemption*	*Share premium*	*Retained earnings*	*Total equity*
Balance at 1 January 2017	15	-	3,737	11,658	**15,410**
Total comprehensive income for the year					
Profit for the year (Restated)*	-	-	-	8,506	**8,506**
Exchange movements				(4)	**(4)**
Total comprehensive income for the period	-	-	-	8,502	**8,502**
Total transactions with owners of the Company					
Share buy-back (note 19)	(2)	2	-	(7,180)	**(7,180)**
Issue of shares (note 19)	-		21	-	**21**
Share based payment transactions (note 18)	-	-	-	100	**100**
Total transactions with owners of the Company	(2)	2	21	(7,080)	**(7,059)**
Balance at 31 December 2017	13	***2***	***3,758***	***13,080***	***16,853***

The notes on pages 21 to 40 form an integral part of these financial statements.

**Refer to note 24.*

Consolidated Cash Flow Statement

for the year ended 31 December 2017

As £000 unless otherwise stated

	Note	2017	(Restated)* 2016
Cash flows from operating activities			
Profit for the year		***8,506***	6,017
Adjustments for:			
Depreciation and amortisation	9, 10	***837***	549
Granting of share options		***100***	3,230
Net financial expense		***218***	189
Effect of foreign exchange movements		***(73)***	(355)
Taxation	8	***(2,017)***	4,361
		7,571	13,991
Increase in trade and other receivables		***(373)***	(91)
(Increase)/decrease in other financial assets		***(113)***	2
(Decrease)/increase in trade and other payables		***(688)***	9,361
Decrease in other financial liabilities		***(3)***	(24)
		6,394	23,239
Tax (paid)/credit received		***(461)***	(1,345)
Net cash from operating activities		***5,933***	21,894
Cash flows from investing activities			
Interest received		***6***	14
Acquisition of property, plant and equipment	9	***(1,717)***	(505)
Acquisition of intangible assets	10	***(34)***	(9)
Net cash from investing activities		***(1,745)***	(500)
Cash flows from financing activities			
Share buy-back	19	***(7,180)***	-
Proceeds from the issue of share capital	19	***21***	157
Additions to non-current lease liabilities, net of repayments, etc		***573***	(300)
Interest paid		***(224)***	(203)
Net cash from financing activities		***(6,810)***	(346)
Net increase in cash and cash equivalents		***(2,622)***	21,048
Cash and cash equivalents at 1 January		***36,916***	15,500
Effect of foreign exchange movements		***89***	368
Cash and cash equivalents at 31 December	14	***34,383***	36,916

The notes on pages 21 to 40 form an integral part of these financial statements.

****Refer to note 24.***

Notes to the Consolidated Financial Statements
(forming part of the financial statements)

1. Accounting policies

Smarkets Limited (the "Company" or the "Parent") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 06475845 and the registered address is Commodity Quay, 7th floor, St. Katharine Docks, London, E1W 1AZ.

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.

The Group consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its Parent company financial statements in accordance with FRS 101; these are presented on pages 45 to 59.

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 Adopted IFRSs requires management to exercise its judgement in the process of applying the Company's accounting policies. However, the Directors have not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

1.1 Change in accounting policy

The Group has early adopted the following IFRSs in these financial statements:

- IFRS 15 Revenue from Contract with Customers
- IFRS 16 Leases

The impact of the change in accounting policy is described in notes 1.11 and 1.15 and 24.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instrument assets and liabilities are stated at their fair value.

1.3 Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 5 to 9. In addition, note 20 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

1.4 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.

1.5 Foreign currency

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. 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 are translated to the Group's presentational currency, Pound 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.

1.6 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:

1. 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

2. 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.

1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables
Trade and other receivables are recognised initially at fair value. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.
Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.8 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.

1.9 Property, plant and equipment

Property, plant and equipment 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 1.11.

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 - *5 years*
- Fixtures and fittings, including office equipment - *5 years*

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

1.10 Intangible assets

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.

Other intangible assets that are 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:

- Other intangibles- *3 years*

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

1.11 Leases

The Group has early adopted IFRS 16 Leases in these consolidated financial statements and elected to retrospectively amend financial statement information previously published for the year ended 31 December 2016 and as at 1 January 2016. Right-of-use assets are included as leasehold property within property plant and equipment. Lease liabilities are likewise not presented separately from other liabilities.

Prior to the adoption of IFRS 16 Leases, the Group accounted for payments made under operating leases by recognising them in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of the total lease expense. Following adoption of IFRS 16 Leases:

- At 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

  - the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantively all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

  - the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

  - the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

- At the commencement of the lease term, the Group recognises a right-of-use asset and a lease liability. 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. Any initial direct costs of the lessee are added to the amount recognised as an asset. The asset so recognised is depreciated on the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. 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 incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method.

- Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

An explanation of how the amendments arising from the election to retrospectively implement the standard have affected the Group's financial position is set out in note 24.

1.12 Impairment excluding deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group'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 or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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.

1.13 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.

Short-term employee benefits
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.

Share-based payment transactions
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.

1.14 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.

1.15 Revenue

The Group has elected to early adopt IFRS 15 Revenue from Contracts with Customers in these financial statements. The principle of this Standard is that an entity should recognise 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 the Standard 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.

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.

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 1.8 above with the change in value being recognised in revenue.

Player bonuses granted
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.

1.16 Other operating income

Other operating income comprises predominantly credit card commissions and inactive account fess.

Credit card commissions are recognised on completion of a deposit transaction by a customer made using a credit card.

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.

1.17 Financing income and expenses

Financing expenses comprise 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.

1.18 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 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.

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. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.19 IFRS not yet applied

The following new standards and interpretations have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions Contracts (effective date 1 January 2018).
- FRIC 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective date 1 January 2018).

