Gamesys Group plc
Results for the year ended 31 December 2020

*Outstanding financial performance and operational execution,*
*pro-forma adjusted EBITDA up 30%*

*Adapting to the challenges of COVID-19 and focussed on player and employee wellbeing*
*Strong start to the current financial year*

LONDON, 9 March 2021 - Gamesys Group plc (LSE:GYS) (the 'Group', 'Gamesys'), announces its financial results for the year ended 31 December 2020.

## Financial summary

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) | **Reported change (%)** |
|---|---|---|---|
| **Revenue** | **727.7** | 415.1 | **75** |
| **Adjusted EBITDA[1],[2]** | **206.2** | 117.7 | **75** |
| **Net income from continuing operations (as reported under IFRS)** | **67.2** | 9.1 | **638** |
| **Adjusted net income[1,2,3]** | **155.4** | 83.5 | **86** |
| **Diluted adjusted net income per share from continuing operations[1,2,3,4]** | **142.2p** | 99.9p | **42** |
| **Operating cash flow per share[4]** | **196.2p** | 89.7p | **119** |
| **Dividend per share[4]** | **40.0p** | n/a | **n/a** |

## Pro-forma financial summary[5]

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) | **Change (%)** |
|---|---|---|---|
| **Revenue** | **727.7** | 565.3 | **29** |
| **Adjusted EBITDA[1,2]** | **206.2** | 158.4 | **30** |

## Financial highlights

- Excellent reported and pro-forma[5] financial performance across the Group
  - Revenue grew by 75% and 29% year-on-year on reported and pro-forma[5] basis, respectively, primarily due to ongoing impressive growth in Asia as well as a strong performance in the UK even with enhanced responsible gambling measures
  - Reported adjusted EBITDA[1,2] increased by 75% year-on-year and by 30% on a pro-forma[5] basis, driven by strong revenue growth
  - Adjusted net income[1,2,3] increased by 86% year-on-year
  - Excellent H2 performance reflected in final dividend of 28.0p (a total of 40.0p for the year)
- Cash conversion of over 100% from adjusted EBITDA[1]; adjusted net leverage ratio[6] reduced to 1.51x
  - Outstanding operating cash flow of £214.4 million in 2020 up from £75.0 million in 2019
  - Unlevered free cash flow[7] of £194.9 million up from £58.3 million in 2019. Unlevered free cash flow per share[4,7] of 178.3p
  - Cash balance of £212.6 million at 31 December 2020 and adjusted net debt[8] reduced to £312.3 million underpins a solid balance sheet
  - Adjusted net leverage ratio[6] reduced to 1.51x at year end from 2.83x at 31 December 2019

## Operational highlights (pro-forma)[5]

- We continue to execute strongly against our stated key performance indicators[9]:
  - Average Active Players per Month[9] grew 21%, from 587,399 to 712,334

    - On a monthly average basis, Real Money Revenue per Month[9] increased 28%, from £45.4 million to £58.2 million
    - This meant our Monthly Real Money Revenue per Average Active Player[9] increased by 6%, from £77 to £82
- In the UK, revenues increased 19%; Virgin Games, Monopoly Casino and our new Rainbow Riches Casino drove a strong performance as illustrated by a 24% increase in monthly active players.
- Asia continues to be a standout performer, with revenues increasing 78% in 2020 as the launch of InterCasino supported established market leader Vera&John. Our operational performance is driven by continued investment in content, marketing and customer service.
- In Europe, Spain is our largest territory and showed a healthy positive performance despite a shifting regulatory landscape, which has now stabilised. The launch of Monopoly Casino in Spain in the summer has been well-received, experiencing faster revenue growth in the first six months of operating than any of our previous launches globally. Revenue in total from our European operations fell marginally year-on-year, reflecting ongoing challenges in the Nordics.
- In ROW, the majority of revenues derive from our business in New Jersey, where revenues grew 25% year-on-year and we remain excited about the opportunities available in North America, not only through entry into newly regulated states in the US, but also in Canada as it moves along a path towards regulation.
- We're delighted to be able to thank and recognise employees for an amazing full first year as Gamesys Group, with a one-off grant of free shares. Our results have allowed us to provide £1.8 million in shares, meaning that all employees can link their efforts to sustainable success and benefit from future growth.

## COVID-19, responsible gambling and ESG

- Following the unprecedented challenges presented by the COVID-19 pandemic, our top priority has been the health and wellbeing of our players and employees, a focus which will continue as long as the virus continues to affect the markets in which we operate and the communities we serve.
- Our teams have shown remarkable commitment and focus to maintain 100% business continuity globally during such a challenging period and we will continue to support them as we revise our ways of working and move towards a model that will provide increased flexibility post COVID-19.
- Our focus continues to be on providing an entertaining but safe experience for our recreational players, which is demonstrated by the increased use of our chatrooms and the level of non-wagering activity across our sites throughout the course of the year.
- After the commencement of COVID-19 lockdowns in Q1 2020, we were the first operator to cease untargeted customer marketing in the UK, including the suspension of TV and radio campaigns; an initiative that was soon embraced by our industry peers on the Betting and Gaming Council.
- During 2020, we invested in additional resources and capabilities in our responsible gambling teams, which supported a significant increase in players setting deposit limits and other tools as well as a step-up in our proactive customer engagement.
- We achieved the demanding GamCare Safer Gambling Level 2 Standard, which indicates that our responsible gambling approach goes well beyond the expectations set out by our UK licence, and have also implemented a Global Sustainability Commitment to continually enhance these standards.
- Created in February 2020, we have provided over £2.3 million in funding to our Gamesys Foundation, which funds both corporate and employee initiatives, while also scoring highly in a number of ESG rating schemes, including the achievement of 'Prime' status from ISS, a leading shareholder proxy group.
- We have also achieved a number of other ESG milestones of late, including becoming signatories of the UN Global Compact, which solidifies our ongoing commitment to best practice in relation to human rights, labour, environment and anti-corruption. Also, we have been awarded carbon neutral status for our operations by the Carbon Trust.

- Looking ahead, we continue to support the UK Government's review of the 2005 Gambling Act and call for a rigorous evidence-based approach to potential policy change that will better protect vulnerable customers while at the same time allowing the majority to continue to enjoy their play.

## Capital allocation

- Utilise the Group's exceptionally strong cash generation to maintain a long-term adjusted net leverage ratio[6] in a range of 1-2x adjusted EBITDA[1].
- This policy will provide maximum flexibility to support cash returns to shareholders while retaining sufficient resources to invest in growth.
- The Board has implemented a progressive dividend policy and the proposed inaugural final dividend for 2020 is 28.0p (40.0p for the year), which reflects strong trading in H2 2020 and our confidence in the outlook for 2021.
- The balance sheet also provides flexibility to undertake returns to shareholders through share buyback programmes, should the Board consider it to be the best use of excess capital at that time.

## Outlook

Following a very good start to the current financial year, the Group is trading in line with expectations. In our main market of the UK, we welcome the ongoing review of the 2005 Gambling Act and we are proactively contributing to an evidence-based assessment as to how to enhance the environment for responsible gambling. We remain excited by our growth prospects in our fast-growing Asian market and we expect to be live in additional states in the US as it continues to legislate at pace - as well as to build on our presence in Canada as it too moves to regulate online gaming. Our sustained operational execution, robust cash generation and strong balance sheet means we remain confident about our ability to deliver significant revenue growth and to generate returns for our shareholders.

## Neil Goulden, Chair, Gamesys Group plc commented:

"We are pleased to announce another strong set of results, particularly against the backdrop of the COVID-19 pandemic, which has impacted so many across the world. All our colleagues have done an incredible job in maintaining seamless business continuity throughout the year, while also enhancing our responsible gambling approach to ensure we remain a best-in-class operator in protecting our recreational players. Our commitment to both employees and players is further emphasised with today's announcement of the appointment to the Board of our Chief People Officer, Tina Southall. On behalf of the Board, I am delighted to welcome Tina and I'm sure she will add a very important new voice to our deliberations. We also continue to deliver for our shareholders, with the proposed final dividend announced today (and the payment of our inaugural interim dividend in October of 2020), setting a foundation for a progressive policy in this respect moving forward. Support from our colleagues, customers and shareholders was crucial during such an uncertain period and has put us in a strong position to continue to execute and drive growth as we move into 2021."

## Lee Fenton, CEO, Gamesys Group plc, commented:

"Despite 2020 being a year like no other, our ongoing focus on operational execution, product innovation and responsible gambling underpinned a strong performance, with pro-forma[5] revenues increasing by 29% and pro-forma[5] adjusted EBITDA[1,2] up 30%. We continue to go from strength to strength in Asia, while the UK delivered strong double-digit revenue growth - all set against the backdrop of ongoing enhancements to our responsible gambling approach. We also remain excited by our prospects in North America, both in the US and Canada. Our focus on recreational customers, our differentiated brands, proprietary technology and established market positions, have attracted record numbers of players in 2020 and we believe this foundation will allow us to continue to deliver sustainable and long-term growth in the year ahead and beyond."

## Conference call

There will be a conference call for analysts and investors at 1.00pm GMT / 8.00am ET on 9 March 2021. To join the call, participants should dial one of the following numbers, using the password 'Gamesys', approximately 10 minutes ahead of the scheduled start time.

| | |
|---|---|
| UK toll free | 0808 109 0700 |
| Canada toll free | 1 866 378 3566 |
| USA toll free | 1 866 966 5335 |
| Standard international access | +44 (0) 33 0551 0200 |

A replay facility will be available until and including 8 April 2021 and can be accessed by dialling one of the numbers below and quoting conference 6240627#

| | |
|---|---|
| Standard international access | +44 (0) 20 8196 1480 |
| USA toll free | 1 866 583 1035 |

## About Gamesys Group plc

Gamesys Group plc is the parent company of an online gaming group that provides entertainment to a global consumer base. Through its subsidiaries, Gamesys Group plc currently offers bingo and casino games to its customers using brands which include Jackpotjoy (www.jackpotjoy.com), Virgin Games (www.virgingames.com), Botemania (www.botemania.es), Vera&John (www.verajohn.com), Heart Bingo (www.heartbingo.co.uk), Monopoly Casino (www.monopolycasino.com), Rainbow Riches Casino (www.rainbowrichescasino.com) and MEGAWAYS Casino (www.megawayscasino.com).