2. Revenue

As £000 unless otherwise stated

	2017	(Restated)* 2016
Commission earned from betting activity on sporting and other events	**9,231**	*8,072*
Net revenue from betting activity on sporting and other events	**11,694**	*17,345*
Player bonuses granted	**(336)**	*(556)*
Total revenue	**20,589**	*24,861*

3. Other operating income

As £000 unless otherwise stated

	2017	(Restated)* 2016
Credit card commission income	**97**	*105*
Inactive account fees	**130**	*-*
Profit on sale of subsidiary (note 11)	**-**	*10*
Other	**1**	*2*
Total revenue	**228**	*117*

4. Expenses and auditor's remuneration

Included in profit are the following:

As £000 unless otherwise stated

	2017	(Restated)* 2016
Employment costs (note 5)	**5,426**	*8,312*
Of which: Employer contributions to defined contribution pension plans	**75**	*36*
Foreign exchange losses/(gains)	**39**	*(185)*
Depreciation of property, plant and equipment (note 9)	**836**	*548*
Amortisation of intangible fixed assets (note 10)	**1**	*1*
Auditors' remuneration:		
For audit of these financial statements	**71**	*56*
For taxation compliance services	**8**	*9*
For other services	**19**	*62*

Amounts receivable by the Group's auditors in respect of the audit of financial statements of subsidiaries of the Company amounted to £15,000 for the year ended 31 December 2017 (2016 - £12,000).

5. Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

Number of employees

	2017	2016
Software engineers	**48**	*38*
Business operations	**32**	*19*
Management and Administration	**8**	*5*
	88	*62*

The aggregate employment costs of these persons were as follows:

As £000 unless otherwise stated

	2017	2016
Wages and salaries	**4,660**	*4,593*
Share based payments (note 17)	**100**	*3,230*
Social security costs	**581**	*444*
Pension contributions	**75**	*36*
Other	**10**	9
	5,426	8,312

6. Directors' Remuneration

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

As £000 unless otherwise stated

	2017	2016
Salary and bonuses	**171,697**	*353,264*
Social security costs	**10,751**	*47,619*
Medical insurance	**1,863**	-
Other	**12,184**	-
	196,495	*400,883*

Neither of the other Directors received any compensation from the Company for their services to the Group or the Company for the year ended 31 December 2017 (2016 - £Nil).

7. Financial income and expense

	2017	(Restated)* 2016
Financial income recognised in profit or loss		
Interest income on financial assets	**6**	*14*
Total financial income	**6**	*14*
Finance expense recognised in profit and loss		
Interest expense on lease liabilities	**(224)**	*(203)*
Total financial expense	**(224)**	*(203)*

8. Taxation

Recognised in the income statement

As £000 unless otherwise stated

	2017	(Restated)* 2016
Current tax expense		
Current year	**(2,017)**	4,361
Current tax (credit)/expense	**(2,017)**	4,361
Deferred tax expense		
Accelerated capital allowances	**(6)**	30
Short term temporary differences	**106**	(6)
Tax value of loss carry-forwards	**(100)**	(24)
Deferred tax expense (note 17)	**-**	-
Total tax (credit)/expense recognised in income statement		4,361
Total tax recognised in other comprehensive income	**-**	-
Total tax recognised directly in equity (i.e. not in comprehensive income)	**-**	-

Reconciliation of effective tax rate

As £000 unless otherwise stated

	2017	(Restated)* 2016
Profit for the year	**8,506**	6,016
Total tax (credit)/expense	**(2,017)**	4,361
Profit before taxation	**6,489**	10,377
Tax using the average UK corporation tax rate of 19.25% (2016 – 20%)	**1,249**	2,075
Effect of tax rates in foreign jurisdictions	**1,782**	1,917
Research and development tax credit	**(632)**	(264)
Tax reclaimable on dividends received	**(5,268)**	(460)
Tax losses not recognised	**894**	869
Deferred tax rate adjustments	**79**	157
Prior year adjustments	**(90)**	(26)
Other	**(31)**	93
Total tax (credit)/expense	**(2,017)**	4,361

UK Corporation Tax was charged at 20% from 1 April 2015 until 31 March 2017. Reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016.

9. Property, plant and equipment

As £000 unless otherwise stated

	Leasehold property	*Leasehold improvements*	*Computer equipment*	*Fixtures and fittings*	*Total*
Cost	4,191	352	87	84	**4,714**
Balance at 1 January 2016 (Restated)	131	240	60	74	**505**
Additions	-	-	-	-	**-**
Disposals					
Balance at 31 December 2016 (Restated)	4,322	592	147	158	**5,219**
Balance at 1 January 2017	4,324	592	147	158	**5,221**
Additions	1,469	79	96	73	**1,717**
Foreign exchange movements	(10)	-	-	(1)	**(11)**
Balance at 31 December 2017	5,783	671	243	230	**6,927**
Depreciation and impairment					
Balance at 1 January 2016 (Restated)	(105)	(5)	(19)	(8)	**(137)**
Depreciation charge for the year	(442)	(56)	(25)	(25)	**(548)**
Disposals	-	-	-	-	**-**
Balance at 31 December 2016 (Restated)	(547)	(61)	(44)	(33)	**(685)**
Balance at 1 January 2017	(547)	(61)	(44)	(33)	**(685)**
Depreciation charge for the year	(685)	(66)	(46)	(39)	**(836)**
Foreign exchange movements	1	-	-	-	**1**
Balance at 31 December 2017	(1,231)	(127)	(90)	(72)	**(1,520)**
Net book value					
At 1 January 2016 (Restated)	4,086	347	68	76	**4,577**
At 31 December 2016 (Restated)	3,777	531	103	125	**4,536**
At 31 December 2017	**4,552**	**544**	**153**	**158**	**5,407**

10. Intangible assets

As £000 unless otherwise stated

	Other intangibles	*Total*
Cost		
Balance at 1 January 2016	28	**28**
Additions	9	**9**
Balance at 31 December 2016	37	**37**
Balance at 1 January 2017	37	**37**
Additions	34	**34**
Balance at 31 December 2017	71	**71**
Amortisation and impairment		
Balance at 1 January 2016	(27)	**(27)**
Amortisation for the year	(1)	**(1)**
Balance at 31 December 2016	(28)	**(28)**
Balance at 1 January 2017	(28)	**(28)**
Amortisation for the year	(1)	**(1)**
Balance at 31 December 2017	(29)	**(29)**
Net book value		
At 1 January 2016	1	**1**
At 31 December 2016	9	**9**
At 31 December 2017	**42**	**42**

The additions to Other Intangibles in the year ended 31 December 2017 comprised the application for a Danish gaming licence and for the year ended 31 December 2016, the cost of trademark registration. The amortisation charge is recognised in the Administrative expenses line in the Income Statement.

11. Investments in Subsidiaries

The Group has the following investments in subsidiaries:

	Principal place of business	***Country of incorporation***	***Registered number***	***Class of shares held***	Owenrship ***2017***	***2016***
Hanson Applied Sciences Limited	Malta	United Kingdom	08509475	Ordinary Shares	**100%**	100%
Smarkets (Malta) Limited	Malta	Malta	C 44795	Ordinary Shares	**100%**	100%
Smarkets Holdings (Malta) Limited	Malta	Malta	C 72638	Ordinary Shares	**100%**	100%
Smarkets Inc.	United States	United States	6269386	Ordinary Stock	**100%**	0%
Green Affiliates Limited	United Kingdom	United Kingdom	09342254	Ordinary Shares	**0%**	100%
Robin Trading Limited	Malta	Malta	C 73382	Ordinary Shares	**0%**	100%
Robin Holding Company Limited	Malta	Malta	C 73171	Ordinary Shares	**0%**	100%

The registered offices of the investments held at 31 December 2017 is as follows:

- Hanson Applied Sciences Limited - 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ, United Kingdom.
- Smarkets (Malta) Limited and Smarkets Holdings (Malta) Limited - Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta.
- Smarkets Inc. - 527 W. 7th St., Suite 601, Los Angeles, CA 90014, United States.

Up until 31 May 2016, all investments in subsidiaries were held directly by the Company. On that date, the entire investment in Smarkets (Malta) Limited was transferred into the direct ownership of Smarkets Holdings (Malta) Limited. The transaction was accounted for at the carrying value of the investment, this being £36,000, as there was no change in ultimate owner.

Also, up until 31 May 2016, one share in Smarkets Malta Limited, representing 0.0028% of the company, was held by a third party. The activities of Smarkets (Malta) Limited are operated under a Class 3 remote gaming licence granted by the Malta Gaming Authority, as well as licences granted by the UK Gambling Commission and the Irish Office of the Revenue Commissioners.

On 31 October 2016, the investment in Green Affiliates Limited was sold for a consideration of £12,432, generating a profit on sale to the Group of £10,499. This company contributed £1,002 to the profit before tax of the Group for the year ended 31 December 2016.

On 3 January 2017, Smarkets Inc., a subsidiary company newly incorporated under the laws of Delaware in the United States, commenced trading. The company operates from an office in Los Angeles, California.

Robin Trading Limited and Robin Holding Company Limited were liquidated during 2017.

12. Other financial assets and liabilities

As £000 unless otherwise stated

	2017	2016
Current asset		
Fair value of open betting positions	120	7
	120	7
Current liability		
Fair value of open betting positions	(8)	(11)
	(8)	(11)

Open betting position asset and liabilities are derivative positions which are valued at fair value in the balance sheet. The fair valuation methodology is discussed in note 20.

13. Trade and other receivables

As £000 unless otherwise stated

	2017	2016
Balances with other betting businesses	**385**	404
Rent deposits	**560**	529
Prepayments	**496**	242
Other debtors	**159**	52
Total trade and other receivables due within 1 year	**1,600**	1,227

Open bettiAt 31 December 2017, there were no receivables that were past due nor considered to be impaired (2016 - £Nil).

14. Cash and cash equivalents

As £000 unless otherwise stated

	2017	2016
Cash at bank	**34,383**	36,916
Total cash and cash equivalents	**34,383**	36,916

Cash and cash equivalents comprises short term interest bearing bank deposits and includes £16,829,000 (2016 - £17,485,000) of assets held in separate bank accounts on behalf of players and which represent the amounts that those players have deposited in order to transact on the Group's betting exchange.

15. Non-current liabilities

As £000 unless otherwise stated

	31 December 2017	(Restated)* 31 December 2016	(Restated)* 1 January 2016
Lease liabilities	**4,079**	3,496	3,783
Total non-current liabilities	**4,079**	3,496	3,783

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 5 February 2016, the 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 16 September 2016, the 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 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.

Maturity analysis

As £000 unless otherwise stated

	2017	2016
Contractual undiscounted cash flows		
Less than one year	**886**	601
One to five years	**3,506**	2,378
More than five years	**1,425**	1,994
Total undiscounted lease liabilities at 31 December	**5,817**	4,973
Lease liabilities included in the Statement of Financial Position at 31 December		
Current	**886**	601
Non-current	**4,079**	3,496

16. Trade and other payables

As £000 unless otherwise stated

	31 December 2017	(Restated)* 31 December 2016	(Restated)* 1 January 2016
Player account liabilities	**16,829**	17,485	9,385
Betting, indirect and payroll taxation liabilities	**101**	236	125
Other betting related trade payables	**232**	103	55
Accounts payable and accrued expenses	**882**	1,187	380
Lease liabilities	**886**	601	327
Other creditors	**27**	33	12
Total trade and other payables due within 1 year	**18,957**	19,645	10,284

The player account liabilities are matched by assets held in separate bank accounts as discussed in note 14.

17. Deferred tax assets and liabilities

As £000 unless otherwise stated

Deferred tax assets and liabilities were attributable to the following:	2017	2016
Tax effected temporary timing differences		
Property, plant and equipment	**49**	54
Short term temporary differences	**(2)**	(108)
Tax value of loss carry-forwards	**(47)**	54
Net deferred tax	**-**	-
Movement recognised in income		
Property, plant and equipment	**(6)**	30
Short term temporary differences	**106**	(6)
Tax value of loss carry-forwards utilised	**(100)**	(24)

Unused tax losses in the Company for which no deferred tax asset was recognised amounted to £7,760,000 at 31 December 2017 (2016 – £5,860,000).

18. Employee benefits

18.1 Defined contribution pension plan

From 1 April 2016, the Company has operated a defined contribution pension plan for the benefit of qualifying UK based employees. The Company makes contributions to the plan on a two for one basis to match employee contributions of up to 1% of salary. The total expense relating to this plan for the year ended 31 December 2017 was £75,000 (2016 - £36,000). The total unpaid balance to the scheme is included in creditors and at 31 December 2017 was £14,000 (2016 - £20,000).

The Group does not operate any other pension plans for employees nordid it operate any such plans prior to 1 April 2016.