**Enquiries**


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| **Gamesys Group plc** | jason.holden@gamesysgroup.com |
| Jason Holden | +44 (0) 207 478 8150 |
| Director of Investor Relations | +44 (0) 7812 142118 |
| | |
| **Finsbury** | gamesysgroup-LON@finsbury.com |
| James Leviton, Robert Allen | +44 (0) 207 251 3801 |


*The information contained within this announcement is deemed to constitute inside information for the purposes of Article 7 of the Market Abuse Regulation EU 596/2014 as it forms part of retained EU law (as defined in the European Union (Withdrawal) Act 2018). Upon the publication of this announcement, this inside information is now considered to be in the public domain. The person responsible for arranging for the release of this announcement on behalf of the Company is Dan Talisman, Chief Legal Officer and Company Secretary.*

## Chair's statement

***Overview and summary of results***

Once again, I can report that the Group has delivered a record set of annual results, despite the unprecedented challenges set by the COVID-19 pandemic. However, it is not just the financial performance of which we are proud, but also our unwavering commitment to responsible gambling. Investment in both people and resources has supported our responsible gambling strategy and during 2020 we have seen increases in non-wagering sessions, players setting deposit limits and proactive engagement with our players.

After the transformative combining of JPJ Group and Gamesys in 2019, the past year has seen the smooth integration we were hoping for between two very complementary businesses. This has been achieved despite having a workforce based almost entirely remotely; something which was achieved seamlessly as lockdowns began.

On a pro-forma basis[5], revenues grew by 29% in 2020, underpinned by strong growth in our major markets and successful new brand launches. Asia was again the standout, but the UK also delivered strong double-digit growth and there was a good performance from North America. Adjusted EBITDA[1,2] on a pro-forma[5] basis also grew by 30%, even after ongoing investment for growth and the full year impact of higher UK gaming taxes.

A high conversion rate of adjusted EBITDA[1,2] to operating cash flow has consistently featured in our financial performance over many years and 2020 was no exception. At the end of the year the adjusted net leverage ratio[6] had fallen from over 3.0x at the time of the Gamesys Acquisition to 1.51x and therefore within the Board's target range of 1-2x. Our trajectory towards this range and confidence in future cash flows, supported the Board's decision to announce an inaugural interim dividend in August and an ongoing progressive dividend policy.

***Focus on responsible gambling intensified during COVID-19***

Following the unprecedented challenges presented by the COVID-19 pandemic, our top priority has been the health and wellbeing of our players and employees. During 2020, we invested in additional resources and capabilities in our responsible gambling teams and experienced a significant increase in both the number of players setting deposit limits and also in proactive outbound calls to customers to discuss their play. After the commencement of COVID-19 lockdowns in Q1 2020, we were the first operator to cease untargeted customer marketing in the UK, including the suspension of TV and radio campaigns.

The Group continues to focus on providing a recreational and entertaining experience for our community of players to enjoy. This is reflected in the significant increases in chatroom engagement and non-wagering sessions seen across our sites throughout 2020.

We welcome the ongoing review of the 2005 Gambling Act. We are playing a full part in contributing to an evidence-based assessment as to how to enhance the environment for responsible gambling, whilst ensuring that our recreational customers continue to enjoy the fun and entertainment offered on our sites.

***Governance update***

The Board continues to be supported in its endeavours by the Audit & Risk; Environmental, Social and Governance ('ESG'); Nomination; and Remuneration Committees. Notable achievements overseen by these Committees include the review and development of risk management and internal controls for the enlarged Group and the adoption of a Diversity and Inclusivity Statement. Other highlights included the Group's transition to operating on a carbon neutral basis and committing to the UN Global Compact, overseeing the Group's governance framework following last year's transformative acquisition of Gamesys, and launching the first all-employee share scheme.

The ESG Committee also provides support for the Gamesys Foundation, which the Group funds with £150k a month (over £2.3 million to date). The Foundation Trustees allocated funds to a number of important health and wellbeing causes, including over £400k to the domestic abuse charity Women's Aid.

***Capital structure***

The overriding message, in terms of capital allocation and structure, is that we intend to remain flexible and agile in relation to the balance between cash conservation, debt paydown, potential bolt-on acquisitions and returning cash to shareholders.

We have consistently said that our long-term strategy is to reduce the adjusted net leverage ratio[6] to a target range of 1-2x adjusted EBITDA[1] and to commence dividend payments, with the retained ability to launch a sustained share buyback programme if the Board believes it is appropriate. Given we were very much on track to achieve our target leverage at the time of our interim results in August 2020, the Board believed that this was the right time to commence returning cash to shareholders.

The Group declared an inaugural interim dividend of 12.0p per share, which was paid in October 2020 and the implementation of a broader dividend and capital allocation policy. Subsequent to this, the Group has announced a final dividend of 28.0p per share for FY 2020. The Board intends to implement a progressive dividend policy going forward, and while adopting this policy, it remains our intention to use the Group's strong cash generation to maintain the adjusted net leverage ratio[6] at below 2x adjusted EBITDA[1].

The Directors believe that this policy, coupled with the Group's continued strong cash generation, will provide returns to shareholders while retaining sufficient cash within the Group to invest in organic opportunities and to potentially undertake bolt-on acquisitions to accelerate growth. The Group's cash position will also provide flexibility to undertake returns to shareholders through share buyback programmes, should the Directors consider it to be the best use of excess capital at that time.

***Board developments***

Having led the Group through a transformational phase, I returned to the position of Non-Executive Chair with effect from 1 October 2020. The Group's evolution has seen us relist on the London Stock Exchange; subsequently obtain a Premium Listing; successfully merge with and rebrand as Gamesys Group; become a FTSE250 constituent; and now introduce a progressive dividend policy.

Following the Gamesys Acquisition in September 2019, we now have an exceptionally strong executive team in place and have successfully integrated the two businesses and delivered strong, sustainable results. The business is in very good hands and I look forward to supporting Lee and his team in a non-executive capacity going forward.

I am also delighted to welcome our Chief People Officer, Tina Southall, to the Group Board as of 9 March 2021. As an online leisure and entertainment service provider, our people - colleagues and through them our customers - are central to our business and our growth strategy. She will add a very important new voice to the Board.

***Our people***

We are extremely proud of the productivity and focus that has been maintained by our teams across the Group, particularly during what has been a difficult time for many people and their families. Attracting and retaining the very best talent available is fundamental to our success and we believe that our philosophy of 'Crafting entertainment with care' is essential in highlighting that we are an employer who focuses on enjoyment and wellbeing for both employees and players.

***Outlook***

Entertainment, recreation and community have attracted a record number of players to our well known and trusted brands and we have significantly expanded our player-base from which to deliver sustainable and long-term growth. We have managed the growth in our players and their activity in a highly responsible way and we are confident that this will stand us in good stead for many years to come.

## Chief Executive's statement

We began 2020 with three months of business integration behind us and a detailed plan of execution for the year. As we closed in on the end of a successful Q1 it became clear that 2020 was not going to be the year that we had planned for. We had to adjust our plan in real time to respond to the challenges presented by the developing COVID-19 pandemic and focus our entire Group on business continuity, remote working and changing working practices to ensure both staff and player wellbeing. The shift had to come quickly, and it had to come with high quality. Over a period of three weeks in March we took our entire employee base, circa 1,500 staff at that point, to remote working. We ensured that they had the equipment, the connectivity, the processes and the support to continue their roles. We had 100% business continuity through the period of adjustment. The response we had from all teams around the world was truly inspiring and showed the resilience we have within the business. 'Always Ready' is one of the Group's six strands of DNA and it has never been more important than in 2020.

***The wellbeing of staff and players is our priority***

We now know that 'normal' is never likely to return in exactly the same way. Throughout 2020 maintaining the focus on the wellbeing of both staff and players has been helped by an insatiable appetite to learn; how we can best develop for, market to and serve our players in the new world. Many things have gone incredibly well, for example our code output and release frequency has never been higher, but we have had to work harder in some areas to ensure that we can find new ways to replace old practices. Ensuring an ongoing innovation pipeline without the face-to-face everyday whiteboard activities has needed specific focus and new approaches. Our future mode is likely to be one of more hybrid working, flexibility around where staff work from will be significantly increased from pre COVID-19 levels and our real estate portfolio will adapt to give us a more dynamic, collaboration-focused environment for when teams do gather together physically.

***Aspiring to be an industry leader in sustainability***

COVID-19 has also given us an opportunity to step back and re-evaluate our social commitments. We want to play our part in building a better future for everyone and we have set ourselves a goal to be an industry leader in sustainability. We've implemented a number of significant business changes already: achieving the demanding GamCare Safer Gambling Level 2 Standard; becoming operationally carbon neutral; providing in excess of £2.3 million of funding to the Gamesys Foundation; and becoming the first FTSE250 gambling company to sign the UN Global Compact. We believe in the value of these schemes to our business and our stakeholders, and they have our ongoing support.