18.2 Share-based payments

The Company operated the following equity-settled share-based payment arrangements during the two years ended 31 December 2017, as follows:

- An employee share-based incentive scheme for eligible employees of the Company. 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. Options granted in the year ended 31 December 2017 have an exercise price of £19.95 and all options granted up to 31 December 2016 have an exercise price of £1.00. During the year ended 31 December 2017, holders exercised 19,156 options (2016 – 13,968 options) and paid £20,634 (2016 - £13,968) to receive 19,156 Ordinary shares (2016 – 13,968 shares). The options issued under this scheme 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.

- An option granted to Jason Trost. This non-transferrable option granted the option to the holder the right to acquire 133,000 Ordinary shares of the Company at an exercise price of £1.00. The option was granted on 14 June 2016 and was exercisable at any time. On 1 July 2016, the holder exercised his option in full and paid £133,000 to receive the 133,000 Ordinary shares.

- An option granted to a family member of Jason Trost. This non-transferrable option granted the option to the holder the right to acquire 10,200 Ordinary shares of the Company at an exercise price of £1.00. The option was granted on 10 February 2015 and was exercisable at any time. On 20 May 2016, the holder exercised his option in full and paid £10,200 to receive the 10,200 Ordinary shares.

The weighted average share price at the date of exercise of share options exercised during the year was £19.95 (2016 - £21.00).

At 31 December 2015, share certificates had not been issued for 363 share options exercised. These were issued on 2 February 2016. There were no share certificates outstanding for share options exercised at 31 December 2017 or 31 December 2016.

The number of share options in issue was as follows:

	number of options	
	2017	2016
Outstanding at the beginning of the year	**70,750**	75,700
Exercised during the year	**(19,156)**	(157,168)
Granted during the year	**17,250**	175,659
Lapsed during the year	**(7,469)**	(23,441)
Outstanding at the end of the year	**61,375**	70,750
Exercisable at the end of the year	**41,748**	48,570

Valuation methodology

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.

The inputs into the Black-Scholes for the share option plans for the share options issued in the years ending 31 December 2017 and 2016 were as follows:

	2017	2016
Weighted average share price at grant date	**£19.95**	£21.00
Weighted average option exercise prices	**£19.95**	£1.00
Expected volatility	**13%**	16%
Expected option life	**10 years**	10 years
Weighted average contractual life of outstanding share options	**7.0 years**	7.4 years
Risk-free interest rate	**1.5%**	1.5%
Expected dividend yield	**0.0%**	0.0%
Fair-value of options granted in the year	**£5.09**	£22.08

Volatility for the options issued in both 2017 and 2016 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 inputs to the model for the option granted to Jason Trost on 14 June 2016 were the same except that the option life was expected to be minimal, and hence the intrinsic value of the options was expected to be £Nil. As a result, the fair value of the options granted was calculated as being the difference between the share price at issue and the grant price.

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments were £100,000 for the year ended 31 December 2017 (2016 - £3,230,000).

19. Capital and reserves

Movements in share capital for the year ending 31 December 2017 were as follows:

	Series A Preference shares of £0.005 each		Deferred shares of £0.005 each		Ordinary shares of £0.005 each	
Fully paid shares	**2017**	2016	**2017**	2016	**2017**	2016
In issue at 1 January	**755,489**	755,489	**124,144**	124,144	**2,065,662**	1,908,131
Conversion to Ordinary shares	**(4,021)**	-	**-**	-	**4,021**	-
Share buy-back	**-**	-	**-**	-	**(358,132)**	-
Exercise of share options	**-**	-	**-**	-	**19,156**	157,531
In issue at 31 December	**751,468**	755,489	**124,144**	124,144	**1,730,707**	2,065,662

In January 2017, a holder of Series A Preference shares elected to convert 4,021 of these shares to Ordinary shares so as to accept the share buy-back offer referred to below.

Share capital outstanding at 31 December 2017, was as follows:

Fully paid shares	**2017**	2016
Allotted, called up and fully paid	**£**	£
Ordinary shares of £0.005 each	**8,653**	10,328
Deferred shares of £0.005 each	**621**	621
Series A Preference shares of £0.005 each	**3,757**	3,777
Shares classified as shareholders' funds	**13,031**	14,726

During the year ended 31 December 2017, the Company issued 19,156 shares in respect of share options exercised in the year (2016 – 157,531 shares, in addition to 363 shares issued in respect of share options exercised in 2015).

Share buy-back
On 19 January 2017, an offer was made by the Directors to the holders of all Ordinary shares in the Company to buy back those shares at a price of £19.95 per share subject to the aggregate purchase consideration not exceeding £10,000,000. Acceptances of this offer were received from holders of 358,132 Ordinary shares which were bought back for a total consideration of £7,144,340. The shares acquired were cancelled by the Company.

Classes of share
The Ordinary shares and the Series A 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 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 and Series A 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 £3.108 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 and Series A 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 Directors.

20. Financial instruments

20.1 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 players and amounts owing to players.

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

As £000 unless otherwise stated

	Carrying amount **2017**	Fair value **2017**	Carrying amount 2016	Fair value *2016*
Trade and other receivables (note 13)	**1,104**	**1,104**	984	*984*
Cash and cash equivalents (note 14)	**34,383**	**34,383**	36,916	*36,916*
Other financial assets (note 12)				
Open betting transactions	**120**	**120**	7	7
Total financial assets	**35,607**	**35,607**	37,907	37,907
Trade and other payables (note 16)	**(18,647)**	**(18,647)**	(18,322)	*(18,322)*
Other financial liabilities (note 12)				
Open betting transactions	**(8)**	**(8)**	(11)	(11)
Non-current liabilities (note 15)	**(4,079)**	**(3,808)**	(3,496)	(3,365)
Total financial liabilities	**(22,734)**	**(22,463)**	(21,829)	(21,698)
Net financial assets	**12,873**	**13,144**	16,078	16,209

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 15) 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).

20.2 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 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 2017 amounted to £385,000 (2016 - £404,000).

No impairment losses have been recognised against such assets.

20.3 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 player transactions is minimised.

With the exception of long term finance lease liabilities (note 15), the Group has no outstanding borrowings, nor financial liabilities for which the contractual maturity extends beyond one year.

20.4 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
The Group has no borrowings and no term cash deposits and, as such, has only a very limited exposure to interest rate risk.

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

At 31 December 2017, the Group's exposure to foreign currency risk was as follows. This is based on the carrying amount for monetary financial instruments.