Stakeholder feedback on our approach over the last year has been overwhelmingly positive. We have scored highly in a number of ESG rating schemes, not least achieving 'Prime' status from ISS, and won several prestigious industry EGR awards. Notably we were awarded 'Employer of the Year', in part because of how we are caring for employees during COVID-19. Further, our annual employee survey which was carried out in April 2020 to give us an early Group-wide view on how staff were coping, had the highest engagement scores that we have ever achieved. I believe it is this engagement that has been the driving force behind the results we delivered in 2020.

***Strong growth in the UK as the regulatory backdrop evolves***

In our home market of the UK we saw strong returns from our multi-brand strategy throughout the year where pro-forma[5] revenue finished 19% ahead of 2019. Stand out performances from Virgin Games, Monopoly Casino and the most recent addition to our brand stable, Rainbow Riches Casino, complemented a robust performance from our other brands and ensured that we increased our average customers by 24% over 2019.

The continued regulatory evolution in the UK is reflected in the evolving shape of our active player base. We have more players, spending less both in terms of absolute spend and average wager. This gives us an incredibly sustainable platform as we enter 2021 to engage with Government, the Gambling Commission and other stakeholders in the Gambling Act Review. We welcome the UK Government's initiative to review the 2005 Act. It is critical for the future of domestically regulated online gambling that balance, evidence, efficacy and proportionality are reasserted as the key drivers of sound policy. This requires the industry to be much stronger on rigorous evidence-based dialogue and constructive self-criticism on the one hand, but it must also provide a much clearer demonstration of the value of gambling to customers, the wider economy and the effectiveness of measures that are existing or being developed in the current framework.

In its call for evidence for the review the Government highlighted that problem gambling has been stable in the UK for many years whilst also noting that some customers have been able to spend clearly unaffordable sums without intervention. As an industry we must ensure that we do all we can to protect vulnerable customers whilst also protecting the enjoyment of the vast majority of customers who never experience any harms whatsoever. Getting this balance right will be key to effective regulation going forward and maximising the support and service we can give to players. As a leading voice in the Betting and Gaming Council, we have the opportunity to be an industry role model for responsible gambling. We have implemented a Global Sustainability Commitment to drive our own, beyond regulatory, responsible gambling standards, which we are reinforcing with new global key performance indicators ('STRIPEs'). We invest in tools to monitor and prevent problems arising and we operate with integrity, withdrawing all direct marketing during every UK lockdown.

***Asia stands out, North American opportunities, successful new brand launches in Europe***

Asia has continued to go from strength to strength with revenues increasing 78% compared to 2019. The launch of InterCasino to support the established market leader Vera&John, complemented by continued investment in content, marketing and customer service, has helped us to continue our upward trajectory in the region. I believe that our continued focus on highly localised product is allowing us to flourish despite multiple new market entrants spurred on by our success. With the addition of another brand, more marketing channels, product enhancements and algorithm evolution based on an ever growing dataset, we expect to make further ground in 2021.

One of the by-products of COVID-19 has been the shuttering of many retail gambling locations and an acceleration of channel shift to online. In the US, where most states do not permit online casino gambling, the closure of many retail casinos left players with no online alternative. The wider negative impact of COVID-19 on economies and public finances has triggered reviews of online gambling regulation which has moved higher up the state legislative agenda. Having been in New Jersey for seven years already, we consider ourselves well placed to take advantage of the growth of the US market over time. Due to the legislative frameworks that have emerged in the market we have to partner to access further states and when we believe we have the right partner, with the right economics to enable long-term sustainable growth, we will continue our expansion. Further North American opportunities exist in Canada and we expect to be able to make inroads into this market during 2021 as Ontario moves to regulate online gaming and potentially other territories open up.

Our European operations finished 2020 with revenues slightly down by 1% compared to 2019 with robust performances in Spain and Germany offset by continued challenges in the Nordics, particularly Sweden where new conditions around an ability to bonus players, negatively impacted performance. In the middle of the year we launched Monopoly Casino in Spain which has been extremely positively received. In its first six months of operation revenue growth was faster than we have seen from any other venture that we have ever launched globally.

***Creating a platform for future growth***

In 2020 we demonstrated the validity of the investment case to bring JPJ Group and Gamesys together to form Gamesys Group, delivering strong growth and creating considerable value for our shareholders. 2021 will be about building the platform for the next five years of growth and value creation. We will stay true to our mission of, 'Crafting entertainment with care', bringing our blend of entertainment and community to more players in more markets, leveraging the repeatability of our model and the immense talent base we have assembled. Our people showed us in 2020 that they are ready for anything and that even under the most challenging circumstances they will always keep our players at the heart of what each of them do every day. That will allow us to grow, in the right way.

***Note regarding non-IFRS financial measures***

*The following non-IFRS definitions are used in this release because management believes that they provide additional useful information regarding ongoing operating and financial performance. Readers are cautioned that the definitions are not recognised measures under IFRS, do not have standardised meanings prescribed by IFRS, and should not be considered in isolation or construed to be alternatives to revenues and net income/(loss) and comprehensive income/(loss) for the year determined in accordance with IFRS or as indicators of performance, liquidity or cash flows. Our method of calculating these measures may differ from the method used by other entities. Accordingly, our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions.*

*Adjusted EBITDA, as defined by the Group, is net income from continuing operations before interest expense including accretion (net of interest income), income taxes, amortisation and depreciation, impairment of purchase price intangibles, fair value adjustments on contingent consideration, severance costs, one-off tax charges, transaction related costs and foreign exchange (gain)/loss. Management believes that Adjusted EBITDA is an important indicator of the issuer's ability to generate liquidity to service outstanding debt and uses this metric for such purpose. The exclusion of impairment of purchase price intangibles, fair value adjustments on contingent consideration, severance costs, one-off tax charges, transaction related costs and foreign exchange (gain)/loss eliminates items which management believes are either non-operational and/or non-routine.*

*Adjusted Net Income, as defined by the Group, means net income from continuing operations plus or minus items of note that management may reasonably quantify and believes will provide the reader with a better understanding of the Group's underlying business performance. Adjusted Net Income is calculated by adjusting net income from continuing operations for accretion on financial liabilities, amortisation of acquisition related purchase price intangibles (including non-compete clauses), impairment of purchase price intangibles, fair value adjustments on contingent consideration, severance costs, one-off tax charges, transaction related costs, foreign exchange (gain)/loss and deferred tax on purchase price intangibles. The exclusion of accretion on financial liabilities eliminates non-cash items and the exclusion of amortisation of acquisition related purchase price intangibles (including non-compete clauses), impairment of purchase price intangibles, fair value adjustments on contingent consideration, severance costs, one-off tax charges, transaction related costs, foreign exchange (gain)/loss and deferred tax on purchase price intangibles eliminates items which management believes are non-operational and/or non-routine. Adjusted Net Income is considered by some investors and analysts for the purpose of assisting in valuing a company.*

*Diluted Adjusted Net Income per share from continuing operations, as defined by the Group, means Adjusted Net Income divided by the diluted weighted average number of shares outstanding, calculated using the IFRS treasury method, for the applicable year. Management believes that Diluted Adjusted Net Income per share from continuing operations assists with the Group's ability to analyse Adjusted Net Income on a diluted weighted average per share basis.*

***Cautionary Note Regarding Forward Looking Information***

*This announcement may contain statements that constitute 'forward-looking information', 'future-oriented financial information' and 'financial outlook' within the meaning of applicable laws, including Canadian securities legislation. Forward-looking information contained in this announcement includes, but is not limited to statements with respect to: the Group's future financial performance, including its FY21 revenue and adjusted EBITDA[1]; the future prospects of the Group's business and operations; the Group's growth opportunities and the execution and sustainability of its growth and diversification strategies, including the pursuit of bolt-on acquisitions and opportunities in North America; the importance of the Group's enlarged and engaged customer base in driving sustainable growth; the Group's anticipated cash flow generation and deleveraging, and its ability to meet stated long-term targets ahead of schedule or at all; the Group's anticipated cash conversion rate from adjusted EBITDA[1]; returns to shareholders through share buyback programmes or otherwise; the anticipated timing of a dividend payment, and the implementation of a broader dividend and capital allocation policy; the Group's contributions to the environment for responsible gaming; the Group's preservation of flexibility to balance between cash conservation, debt paydown, potential acquisitions and returns of cash to shareholders; the Group's future priorities, including its focus on expanding its global revenue footprint; the implications of COVID-19 on the business and operations of the Group, including with respect to employee working environments; the Group's intention to exit markets that are subscale and/or have regulatory regimes that make cash generation challenging; future rates of e-commerce adoption; and continued investment in new games content and development of the Group's existing portfolio. Statements that reflect the Group's current expectations related to future events or its future results, performance, achievements or developments, and future trends affecting the Group constitute forward-looking information. Words such as 'plans', 'expects', 'estimates', 'projects', 'predicts', 'targets', 'seeks', 'intends', 'anticipates', 'believes', 'may', 'could', 'should', 'might', 'will' or similar expressions suggesting future outcomes or events are intended to identify such forward-looking information. Such forward-looking information is based on current expectations, estimates, forecasts and projections about the Group's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by management of the Group which may prove to be incorrect, including, but not limited to: the ability of the Group to secure, maintain and comply with all required licences, permits and certifications to carry out business in the jurisdictions in which it currently operates or intends to operate; no unforeseen changes in governmental or regulatory policies, including the introduction* *of new laws or changes in existing laws (or the interpretation thereof) related to online gaming; no downturn in general business, economic or market conditions (including market growth rates and the withdrawal of the UK from the European Union); uninterrupted operations; the Group operating in foreign jurisdictions; no unfavourable changes in the competitive environment; the expected growth of the online gaming market and potential new market opportunities; anticipated and unanticipated costs; the protection of the Group's intellectual property rights; the Group's ability to successfully integrate and realise the benefits of its completed acquisitions; the Group's continued relationship with third parties; the ability of the Group to service its debt obligations; the ability of the Group to obtain additional financing, if, as and when required; the Group's ability to retain its active customers; the availability of suitable bolt-on acquisition targets; and no unforeseen changes due to the COVID-19 pandemic. Such statements could also be materially affected by risks relating to the lack of available and qualified personnel or management; stock market volatility; taxation policies; competition; foreign operations; the Group's limited operating history and the Group's ability to access sufficient capital from internal or external sources. Gamesys believes that these are reasonable assumptions, based on information currently available to the Group.*

*Whether actual results and developments will conform with the expectations and predictions contained in the forward-looking information is subject to a number of risks and uncertainties, many of which are beyond the Group's control. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things: risks relating to the lack of available and qualified personnel or management; unfavourable regulatory changes in key markets; risks associated with fluctuations in interest rates and failure to manage exposure to credit and financial instrument risk; a significant expansion in length or severity of the COVID-19 pandemic restricting or prohibiting the Group's operations or significantly impacting the Group's workforce; the severity of mitigation measures related to the COVID-19 pandemic; and risks associated with economic uncertainty and financial market volatility.*

*Although the Group has attempted to identify important factors that could cause actual results, performance, achievements or developments to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements or developments not to be as anticipated, estimated or intended.*

*There can be no assurance that forward-looking statements will prove to be accurate, as actual results may differ materially from those expressed in or implied by the forward-looking information contained in this announcement.*

*All forward looking information in this announcement speaks as of the date of this announcement. While subsequent events and developments may cause the Group's expectations, estimates and views to change, the Group does not undertake or assume any obligation to update or revise any forward-looking information, except as required by applicable law.*

*In addition, the Group cautions readers that information provided in this announcement regarding the Group's outlook on certain matters, including any future-oriented financial information and financial outlook, is provided in order to give context to the Group's future financial performance and future prospects of the Group's business and operations, and may not be appropriate for other purposes.*

## Financial Review

### Revenue

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| UK | **423.3** | 214.6 |
| Asia | **218.3** | 122.4 |
| Europe | **68.0** | 68.6 |
| ROW | **18.1** | 9.5 |
| **Total** | **727.7** | 415.1 |

The increase in total revenue for the year ended 31 December 2020 compared to 2019 relates to organic growth[10] of the Group's online gaming segment, primarily in the UK and Asia, as well as the full year effect of the results of the Gamesys Acquisition.

### Costs and expenses

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Distribution costs | **399.9** | 214.2 |
| Administrative costs | **221.5** | 147.5 |
| Impairment of financial assets | **5.0** | 3.9 |
| Severance costs | **1.9** | - |

| | | |
|---|---|---|
| Transaction related costs | **1.8** | 15.8 |
| Foreign exchange loss/(gain) | **4.2** | (1.5) |
| | **634.3** | 379.9 |

### Distribution costs

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Selling and marketing | **155.9** | 81.7 |
| Licensing fees | **63.2** | 45.3 |
| Gaming taxes | **116.5** | 59.2 |
| Processing fees | **64.3** | 28.0 |
| | **399.9** | 214.2 |

Selling and marketing expenses consist of payments made to affiliates and general marketing expenses related to each brand. Licensing fees consist of fees paid to game suppliers. Gaming taxes largely consist of point of consumption taxes payable in regulated jurisdictions that the Group operates in. Processing fees consist of costs associated with using payment providers and include payment service provider transaction and handling costs as well as deposit and withdrawal fees. With the exception of selling and marketing expenses, distribution costs tend to be variable in relation to revenue.

The increase in distribution costs for the year ended 31 December 2020 compared to 2019 is mainly due to increased revenue and marketing spend in the online gaming segment as well as the full year impact of the Gamesys Acquisition. Variance in gaming taxes from prior year also relates to an increase in remote gaming duty from 15% to 21%, which came into effect in the UK in Q2 2019 and a £6.8 million provision recorded in 2020 (as discussed in note 20).

### Administrative costs

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Compensation and benefits | **91.8** | 55.6 |
| Professional fees | **7.7** | 5.1 |
| General and administrative | **17.9** | 24.6 |
| Amortisation and depreciation | **100.0** | 62.2 |
| Impairment of purchase price intangibles (note 13) | **4.1** | - |
| | **221.5** | 147.5 |

Compensation and benefits costs consist of salaries, wages, bonuses, directors' fees, benefits, long-term incentive plan expense and share-based compensation expense. The increase in these costs for the year ended 31 December 2020 compared to 2019 is primarily due to the full year impact of the Gamesys Acquisition, additional staff hired and introduction of LTIP4 (as defined in note 25).

Professional fees consist mainly of legal, accounting and audit fees. The increase in professional fees for the year ended 31 December 2020 compared to 2019 can be attributed primarily to the full year impact of the Gamesys Acquisition.

General and administrative expenses consist of items, such as travel and accommodation, insurance, listing authority fees, technology and development costs and other office overhead charges. The decrease in these costs for the year ended 31 December 2020 compared to 2019 relates to the release of a £6.0 million provision recorded in 2019 (as discussed in note 20). Excluding the provision release, these costs are flat for the year ended 31 December 2020 compared to 2019 as any increases attributed to the full year impact of the Gamesys Acquisition are offset by reduced spend in this area due to COVID-19.

Amortisation and depreciation expenses consist of amortisation of the Group's intangible assets and depreciation of the Group's tangible assets and right-of-use assets over their useful lives. The increase in amortisation and depreciation for the year ended 31 December 2020 compared to 2019 is primarily due to the addition of purchase price intangibles bought as part of the Gamesys Acquisition. This increase is partially offset by the fact that amortisation expense related to purchase price intangibles recognised in prior periods decreases with each passing period of their useful lives as a result of the amortisation method used, which is modelled on a measure approximating player attrition.

Impairment of purchase price intangibles consists of a write off of certain purchase price partnership agreements acquired in 2015 as a result of their termination in the current year.

### Impairment of financial assets

Impairment of financial assets relates to net increases in provisions on certain high-risk balances in transit from, and rolling reserves held with payment service providers, as discussed in note 16.

### Severance costs

Severance costs relate to synergy opportunities identified following the Gamesys Acquisition.

### Transaction related costs

Transaction related costs consist of legal, professional, due diligence and other direct costs/fees associated with transactions and acquisitions or disposals contemplated or completed by the Group. The decrease in transaction related costs for the year ended 31 December 2020 compared to 2019 relates to the Gamesys Acquisition, which was completed in 2019 with the majority of the costs expensed in 2019 and only certain residual costs incurred in 2020.

## Business unit results

### Online gaming (pro-forma)[5]

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) | Variance (£m) | Variance % |
|---|---|---|---|---|
| **Revenue** | **727.7** | 565.3 | 162.4 | 29 |
| Distribution costs | **393.1** | 287.8 | 105.3 | 37 |
| Administrative costs | **106.4** | 101.2 | 5.2 | 5 |
| Impairment of financial assets | **5.0** | 3.9 | 1.1 | 28 |
| **Adjusted EBITDA[1]** | **223.2** | 172.4 | 50.8 | 29 |

*Please refer to note 6 - 'Segment information' of the consolidated financial statements for a consolidated reconciliation from these non-IFRS financial measures.*

### Online revenue by geography (pro-forma)[5]

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) | Variance (£m) | Variance % |
|---|---|---|---|---|
| UK | **423.3** | 357.2 | 66.1 | 19 |
| Asia | **218.3** | 122.4 | 95.9 | 78 |
| Europe | **68.0** | 68.6 | (0.6) | (1) |
| ROW | **18.1** | 17.1 | 1.0 | 6 |
| **Total** | **727.7** | 565.3 | 162.4 | 29 |

Revenue for the online gaming segment for the year ended 31 December 2020 was 29% higher compared to 2019. UK revenues increased by 19% for the year ended 31 December 2020 compared to 2019 despite the continued impact of enhanced responsible gambling measures. Asia continued to perform strongly, growing revenue by 78% for the year ended 31 December 2020 compared to 2019. Europe revenues declined by 1% for the year ended 31 December 2020 compared to 2019 largely due to the impact of regulatory measures in Sweden partially offset by stronger performance in Spain and

Germany. ROW, including New Jersey revenues, increased by 6% for the year ended 31 December 2020 compared to 2019 due to a 25% revenue increase in New Jersey.

Distribution costs increased 37% for the year ended 31 December 2020 compared to 2019 as a result of higher marketing spend and higher revenues achieved.

The increase in administrative costs for the year ended 31 December 2020 compared to 2019 was mainly driven by increases in personnel costs, professional fees and administrative overhead costs as the Group continues to grow.

### Unallocated corporate costs - adjusted EBITDA[1,2] (pro-forma)[5]

| | Year ended 31 December 2020 (£m) | Year ended 31 December 2019 (£m) | Variance (£m) | Variance % |
|---|---|---|---|---|
| **Adjusted EBITDA[1,2]** | **(17.0)** | (14.0) | (3.0) | (21) |

*Please refer to note 6 - 'Segment information' of the consolidated financial statements for a consolidated reconciliation from these non-IFRS financial measures.*

Unallocated corporate costs increased from £14.0 million to £17.0 million for the year ended 31 December 2020 compared to 2019. This primarily relates to a £1.1 million increase in compensation, a £0.5 million increase in professional fees and a £1.4 million increase general and administrative expenses.

### Financial position

| | As at 31 December 2020 (£m) | As at 31 December 2019 (£m) | Variance (£m) |
|---|---|---|---|
| Total non-current assets | **979.6** | 1,045.6 | (66.0) |
| Total current assets | **285.9** | 165.9 | 120.0 |
| Total assets | **1,265.5** | 1,211.5 | 54.0 |
| Total current liabilities | **157.1** | 122.6 | 34.5 |
| Total non-current liabilities | **589.0** | 624.1 | (35.1) |
| Total liabilities | **746.1** | 746.7 | (0.6) |

The £66.0 million decrease in non-current assets since 31 December 2019 largely relates to amortisation of the Group's intangible assets as well as impairment of certain purchase price intangibles.