As £000 unless otherwise stated

31 December 2017	GBP	EUR	SEK	Other	**Total**
Other financial assets	120	-	-	-	**120**
Trade and other receivables	1,064	6	-	34	**1,104**
Cash and cash equivalents	32,321	102	1,452	508	**34,383**
Non-current liabilities	(3,747)	(146)		(185)	
Other financial liabilities	(8)	-	-	-	**(8)**
Trade and other payables	(16,782)	(737)	(797)	(331)	**(18,647)**
Net exposure	12,968	(775)	655	26	**12,873**

As £000 unless otherwise stated

31 December 2016	GBP	EUR	SEK	Other	Total
Other financial assets	7	-	-	-	**7**
Trade and other receivables	984	-	-	-	**984**
Cash and cash equivalents	33,561	2,282	618	455	**36,916**
Non-current liabilities	(3,408)	(88)			**(3,496)**
Other financial liabilities	(11)	-	-	-	**(11)**
Trade and other payables	(15,483)	(2,263)	(392)	(184)	**(18,322)**
Net exposure	15,650	(69)	226	271	**16,078**

A 10% percent weakening of the principal foreign exchange exposure of EUR against GBP at 31 December 2017 would have increased equity and profit or loss by £23,000 (2016 – decrease of £48,000). 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% percent strengthening of the above currencies against the pound sterling at 31 December 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.

20.5 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 Group has expanded significantly over the last few years. Up to the year ended 31 December 2016, all retained earnings were fully reinvested in the business and no dividends were paid. By early 2017, this reinvestment approach had generated sufficient retained earnings and cash for management to carry out the buy-back of 358,132 Ordinary shares of the Company for a total consideration of £7,144,340 as discussed in note 19.

The Group continues to be profitable and is investing in expansion including the development of the office in the United States. As such, management intend to continue reinvesting retained earnings accumulated and have not paid nor do they propose any dividends or other distributions for the year ended 31 December 2017 (2016 - £Nil).

21. Related parties

Transactions with shareholders

On 14 June 2016, Jason Trost, the Chief Executive Officer, was granted the option to acquire 133,000 £0.005 Ordinary shares in the Company at an exercise price of £1.00. On 1 July 2016, he exercised this option by paying £133,000 to receive the 133,000 Ordinary shares.

Other related party transactions

As discussed in note 18, on 10 February 2015, a non-transferrable option was granted to a family member of Jason Trost giving the holder the right to acquire 10,200 Ordinary shares of the Company at an exercise price of £1.00. The option was exercisable at any time. On 20 May 2016, the holder exercised his option in full and paid £10,200 to receive the 10,200 Ordinary shares.

During the year ended 31 December 2017, a family member of Jason Trost was employed by the Group for a three-month period for an aggregate remuneration cost of £10,430, comprising a salary of £9,394 and social security costs of £1,036.

Transactions with key management personnel

At 31 December 2017, Directors of the Company and their immediate relatives control 30.0 per cent of the voting shares of the Company (2016 – 27.6 per cent).

22. Ultimate parent company

The Company is the ultimate parent company of the Group.

23. Subsequent events

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.

24. Effect of adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Lease

During the year ended 31 December 2017, the Company elected to early adopt IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

IFRS 15 Revenue from Contracts with Customers

The early adoption of IFRS 15 Revenue from Contracts with Customers has resulted in the cost of bonuses granted to players being re-classified as an offset to revenue having previously been accounted for in cost of sales. As a result, both revenue and cost of sales for the year ended 31 December 2016 have been reduced by £556,000. The restatement has no impact on reported gross profit for that year nor on the net assets of the Group at 31 December 2016.

IFRS 16 Leases

As part of the early adoption of IFRS 16 Leases, the Company chose to adopt the standard retrospectively. As a result, amounts reported previously in the financial statements for the Company have been restated.

An explanation of how the adoption of the Standard has affected the Company's financial position is set out in the following table:

Reconciliation of Statement of Financial position	1 January 2016 As previously reported	1 January 2016 IFRS 16 adoption effect	1 January 2016 **As restated**	31 December 2016 As previously reported	31 December 2016 IFRS 16 adoption effect	31 December 2016 **As restated**
Non-current assets						
Property, plant and equipment	491	4,086	**4,577**	759	3,777	**4,536**
Intangible assets	1	-	**1**	9	-	**9**
	492	4,086	**4,578**	768	3,777	**4,545**
Current assets						
Tax receivable	-	-	**-**	803	-	**803**
Other financial assets	9	-	**9**	7	-	**7**
Trade and other receivables	1,136	-	**1,136**	1,231	(4)	**1,227**
Cash and cash equivalents	15,500	-	**15,500**	36,916	-	**36,916**
	16,645	-	**16,645**	38,957	(4)	**38,953**
Total assets	17,137	4,086	**21,223**	39,725	3,773	**43,498**
Non-current liabilities	-	(3,783)	**(3,783)**	-	(3,496)	**(3,496)**
Current liabilities						
Trade and other payables	(9,957)	(327)	**(10,284)**	(19,241)	(404)	**(19,645)**
Corporation taxes payable	(1,115)	-	**(1,115)**	(4,936)	-	**(4,936)**
Other financial liabilities	(35)	-	**(35)**	(11)	-	**(11)**
	(11,107)	(327)	**(11,434)**	(24,188)	(404)	**(24,592)**
Total liabilities	(11,107)	(4,110)	**(15,217)**	(24,188)	(3,900)	**(28,088)**
Net assets	6,030	(24)	**6,006**	15,537	(127)	**15,410**
Equity attributable to equity holders of the Parent						
Share capital	14	-	**14**	15	-	**15**
Share premium	3,581	-	**3,581**	3,737	-	**3,737**
Retained earnings	2,435	(24)	**2,411**	11,785	(127)	**11,658**
Total equity	6,030	(24)	**6,006**	15,537	(127)	**15,410**