The £7.7 million increase in current assets (excluding a cash increase of £112.3 million) since 31 December 2019 largely relates to a £17.2 million increase in player deposits driven by higher revenues and higher number of average active players during the year, partially offset by a £9.9 million decrease in taxes receivable due to differences in timing of distribution of taxed profits through intercompany dividend declarations.

The £34.5 million increase in current liabilities mostly relates to a £22.1 million increase in accruals primarily due to an increase in the Group's direct costs as well as a higher balance payable to players driven by strong results achieved during the year.

The £35.1 million decrease in non-current liabilities primarily relates to a £40.0 million payment made on the Group's GBP Term Facility.

### Cash flow by activity

| | Year ended 31 December 2020 (£m) | Year ended 31 December 2019 (£m) | Variance (£m) |
|---|---|---|---|
| Operating activities | **214.4** | 75.0 | 139.4 |

| | | | |
|---|---|---|---|
| Financing activities | **(85.0)** | 143.1 | (228.1) |
| Investing activities | **(19.5)** | (198.4) | 178.9 |

Cash provided by operating activities during the year ended 31 December 2020 compared to 2019 relates to cash generated from the operational activities of the online gaming segment, less corporate expenses. For the year ended 31 December 2020, the operating cash flow increased compared to 2019 primarily due to the full year impact of the Gamesys Acquisition and strong results achieved by the online gaming segment.

Increase in cash used in financing activities during the year ended 31 December 2020 compared to 2019 relates to a £40.0 million payment made on the Group's GBP Term Facility, higher interest payments due on the Group's Add-on Debt (as defined in note 22), a £13.0 million payment of shareholder dividends and the fact that there were no proceeds from long-term debt in the current year (year ended 31 December 2019 - £173.6 million).

Decrease in cash used in investing activities during the year ended 31 December 2020 compared to 2019 primarily relates to the comparative year including cash outflows relating to the Gamesys Acquisition.

**Key performance indicators - pro-forma**[5]

**Average Active Players** is a key performance indicator used by management to assess real money player acquisition and real money player retention efforts of each of the Group's brands. The Group defines average active players ('Average Active Players') as being real money players who have placed at least one bet in a given month. 'Average Active Players per Month' is the Average Active Players per month, averaged over a twelve-month period. While this measure is not recognised under IFRS, management believes that it is a meaningful indicator of the Group's ability to acquire and retain players.

**Total Real Money Revenue** and **Average Real Money Revenue per Month** are key performance indicators used by management to assess revenue earned from real money gaming operations of the business. The Group defines total real money revenue ('Total Real Money Revenue') as revenue less revenue earned from B2B operations. The Group defines average real money revenue per month ('Average Real Money Revenue per Month') as Real Money Revenue per month, averaged over a twelve-month period. While these measures are not recognised under IFRS, management believes that they are meaningful indicators of the Group's real money gaming operational results.

**Monthly Real Money Revenue per Average Active Player** is a key performance indicator used by management to assess the Group's ability to generate Real Money Revenue on a per player basis. The Group defines monthly real money revenue per average active player ('Monthly Real Money Revenue per Average Active Player') as being Average Real Money Revenue per Month divided by Average Active Players per Month. While this measure is not recognised under IFRS, management believes that it is a meaningful indicator of the Group's ability to generate Total Real Money Revenue.

| | **Twelve months ended 31 December 2020** | Twelve months ended 31 December 2019 | Variance | Variance % |
|---|---|---|---|---|
| Average Active Players per Month (#) | **712,334** | 587,399 | 124,935 | 21 |
| Total Real Money Revenue (£000's)[11] | **698,290** | 544,826 | 153,464 | 28 |
| Average Real Money Revenue per Month (£000's) | **58,191** | 45,402 | 12,789 | 28 |
| Monthly Real Money Revenue per Average Active Player (£) | **82** | 77 | 5 | 6 |

Monthly Real Money Revenue per Average Active Player increased by 6% year-on-year, maintaining a level consistent with the Group's overall player acquisition and retention strategy.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year ended 31 December 2020 (£m) | Year ended 31 December 2019 (£m) |
|---|---|---|
| **Revenue**[6] | **727.7** | 415.1 |
| | | |
| **Costs and expenses** | | |
| Distribution costs[6,7] | **399.9** | 214.2 |
| Administrative costs[6,7] | **221.5** | 147.5 |
| Impairment of financial assets[3,6,16] | **5.0** | 3.9 |
| Severance costs[6] | **1.9** | - |
| Transaction related costs[6] | **1.8** | 15.8 |
| Foreign exchange loss/(gain)[6] | **4.2** | (1.5) |
| **Total costs and expenses** | **634.3** | 379.9 |
| | | |
| Fair value adjustments on contingent consideration | **-** | 0.5 |
| Interest income[8] | **(0.5)** | (0.4) |
| Interest expense[8] | **24.0** | 21.8 |
| Accretion on financial liabilities[8] | **1.2** | 1.3 |
| **Total financing expenses** | **24.7** | 23.2 |
| | | |
| **Net income for the year before taxes from continuing operations** | **68.7** | 12.0 |
| | | |
| Tax expense[9] | **1.5** | 2.9 |
| | | |
| **Net income for the year after taxes from continuing operations** | **67.2** | 9.1 |
| | | |
| Net loss from discontinued operations | **-** | (0.7) |
| | | |
| **Net income for the year attributable to owners of the parent** | **67.2** | 8.4 |
| | | |
| **Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods** | | |
| Foreign currency translation (loss)/gain on retranslation of overseas subsidiaries | **(7.5)** | 1.3 |
| Gain/(loss) on currency swap[17] | **2.0** | (9.3) |
| Gain on foreign exchange forward | **-** | 2.7 |
| Loss on interest rate swap[17] | **(1.6)** | (1.2) |
| **Other comprehensive loss for the year** | **(7.1)** | (6.5) |
| | | |
| **Total comprehensive income for the year attributable to owners of the parent** | **60.1** | 1.9 |
| | | |
| **Net income for the year per share** | | |
| Basic[10] | **61.8p** | 10.1p |
| Diluted[10] | **61.5p** | 10.0p |
| | | |
| **Net income for the year per share - continuing operations** | | |
| Basic[10] | **61.8p** | 10.9p |
| Diluted[10] | **61.5p** | 10.9p |

*See accompanying notes*

## CONSOLIDATED BALANCE SHEETS

| ASSETS | As at 31 December 2020 (£m) | As at 31 December 2019 (£m) |
|---|---|---|
| **Non-current assets** | | |
| Tangible assets[12] | **8.9** | 9.5 |
| Intangible assets[5,13] | **407.6** | 484.5 |
| Goodwill[5,13] | **526.2** | 524.2 |
| Right-of-use assets[18] | **21.9** | 22.2 |
| Deferred tax asset[3,9] | **9.9** | - |
| Other long-term receivables[14,23] | **5.1** | 5.2 |
| **Total non-current assets** | **979.6** | 1,045.6 |
| **Current assets** | | |
| Cash[15,23,27] | **212.6** | 100.3 |
| Restricted cash[15,23] | - | 6.3 |
| Player deposits[15,23] | **29.6** | 12.4 |
| Trade and other receivables[16,23] | **39.9** | 33.2 |
| Taxes receivable[9] | **3.8** | 13.7 |
| **Total current assets** | **285.9** | 165.9 |
| **Total assets** | **1,265.5** | 1,211.5 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities[19,21,23] | **98.6** | 78.0 |
| Other short-term payables[21,23] | **0.3** | 5.6 |
| Current portion of provisions[20] | - | 3.8 |
| Current portion of currency and interest rate swap payable[11,17,23] | **3.7** | 3.7 |
| Current portion of lease liabilities[11,18,21,23] | **6.1** | 4.7 |
| Interest payable[11,23] | **1.9** | 1.0 |
| Payable to players[21,23] | **29.6** | 12.4 |
| Taxes payable[9] | **16.9** | 13.4 |
| **Total current liabilities** | **157.1** | 122.6 |
| **Non-current liabilities** | | |
| Other long-term payables[11,17,21,23,24] | **13.1** | 16.6 |
| Provisions[20] | **6.8** | 6.0 |
| Lease liabilities[11,18,21,23] | **16.6** | 18.0 |
| Deferred tax liability[3,5,9] | **44.4** | 53.2 |
| Long-term debt[11,21,22,23] | **508.1** | 530.3 |
| **Total non-current liabilities** | **589.0** | 624.1 |
| **Total liabilities** | **746.1** | 746.7 |
| **Equity** | | |
| Retained earnings | **246.3** | 190.8 |
| Share capital[25] | **11.0** | 10.9 |
| Share premium | **8.9** | 4.7 |
| Other reserves | **253.2** | 258.4 |
| **Total equity** | **519.4** | 464.8 |
| **Total liabilities and equity** | **1,265.5** | 1,211.5 |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share Capital (£m) | Share Premium (£m) | Merger Reserve (£m) | Share-Based Payment Reserve (£m) | Translation Reserve (£m) | Hedge Reserve (£m) | Retained Earnings (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **7.4** | **2.1** | **(6.1)** | **10.4** | **24.1** | **(1.1)** | **182.5** | **219.3** |
| **Comprehensive income/(loss) for the year:** | | | | | | | | |
| Net income for the year (continued and discontinued operations) | - | - | - | - | - | - | 8.4 | 8.4 |
| Other comprehensive income/(loss) | - | - | - | - | 1.3 | (7.8) | - | (6.5) |
| **Total comprehensive income/(loss) for the year:** | **-** | **-** | **-** | **-** | **1.3** | **(7.8)** | **8.4** | **1.9** |
| **Contributions by and distributions to shareholders:** | | | | | | | | |
| Issue of common shares, net of costs | 3.4 | - | 240.6 | - | - | - | (1.4) | 242.6 |
| Reclassification of foreign exchange forward | - | - | - | - | - | (2.7) | - | (2.7) |
| Exercise of options | 0.1 | 2.6 | - | (0.8) | - | - | 0.8 | 2.7 |
| Issuance of ordinary share warrants[25] | - | - | - | - | - | - | 0.5 | 0.5 |
| Share-based compensation | - | - | - | 0.5 | - | - | - | 0.5 |
| **Total contributions by and distributions to shareholders:** | **3.5** | **2.6** | **240.6** | **(0.3)** | **-** | **(2.7)** | **(0.1)** | **243.6** |
| **Balance at 1 January 2020** | **10.9** | **4.7** | **234.5** | **10.1** | **25.4** | **(11.6)** | **190.8** | **464.8** |
| **Comprehensive income/(loss) for the year:** | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | 67.2 | 67.2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other comprehensive (loss)/income | - | - | - | - | (7.5) | 0.4 | - | (7.1) |
| **Total comprehensive (loss)/income for the year:** | **-** | **-** | **-** | **-** | **(7.5)** | **0.4** | **67.2** | **60.1** |
| **Contributions by and distributions to shareholders:** | | | | | | | | |
| Shareholder dividends[25] | - | - | - | - | - | - | (13.0) | (13.0) |
| Exercise of options[25] | 0.1 | 4.2 | - | (1.3) | - | - | 1.3 | 4.3 |
| Payment of long-term incentive plan | - | - | - | (0.4) | - | - | - | (0.4) |
| Share-based compensation[25] | - | - | - | 3.6 | - | - | - | 3.6 |
| **Total contributions by and distributions to shareholders:** | **0.1** | **4.2** | **-** | **1.9** | **-** | **-** | **(11.7)** | **(5.5)** |
| **Balance at 31 December 2020** | **11.0** | **8.9** | **234.5** | **12.0** | **17.9** | **(11.2)** | **246.3** | **519.4** |