Company Balance Sheet

at 31 December 2017

	Note	31 December 2017	2017	31 December (Restated)* 2016	(Restated)* 2016	1 January (Restated)* 2016	(Restated)* 2016
Fixed assets							
Intangible assets	*28*		**12**		9		1
Tangible assets	*29*		**4,914**		4,412		4,577
Investments	*30*		**68**		42		41
			4,994		4,463		4,619
Current assets							
Tax receivable		**632**		-		-	
Debtors	*31*	**10,944**		3,809		1,803	
Cash at bank and in hand		**466**		2,750		880	
		12,042		6,559		2,683	
Creditors: amounts falling due within one year	*32*	**(2,149)**		(1,790)		(699)	
Net current assets			**9,893**		4,769		1,984
Total assets less current liabilities			**14,887**		9,232		6,603
Creditors: amounts falling due after more than one year	*33*		**(3,747)**		(3,408)		(3,783)
Provisions for liabilities							
Deferred tax liability	*34*		**-**		-		-
Net assets			**11,140**		5,824		2,820
Capital and reserves							
Called up share capital	*35*		**13**		15		14
Capital redemption reserve	*35*		**2**		-		-
Share premium account			**3,758**		3,737		3,581
Profit and loss account			**7,367**		2,072		(775)
Shareholders' funds			**11,140**		5,824		2,820

The notes on pages 47 to 59 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 26 June 2018 and were signed on its behalf by:
Jason R. Trost
Director
Company registered number: 06475845

**Refer to note 37*

Company Statement of Changes in Equity

As £000 unless otherwise stated

	Share capital	Capital redemption	Share premium	Profit and loss account	Total equity
Balance at 1 January 2016 (Restated)*	14	-	3,581	(775)	2,820
Total comprehensive income for the year					
Loss for the year (Restated)*	-	-	-	(383)	(383)
Total comprehensive income for the year	-	-	-	(383)	(383)
Total transactions with owners of the Company					
Issue of shares (note 35)	1	-	156	-	157
Share based payment transactions	-	-	-	3,230	3,230
Total transactions with owners of the Company	1	-	156	3,230	3,387
Balance at 31 December 2016 (Restated)*	**15**	**-**	**3,737**	**2,072**	**5,824**

As £000 unless otherwise stated

	Share capital	Capital redemption	Share premium	Profit and loss account	Total equity
Balance at 1 January 2017	15	-	3,737	2,072	5,824
Total comprehensive income for the year					
Profit for the year	-	-	-	12,375	12,375
Total comprehensive income for the year	-	-	-	12,375	12,375
Total transactions with owners of the Company					
Share buy-back (note 35)	(2)	2	-	(7,180)	(7,180)
Issue of shares (note 35)	-	-	21	-	21
Share based payment transactions	-	-	-	100	100
Total transactions with owners of the Company	(2)	2	21	(7,080)	(7,059)
Balance at 31 December 2017	**13**	**2**	**3,758**	**7,367**	**11,140**

The notes on pages 47 to 59 form an integral part of these financial statements.

**Refer to note 37*

Notes to the Company Financial Statements

(forming part of the financial statements)

25. Accounting policies

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.

25.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The Company has chosen to early adopt IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases in these financial statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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 profit for the financial year was £12,283,000 (2016 – loss of £383,000).

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. In these financial statements, the Company has taken the exemption granted by IFRS 2 in respect of share-based payments for equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2014.

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 Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

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 Directors have not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

25.2 Measurement convention

The financial statements are prepared on the historical cost basis except where otherwise noted in these accounting policies.

25.3 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 profit and loss account.

25.4 Intangible fixed assets and amortisation

Expenditure on internally generated software and other intangibles is recognised in the profit and loss account as an expense incurred. Expenditure on research activities is recognised in the profit and loss 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 profit and loss 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

25.5 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 25.7.

epreciation 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 - *5 years*
- Fixtures and fittings, including office equipment - *5 years*

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

25.6 Investments in subsidiaries

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

25.7 Leases

The Company has early adopted IFRS 16 Leases in these financial statements and elected to retrospectively amend financial statement information previously published for the year ended 31 December 2016 and as at 1 January 2016. Right-of-use assets are included as leasehold property within property plant and equipment. Lease liabilities are likewise not presented separately from other liabilities.

Prior to the adoption of IFRS 16 Leases, the Company accounted for payments made under operating leases by recognising them in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of the total lease expense. Following adoption of IFRS 16 Leases:

- At 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. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:
  - the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantively all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
  - the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
  - the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.
- At the commencement of the lease term, the Company recognises a right-of-use asset and a lease liability. 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. Any initial direct costs of the lessee are added to the amount recognised as an asset. The asset so recognised is depreciated on the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. 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 incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method.
- Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The effect of the election to retrospectively amend previously published financial statement information is set out in note 37.

25.8 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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 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.

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.

25.9 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.

25.10 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:

1. 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

2. 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.

25.11 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash at bank and in hand, loans and borrowings, and trade and other creditors.
Trade and other debtors

Trade and other debtors
Trade and other debtors are recognised initially at fair value. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors
Trade and other creditors are recognised initially at fair value. After initial recognition, they are measured at amortised cost using the effective interest method.

Cash at bank and in hand
Cash and cash equivalents comprise cash balances and call deposits.

25.12 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.

25.13 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.

25.14 Revenue

The Company has elected to early adopt IFRS 15 Revenue from Contracts with Customers in these financial statements. The principle of this Standard is that an entity should recognise 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 the Standard 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.
The early adoption of IFRS 15 Revenue from Contracts with Customers has not affected the Company's financial position.

25.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account 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.

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. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

26. Remuneration of directors

The compensation of Jason Trost, the Chief Executive Officer, for the year ended 31 December 2017 was £17,267 (2016 – £353,264).

Neither of the other Directors received any compensation from the Company for their services for the year ended 31 December 2017 (2016 - £Nil).

On 14 June 2016, Jason Trost, the Chief Executive Officer, was granted the option to acquire 133,000 £0.005 Ordinary shares in the Company at an exercise price of £1.00. On 1 July 2016, he exercised this option by paying £133,000 to receive the 133,000 Ordinary shares. No other share options were exercised by Directors in the year ended 31 December 2017 (2016 – Nil).

27. Dividends

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

28. Intangible fixed assets

As £000 unless otherwise stated

	Other intangibles	**Total**
Cost		
Balance at 1 January 2016	28	**28**
Additions	9	**9**
Balance at 31 December 2016 and 1 January 2017	37	**37**
Additions	4	**4**
Balance at 31 December 2017	41	**41**
Amortisation and impairment		
Balance at 1 January 2016	(27)	**(17)**
Amortisation for the year	(1)	**(1)**
Balance at 31 December 2016 and 1 January 2017	(28)	**(28)**
Amortisation for the year	(1)	**(1)**
Balance at 31 December 2017	(29)	**(29)**
Net book value		
At 1 January 2016	1	**1**
At 31 December 2016 and 1 January 2017	9	**9**
At 31 December 2017	12	**12**

The additions to Other Intangibles in the year ended 31 December 2017 and 2016 comprised the cost of trademark registration. The amortisation charge is recognised in the Administrative expenses line in the Income Statement.

29. Tangible fixed assets

As £000 unless otherwise stated

	Leasehold property	Leasehold improvements	Computer equipment	Fixtures & fittings	**Total**
Cost					
Balance at 1 January 2016 (Restated)*	4,192	352	87	83	**4,714**
Additions	-	240	55	64	**359**
Balance at 31 December 2016 and 1 January 2017 (Restated)*	4,192	592	142	147	**5,073**
Additions	1,077	58	80	43	**1,258**
Disposals					
Balance at 31 December 2017	5,269	650	222	190	**6,331**
Depreciation and impairment					
Balance at 1 January 2016 (Restated)*	(105)	(5)	(19)	(8)	**(137)**
Depreciation charge for the year	(419)	(56)	(24)	(25)	**(524)**
Balance at 31 December 2016 and 1 January 2017 (Restated)*	(524)	(61)	(43)	(33)	**(661)**
Depreciation charge for the year	(617)	(63)	(42)	(34)	**(756)**
Disposals					
Balance at 31 December 2017	(1,141)	(124)	(85)	(67)	**(1,417)**
Net book value					
At 1 January 2016 (Restated)*	4,087	347	68	75	**4,577**
At 31 December 2016 and 1 January 2017 (Restated)*	3,668	531	99	114	**4,412**
At 31 December 2017	4,128	526	137	123	**4,914**

30. Fixed asset investments

As £000 unless otherwise stated

	Shares in Group undertakings	**Total**
Cost and Net Book Value		
At 1 January 2016	41	**41**
Additions	1	**1**
At 31 December 2016 and 1 January 2017	42	**42**
Additions	28	**28**
Disposals	(2)	**(2)**
At 31 December 2017	68	**68**

Refer to note 11 for additional disclosure on investments in Group undertakings.

31. Debtors

As £000 unless otherwise stated

	2017	2016
Due within 1 year		
Amounts owed by Group undertakings	**5,431**	3,028
Prepayments and accrued income	**352**	224
Rent deposit	**513**	516
Income and other taxes recoverable	**159**	12
Other debtors	**4,489**	29
Total Debtors due within 1 year	**10,944**	3,809
Debtors due after more than 1 year	**-**	-

At 31 December 2017, there were no debtors that were past due nor considered to be impaired (2016 - £Nil).

32. Creditors: amounts falling due within one year

As £000 unless otherwise stated

	31 December 2017	(Restated)* 31 December 2016	(Restated)* 1 January 2016
Trade creditors	**26**	30	42
Amounts owed to Group undertakings	**876**	-	30
Lease liabilities	**771**	570	
Taxation and social security	**4**	121	54
Accruals and deferred income	**472**	1,069	245
Total creditors due within 1 year	**2,149**	1,790	699

33. Creditors: amounts falling due after more than one year

As £000 unless otherwise stated

	31 December 2017	(Restated)* 31 December 2016	(Restated)* 1 January 2016
Lease liabilities	**3,747**	3,408	3,783
Total creditors: amounts falling due after more than one year	**3,747**	3,408	3,783

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.

34. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

As £000 unless otherwise stated

	2017	2016
Tax effected temporary timing differences		
Tangible fixed assets	**49**	54
Short term temporary differences	**(2)**	(108)
Tax value of loss carry-forwards utilised	**47**	54
Net deferred tax	**-**	-

As £000 unless otherwise stated

	2017	2016
Movement recognised in income		
Tangible fixed assets	**(6)**	30
Short term temporary differences	**106**	(6)
Tax value of loss carry-forwards utilised	**(100)**	(24)
Net deferred tax	**-**	-

Unused tax losses for which no deferred tax asset was recognised amounted to £7,760,000 at 31 December 2016 (2016 – £5,860,000).

35. Called up share capital

	Series A Preference shares of £0.005 each		Deferred shares of £0.005 each		Ordinary shares of £0.005 each	
Fully paid shares	**2017**	2016	**2017**	2016	**2017**	2016
In issue at 1 January	**755,489**	755,489	**124,144**	124,144	**2,065,662**	1,908,131
Conversion to Ordinary shares	**(4,021)**	-	**-**	-	**4,021**	-
Share buy-back	**-**	-	**-**	-	**(358,132)**	-
Issued for cash	**-**	-	**-**	-	**19,156**	157,531
In issue at 31 December	**751,468**	755,489	**124,144**	124,144	**1,730,707**	2,065,662

In January 2017, a holder of Series A Preference shares elected to convert 4,021 of these shares to Ordinary shares so as to accept the share buy-back offer referred to below.

Share capital outstanding at 31 December 2017, was as follows:

Fully paid shares	**2017**	2016
Allotted, called up and fully paid		
Ordinary shares of £0.005 each	**8,653**	10,328
Deferred shares of £0.005 each	**621**	621
Series A Preference shares of £0.005 each	**3,757**	3,777
Shares classified as shareholders' funds	**13,031**	14,726

During the year ended 31 December 2017, the Company issued 19,156 shares in respect of share options exercised in the year (2016 – 157,531 shares, in addition to 363 shares issued in respect of share options exercised in 2015).

Share buy-back

On 19 January 2017, an offer was made by the Directors to the holders of all Ordinary shares in the Company to buy back those shares at a price of £19.95 per share subject to the aggregate purchase consideration not exceeding £10,000,000. Acceptances of this offer were received from holders of 358,132 Ordinary shares which were bought back for a total consideration of £7,144,340. The shares acquired were cancelled by the Company.

Classes of share

The Ordinary shares and the Series A 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 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 and Series A 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 £3.108 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 and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend.

36. Related party disclosures

Transactions with shareholders

On 14 June 2016, Jason Trost, the Chief Executive Officer, was granted the option to acquire 133,000 £0.005 Ordinary shares in the Company at an exercise price of £1.00. On 1 July 2016, he exercised this option by paying £133,000 to receive the 133,000 Ordinary shares.