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| **Operating activities** | | |
| Cash generated from operations[27] | **225.6** | 78.1 |
| Income taxes paid | **(11.2)** | (3.1) |
| **Total cash provided by operating activities** | **214.4** | 75.0 |
| | | |
| **Financing activities** | | |
| Proceeds from exercise of options | **4.3** | 2.7 |
| Payment of long-term incentive plan | **(0.4)** | - |
| Payment of shareholder dividends[25] | **(13.0)** | - |
| Proceeds from long-term debt[5,22] | **-** | 173.6 |
| Debt issuance and repricing costs[11,22] | **(0.3)** | (2.6) |
| Principal payments made on long-term debt[11,22] | **(40.0)** | - |
| Lease payments[11,18] | **(5.9)** | (3.6) |
| Repayment of non-compete liability[11] | **(4.7)** | (6.0) |
| Interest and swap payments[11] | **(25.0)** | (21.0) |
| **Total cash (used in)/provided by financing activities** | **(85.0)** | 143.1 |
| | | |
| **Investing activities** | | |
| Purchase of tangible assets[12] | **(2.8)** | (3.8) |

| | | |
|---|---|---|
| Purchase of intangible assets[13] | **(16.7)** | (12.9) |
| Disposal of discontinued operation | **-** | 18.0 |
| Business acquisitions, net of cash acquired[5] | **-** | (199.7) |
| **Total cash used in investing activities** | **(19.5)** | (198.4) |
| | | |
| **Net increase in cash during the year** | **109.9** | 19.7 |
| Cash, beginning of year | **100.3** | 84.4 |
| Exchange gain/(loss) on cash and cash equivalents | **2.4** | (3.8) |
| **Cash, end of year** | **212.6** | 100.3 |

*See accompanying notes*

# SUPPLEMENTARY NOTES FOR THE YEAR ENDED 31 DECEMBER 2020

## 1. Corporate information

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

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

These Consolidated Financial Statements were authorised for issue by the Board of Directors of Gamesys Group plc on 8 March 2021.

## 2. Basis of preparation

### Basis of presentation

These Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in compliance with International Financial Reporting Standards ('IFRS') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In adopting the going concern basis of preparation of these Consolidated Financial Statements, management considered the Group's latest trading performance, including its cash position, and conducted analysis of COVID-19 impact on the Group's online gaming business in key markets. Based on this examination, management concluded that the Group is well positioned to manage the risks and uncertainties it faces and is expected to have adequate financial resources to continue its normal operations for the foreseeable future, being over one year from the date of authorisation of these Consolidated Financial Statements.

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

The financial information for the year ended 31 December 2020 and the year ended 31 December 2019 does not constitute the company's UK statutory accounts for those years.

Statutory accounts for the year ended 31 December 2019 have been delivered to the UK Registrar of Companies. The statutory accounts for the year ended 31 December 2020 will be delivered to the Registrar of Companies in due course.

The auditors' reports on the statutory accounts for the year ended 31 December 2020 and the year ended 31 December 2019 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under sections 498(2) or 498(3) of the *Companies Act 2006*.

### Basis of consolidation

The Group assesses control by evaluating matters relating to its power over an entity, its exposure or rights to variable returns from involvement with an entity and its ability to use its power over the entity to affect those returns. In certain situations, the assessment of control in accordance with the Group's accounting policies may require the exercise of management judgement.

Gamesys Group plc's Consolidated Financial Statements consolidate all wholly owned subsidiaries and other entities that the Group controls. All transactions and balances between companies that the Group controls are eliminated on consolidation.

## 3. Summary of significant accounting policies

### Business combinations and goodwill

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

Consideration transferred includes the fair values of the assets transferred, liabilities incurred, and equity interests issued by Gamesys Group plc. Transaction related costs are expensed as incurred.

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

### Segment reporting

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

### Revenue recognition

The Group earns its revenue from operating online bingo and casino websites ('Net Gaming Revenue'). Other revenue streams comprise of licencing of its proprietary software to third parties, affiliate aggregation services and game aggregation services (in combination, 'B2B Revenue').

***Net Gaming Revenue***

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

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

There is no significant degree of uncertainty involved in quantifying the amount of Net Gaming Revenue earned, including bonuses, jackpot contributions, and loyalty points. Bonuses, jackpot contributions and loyalty points are measured at fair value at each reporting date.

***B2B Revenue***

B2B Revenue is measured based on the amount to which the Group is contractually entitled, typically based on a percentage of revenue earned by the Group's business partners from use of its software and other services. B2B Revenue is recognised when the Group's performance obligations, as defined by the terms of the relevant contracts, are fulfilled. There are no significant judgements required in applying IFRS 15 to these arrangements and there is no significant degree of uncertainty involved in quantifying the amount of B2B Revenue earned.

B2B Revenue is substantially similar to Net Gaming Revenue with regards to the revenue recognition principles applied. There is only a limited degree of uncertainty attached to the measurement and recognition of B2B Revenues, and consequently, further analysis of B2B Revenue has not been presented.

## Fair value measurement

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

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

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

> Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
>
> Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
>
> Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

## Foreign currency translation

***Functional and presentation currency***

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

***Foreign currency transactions and balances***

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

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

## Financial instruments

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

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

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

### *Financial assets at amortised cost*

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

The Group uses the simplified Expected Credit Loss model ('ECL') ('ECL Model') for its trade receivables in accordance with IFRS 9 - *Financial Instruments* ('IFRS 9'). Other receivables have been evaluated under the standard ECL Model.

Certain high-risk balances in transit from, and rolling reserves held with payment service providers are considered trade and other receivables that fall under the scope of IFRS 9. In order to determine the amount of ECL on these balances to be recognised in the Consolidated Financial Statements, the Group has set up a risk rating system to determine credit risk of each counter party.

On confirmation that any trade or other receivables will not be collectable, the gross carrying value of the relevant assets is written off against the associated provision.

### *Financial liabilities at amortised cost*

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

### *Convertible loan receivable*

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

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

***Offsetting of financial instruments***

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

***Derivative financial instruments***

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

***Hedge accounting***

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

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

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

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

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

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

<u>Cash flow hedges</u>

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

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

At 31 December 2020, the Group designated its Interest Rate Swap and Currency Swap as cash flow hedges.

### Income taxes

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

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

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

A deferred tax asset is recognised for differences in timing of distribution of taxed profits through intercompany dividend declarations. Other deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Group does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. As at 31 December 2020, the Group's deferred tax asset consists primarily of balances that will become receivable from the Maltese tax authorities upon distribution of taxed profits through intercompany dividends.

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

### Cash

Cash includes cash in hand and deposits held at call with banks. Cash excludes restricted cash.

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

### Tangible assets

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

| | |
|---|---|
| Computer hardware | 33% - 50% per annum |
| Office furniture | 20% - 50% per annum |
| Freehold property | Over 50 years |
| Leasehold improvements | Over the lesser of either the term of the lease or useful economic life |

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

### Intangible assets

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

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

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

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

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

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

### Share-based compensation and long-term incentive plan

Compensation expense for equity-settled share options awarded under the share option plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognised using the graded vesting method over the vesting period of the options granted. Compensation expense for equity-settled stock options awarded under the LTIP, LTIP2, LTIP3 and LTIP4 (as defined in note 25) is measured at the fair value at the grant date using the Black-Scholes valuation model for the EPS and EPS CAGR Tranches (as defined in note 25) and the Monte Carlo model for the TSR Tranches, including TSR Peer and TSR Index Tranches (as defined in note 25). Compensation expense for equity-settled share options awarded under the G MINE SIP (as defined in note 25) is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognised using the graded vesting method over the vesting period of the options granted.