Transactions with related parties

As discussed in note 17, on 10 February 2015, a non-transferrable option was granted to a family member of Jason Trost giving the holder the right to acquire 10,200 Ordinary shares of the Company at an exercise price of £1.00. The option was exercisable at any time. On 20 May 2016, the holder exercised his option in full and paid £10,200 to receive the 10,200 Ordinary shares

Ultimate parent company

The Company is the ultimate parent company of the Group.

37. Effect of adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases

During the year ended 31 December 2017, the Company elected to early adopt IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

IFRS 15 Revenue from Contracts with Customers

The early adoption of IFRS 15 Revenue from Contracts with Customers has not affected the Company's financial position.

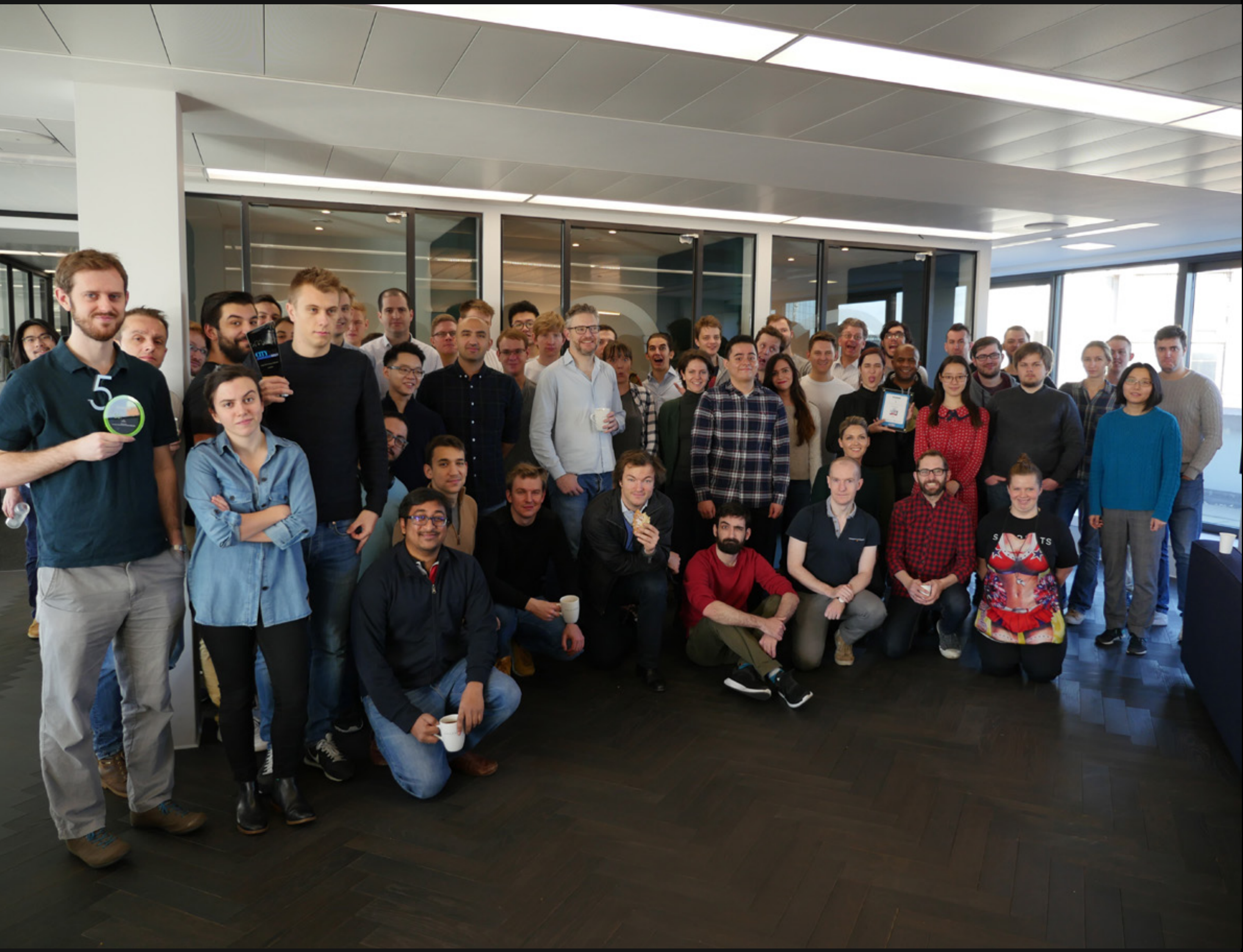
IFRS 16 Leases

As part of the early adoption of IFRS 16 Leases, the Company chose to adopt the standard retrospectively. As a result, amounts reported previously in the financial statements for the Company have been amended.

An explanation of how the adoption of the Standard has affected the Company's financial position is set out in the following table:

Reconciliation of Statement of Financial position

	1 January 2016			31 December 2016		
	As previously reported	IFRS 16 adoption effect	**As amended**	As previously reported	IFRS 16 adoption effect	**As amended**
Fixed assets						
Intangible assets	1	-	**1**	9	-	**9**
Tangible fixed assets	490	4,087	**4,577**	744	3,668	**4,412**
Investments	41	-	**41**	42	-	**42**
	532	4,087	**4,619**	795	3,668	**4,463**
Current assets						
Debtors	1,803	-	**1,803**	3,809	-	**3,809**
Cash at bank and in hand	880	-	**880**	2,750	-	**2,750**
	2,683	-	**2,683**	6,559	-	**6,559**
Creditors: amounts due within one year	(371)	(328)	**(699)**	(1,416)	(374)	**(1,790)**
Net current assets	2,312	(328)	**1,984**	5,143	(374)	**4,769**
Total assets less current liabilities	2,844	3,759	**6,603**	5,938	3,294	**9,232**
Creditors: amounts falling due after more than one year	-	(3,783)	**(3,783)**	-	(3,408)	**(3,408)**
Provisions for liabilities						
Deferred tax liability	-	-	**-**	-	-	**-**
Net assets	2,844	(24)	**2,820**	5,938	(114)	**5,824**
Capital and reserves						
Called up share capital	14	-	**14**	15	-	**15**
Share premium account	3,581	-	**3,581**	3,737	-	**3,737**
Profit and loss account	(751)	(24)	**(775)**	2,186	(114)	**2,072**
Shareholders' equity	2,844	(24)	**2,820**	5,938	(114)	**5,824**



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