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

### Earnings per share

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

### Provisions

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

### Research and development costs

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

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

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

### Leases

Under IFRS 16 - *Leases*, the Group amortises its right-of-use assets and accretes interest on its lease liabilities, except for leases of low value assets and leases with a duration of one year or less.

Lease liabilities are measured at the present value of contractual payments due to the lessor over the term of the lease, with discount rates determined by reference to the Group's incremental borrowing rate, where no rate is specified in the lease agreement itself. Right-of-use assets are initially measured at the amount of the lease liability. The Group makes judgements regarding extension and break clauses, where necessary.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

When the Group revises its estimate of the term of any lease, the carrying amount of the lease liabilities is adjusted to reflect the payments required to be made over the revised term, which are discounted using a revised discount rate. Equivalent adjustments are made to the value of the right-of-use assets, with the revised carrying amount being amortised over the remaining revised lease term. If the carrying amount of the right-of-use assets is adjusted to zero, any further reduction is recognised in profit or loss.

## 4. Summary of significant accounting judgements, estimates and assumptions

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

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

The Group has reviewed its significant accounting estimates and assumptions considering the impact of COVID-19 and no new significant accounting estimates and assumptions were identified, nor have the current estimates and assumptions been materially impacted.

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

### Goodwill and intangible assets

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

### Taxes

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

The Group is also exposed to a range of different corporation and other tax regimes.  Any given tax jurisdiction may have complex legislation operating both domestically and potentially beyond the borders of the country in question. This requires the Group to make judgements on the basis of detailed tax analysis and recognise payables or provisions and disclose contingent liabilities as appropriate in the circumstances. Should the Group's judgement change as it is revisited over time, or the associated estimates be updated as more information comes to light, tax expense recorded in the Consolidated Statements of Comprehensive Income in future reporting periods will be affected. Further information on recognised provisions is included in note 20.

### Expected credit loss

Trade and other long-term and short-term receivables are reviewed for impairment every reporting period. Use of the ECL Model requires management to exercise judgement in evaluating which balances in transit from, and rolling reserves held with payment service providers are considered high-risk. It also requires management to make assumptions about the likelihood of collectability of certain trade and other receivables. The use of different assumptions and estimates could influence the amount of impairment of financial assets recognised in a given period.

### Capitalised software development costs

Capitalisation of certain software development costs requires management to exercise judgement in identifying costs to be capitalised as well as the rate at which such costs are capitalised. In particular, judgement is exercised when identifying and quantifying directly attributable costs necessary to create, produce and prepare software to be capable of operating in the manner intended by management. The use of different assumptions on what constitutes directly attributable costs and use of different estimates for calculating these costs could influence the amount of capitalised software development.

### Business combinations

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

## 5. Business combinations

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

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

### Effect of acquisition on the financial position of the Group

| | 26 September 2019 (£m) |
|---|---|
| **Assets acquired** | |
| Cash | 40.3 |
| Restricted cash | 1.2 |
| Player deposits | 9.0 |
| Trade and other receivables | 14.0 |
| Other non-current assets | 5.9 |
| Right-of-use assets | 18.8 |
| Intangible assets (note 13) | 309.0 |
| Goodwill (note 13) | 252.7 |
| | **650.9** |
| **Liabilities assumed** | |
| Accounts payable and accrued liabilities | 75.5 |
| Player liabilities | 9.0 |
| Deferred tax liabilities | 52.4 |
| Provisions (note 20) | 3.8 |
| Lease liabilities | 19.0 |
| | **159.7** |
| **Net assets acquired** | **491.2** |
| **Consideration** | |
| Cash | 240.0 |
| Realised gain on FX Forward | (2.7) |
| Deferred consideration | 10.0 |
| Working capital adjustment | (0.1) |
| Shares issued | 244.0 |
| | **491.2** |

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

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

In connection with the issuance of shares as part of the consideration for the Gamesys Acquisition, Gamesys Group plc applied the requirements of the *Companies Act 2006* in relation to merger relief, and recorded excess of the nominal value of the shares issued in the merger reserve.

On 1 January 2020, amendments to the definition of a business under IFRS 3 - *Business Combinations* came into effect. The Group did not complete any acquisitions during the year ended 31 December 2020 and the amendments do not permit the Group to reassess whether acquisitions occurring prior to 1 January 2020 meet the revised definition of a business. As a result, the Group's Consolidated Financial Statements for the year ended 31 December 2020 were not affected by these amendments.

## 6. Segment information

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

The Group has determined that it has a single operating segment, being online gaming. The online gaming segment consists of online bingo and casino operating results of the Jackpotjoy, Starspins, Virgin Games, Heart Bingo, Botemania, Rainbow Riches Casino, Virgin Casino, Monopoly Casino, Vera&John, InterCasino and VIP Casino brands.

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

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

### Year ended 31 December 2020:

| | Online gaming (£m) | Unallocated corporate costs (£m) | Total (£m) |
|---|---|---|---|
| **Revenue** | **727.7** | **-** | **727.7** |
| | | | |
| Distribution costs | 399.9 | - | 399.9 |
| Amortisation and depreciation | 99.5 | 0.5 | 100.0 |
| Impairment of purchase price intangibles | 4.1 | - | 4.1 |
| Compensation, professional, and general and administrative expenses | 100.4 | 17.0 | 117.4 |
| Impairment of financial assets | 5.0 | - | 5.0 |
| Severance costs | 1.1 | 0.8 | 1.9 |
| Transaction related costs | - | 1.8 | 1.8 |
| Foreign exchange (gain)/loss | (1.0) | 5.2 | 4.2 |
| Financing, net | 0.9 | 23.8 | 24.7 |
| **Income/(loss) for the year before taxes** | **117.8** | **(49.1)** | **68.7** |
| Tax expense | 1.2 | 0.3 | 1.5 |
| **Net income/(loss) for the year after taxes** | **116.6** | **(49.4)** | **67.2** |
| | | | |
| **Net income/(loss) for the year after taxes** | **116.6** | **(49.4)** | **67.2** |
| Interest expense, net | 0.9 | 22.6 | 23.5 |
| Accretion on financial liabilities | - | 1.2 | 1.2 |
| Tax expense | 1.2 | 0.3 | 1.5 |
| Amortisation and depreciation | 99.5 | 0.5 | 100.0 |
| Impairment of purchase price intangibles | 4.1 | - | 4.1 |
| **EBITDA** | **222.3** | **(24.8)** | **197.5** |
| Severance costs | 1.1 | 0.8 | 1.9 |
| One-off tax charges | 0.8 | - | 0.8 |
| Transaction related costs | - | 1.8 | 1.8 |
| Foreign exchange (gain)/loss | (1.0) | 5.2 | 4.2 |
| **Adjusted EBITDA** | **223.2** | **(17.0)** | **206.2** |
| | | | |
| **Net income/(loss) for the year after taxes** | **116.6** | **(49.4)** | **67.2** |
| Severance costs | 1.1 | 0.8 | 1.9 |
| One-off tax charges | 0.8 | - | 0.8 |
| Transaction related costs | - | 1.8 | 1.8 |
| Foreign exchange (gain)/loss | (1.0) | 5.2 | 4.2 |
| Amortisation of acquisition related purchase price intangibles | 82.9 | - | 82.9 |
| Impairment of purchase price intangibles | 4.1 | - | 4.1 |
| Accretion on financial liabilities | - | 1.2 | 1.2 |
| Deferred tax on purchase price intangibles | (8.7) | - | (8.7) |

| | | | |
|---|---|---|---|
| **Adjusted net income/(loss)** | **195.8** | **(40.4)** | **155.4** |

**Year ended 31 December 2019:**

| | Online gaming (£m) | Unallocated corporate costs (£m) | Total (£m) |
|---|---|---|---|
| **Revenue** | **415.1** | **-** | **415.1** |
| Distribution costs | 214.2 | - | 214.2 |
| Amortisation and depreciation | 61.2 | 1.0 | 62.2 |
| Compensation, professional, and general and administrative expenses | 71.3 | 14.0 | 85.3 |
| Impairment of financial assets | 3.9 | - | 3.9 |
| Transaction related costs | 0.2 | 15.6 | 15.8 |
| Foreign exchange loss/(gain) | 1.3 | (2.8) | (1.5) |
| Financing, net | 0.5 | 22.7 | 23.2 |
| **Income/(loss) for the year before taxes from continuing operations** | **62.5** | **(50.5)** | **12.0** |
| Tax expense | 2.6 | 0.3 | 2.9 |
| **Net income/(loss) for the year after taxes from continuing operations** | **59.9** | **(50.8)** | **9.1** |
| **Net income/(loss) for the year after taxes from continuing operations** | **59.9** | **(50.8)** | **9.1** |
| Interest expense, net | 0.5 | 20.9 | 21.4 |
| Accretion on financial liabilities | - | 1.3 | 1.3 |
| Tax expense | 2.6 | 0.3 | 2.9 |
| Amortisation and depreciation | 61.2 | 1.0 | 62.2 |
| **EBITDA** | **124.2** | **(27.3)** | **96.9** |
| One-off tax charges | 6.0 | - | 6.0 |
| Fair value adjustments on contingent consideration | - | 0.5 | 0.5 |
| Transaction related costs | 0.2 | 15.6 | 15.8 |
| Foreign exchange loss/(gain) | 1.3 | (2.8) | (1.5) |
| **Adjusted EBITDA**[1] | **131.7** | **(14.0)** | **117.7** |
| **Net income/(loss) for the year after taxes from continuing operations** | **59.9** | **(50.8)** | **9.1** |
| One-off tax charges | 6.0 | - | 6.0 |
| Fair value adjustments on contingent consideration | - | 0.5 | 0.5 |
| Transaction related costs | 0.2 | 15.6 | 15.8 |
| Foreign exchange loss/(gain) | 1.3 | (2.8) | (1.5) |
| Amortisation of acquisition related purchase price intangibles | 52.7 | - | 52.7 |
| Accretion on financial liabilities | - | 1.3 | 1.3 |
| Deferred tax on purchase price intangibles[2] | (0.4) | - | (0.4) |
| **Adjusted net income/(loss)**[1,2] | **119.7** | **(36.2)** | **83.5** |

*[1]Figures for the year ended 31 December 2019 have been amended to include share-based compensation expense that is no longer excluded from adjusted EBITDA and adjusted net income.*

*[2]Figures for the year ended 31 December 2019 have been amended to exclude deferred tax on purchase price intangibles.*

During the year ended 31 December 2020, revenue was earned from players situated in the following locations: United Kingdom - 58% (year ended 31 December 2019 - 52%), Japan - 27% (year ended 31

December 2019 - 26%), Spain - 5% (year ended 31 December 2019 - 8%), rest of Europe - 4% (year ended 31 December 2019 - 9%), rest of world - 6% (year ended 31 December 2019 - 5%).

During the year ended 31 December 2020, the Group's B2B Revenue comprised 4% (year ended 31 December 2019 - 4%) of total Group revenues, with the remaining portion being revenues earned from Net Gaming Revenue operations.

Non-current assets by geographical location as at 31 December 2020 were as follows: Europe £98.8 million (31 December 2019 - £85.3 million), Americas £6.1 million (31 December 2019 - £383.9 million) and United Kingdom £874.7 million (31 December 2019 - £576.4 million).

## 7. Costs and expenses

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Distribution costs: | | |
| Selling and marketing | **155.9** | 81.7 |
| Licensing fees | **63.2** | 45.3 |
| Gaming taxes | **116.5** | 59.2 |
| Processing fees | **64.3** | 28.0 |
| | **399.9** | 214.2 |
| | | |
| Administrative costs: | | |
| Compensation and benefits | **91.8** | 55.6 |
| Professional fees | **7.7** | 5.1 |
| General and administrative | **17.9** | 24.6 |
| Tangible and right-of-use asset depreciation | **8.8** | 4.4 |
| Intangible asset amortisation | **91.2** | 57.8 |
| Impairment of purchase price intangibles | **4.1** | - |
| | **221.5** | 147.5 |

## 8. Interest income/expense

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| **Total interest income** | **0.5** | 0.4 |
| | | |
| Interest accrued and paid on long-term debt | **22.4** | 21.4 |
| Fair value adjustment on secured convertible loan | **(0.1)** | (0.2) |
| Interest accrued on deferred consideration | **0.5** | - |
| Interest accrued and paid on lease liabilities | **1.2** | 0.6 |
| **Total interest expense** | **24.0** | 21.8 |
| | | |
| Debt issue costs and accretion recognised on long-term debt | **1.2** | 0.7 |
| Interest accretion recognised on other long-term liabilities | **-** | 0.6 |
| **Total accretion on financial liabilities** | **1.2** | 1.3 |

## 9. Taxes and deferred taxes

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|

| | | |
|---|---|---|
| UK | **8.1** | - |
| Overseas jurisdictions | **12.0** | 9.4 |
| Adjustments for prior years | **(3.4)** | 0.9 |
| **Current tax expense** | **16.7** | 10.3 |
| | | |
| Tax effect of temporary differences | **(6.5)** | (7.0) |
| Reversal of temporary differences related to business combinations | **(8.7)** | (0.4) |
| **Deferred tax credit** | **(15.2)** | (7.4) |
| | | |
| **Total tax expense** | **1.5** | 2.9 |

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

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Profit for the year before taxes (continuing operations) | **68.7** | 11.3 |
| Tax using Gamesys Group plc's domestic tax rate of 19% (2019 - 19%) | **13.1** | 2.1 |
| *Adjusted for effects of:* | | |
| Non-deductible expenses | **3.1** | (0.4) |
| Different tax rates applied in overseas jurisdictions | **(13.3)** | (0.5) |
| Non-capital loss for which no tax benefit has been recorded | **6.1** | 1.7 |
| Adjustments for prior years | **(3.4)** | - |
| Utilisation of brought forward losses not previously recognised as an asset | **(1.5)** | - |
| Other differences | **(2.6)** | - |
| **Total tax expense** | **1.5** | 2.9 |

As at 31 December 2020, taxes payable and receivable balances consist primarily of taxes related to the 2018, 2019 and 2020 fiscal years.

The Group has tax losses amounting to £4.5 million (year ended 31 December 2019 - £8.7 million) for which no deferred tax asset has been recognised due to reduced certainty over the existence of future taxable profits in the affected subsidiaries.

| | **Deferred tax asset (£m)** | **Deferred tax liability (£m)** |
|---|---|---|
| Balance, 1 January 2019 | - | 1.2 |
| Arising on business combinations | - | 52.4 |
| Deferred tax on purchase price intangibles | - | (0.4) |
| Balance, 31 December 2019 | - | 53.2 |
| Deferred tax on purchase price intangibles | - | (8.7) |
| Transfer from current taxes receivable | 7.2 | - |
| Accrued tax rebates | 4.8 | - |
| Temporary differences: intangible assets | 1.7 | - |
| Transfer to current taxes receivable | (3.8) | - |
| Foreign exchange translation | - | (0.1) |
| **Balance, 31 December 2020** | **9.9** | **44.4** |

Deferred tax assets relate to differences in timing of distribution of taxed profits through intercompany dividend declarations (£8.2 million) and other temporary differences (£1.7 million). Deferred tax liabilities relate exclusively to balances arising on business combinations.

## 10. Earnings per share

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

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Numerator: | | |
| Net income attributable to owners of the parent - basic | **67.2** | 8.4 |
| Net income attributable to owners of the parent - diluted | **67.2** | 8.4 |
| Numerator: | | |
| Net income from continuing operations - basic | **67.2** | 9.1 |
| Net income from continuing operations - diluted | **67.2** | 9.1 |
| Numerator: | | |
| Net loss from discontinued operations - basic | **-** | (0.7) |
| Net loss from discontinued operations - diluted[1] | **-** | (0.7) |
| Denominator: | | |
| Weighted average number of shares outstanding - basic | **108.8** | 83.3 |
| Weighted average effect of dilutive share options[2] | **0.5** | 0.3 |
| Weighted average number of shares outstanding - diluted | **109.3** | 83.6 |
| Net income per share[3,4] | | |
| Basic | **61.8p** | 10.1p |
| Diluted | **61.5p** | 10.0p |
| Net income per share[3,4] - continuing operations | | |
| Basic | **61.8p** | 10.9p |
| Diluted | **61.5p** | 10.9p |
| Net loss per share[1,3,4] - discontinued operations | | |
| Basic | **-** | (0.8)p |
| Diluted | **-** | (0.8)p |

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

[2] *As at 31 December 2020, performance conditions related to LTIP2 are considered satisfied and, as such, ordinary shares issuable under LTIP2 are included in the number of the weighted average dilutive share options.*

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

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

## 11. Liabilities arising from financing activities

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

| | Long-term debt (£m) | Interest payable (£m) | Non-compete clauses (£m) | Interest rate swap liability (£m) | Currency swap liability (£m) | Deferred/ Contingent consideration (£m) | Lease liabilities (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|---|
| Balance, 1 January 2019 | 371.4 | 0.3 | 10.1 | 0.5 | - | 4.5 | - | 386.8 |
| Cash flows | 171.0 | (20.4) | (6.0) | (0.6) | - | - | (3.6) | 140.4 |
| Non-cash flows: | | | | | | | | |
| Fair value adjustments | - | - | - | 1.2 | 9.3 | 0.5 | - | 11.0 |
| Interest expense | - | 21.4 | - | - | - | - | 0.6 | 22.0 |
| Lease liabilities recognised | - | - | - | - | - | - | 25.7 | 25.7 |
| Accretion | 0.7 | - | 0.6 | - | - | - | - | 1.3 |
| Arising on business combinations | - | - | - | - | - | 10.0 | - | 10.0 |
| Set-off against acquired assets | - | - | - | - | - | (5.0) | - | (5.0) |
| Foreign exchange translation | (12.8) | (0.3) | - | - | - | - | - | (13.1) |
| Balance, 31 December 2019 | 530.3 | 1.0 | 4.7 | 1.1 | 9.3 | 10.0 | 22.7 | 579.1 |
| Cash flows | (40.3) | (21.8) | (4.7) | (0.9) | (2.3) | - | (5.9) | (75.9) |
| Non-cash flows: | | | | | | | | |
| Fair value adjustments | - | - | - | 1.6 | (2.0) | - | - | (0.4) |
| Interest expense | - | 22.9 | - | - | - | - | 1.2 | 24.1 |
| Lease liabilities recognised | - | - | - | - | - | - | 4.6 | 4.6 |
| Accretion | 1.2 | - | - | - | - | - | - | 1.2 |
| Foreign exchange translation | 16.9 | (0.2) | - | - | - | - | 0.1 | 16.8 |
| **Balance, 31 December 2020** | **508.1** | **1.9** | **-** | **1.8** | **5.0** | **10.0** | **22.7** | **549.5** |

## 12. Tangible assets

### As at 31 December 2020

| | Fixtures and fittings (£m) | Hardware and equipment (£m) | Total (£m) |
|---|---|---|---|
| Cost | | | |
| Balance, 1 January 2020 | 7.2 | 5.5 | 12.7 |
| Additions | 1.0 | 1.8 | 2.8 |
| Disposals | (0.1) | (0.2) | (0.3) |
| Translation | (0.1) | 0.2 | 0.1 |
| **Balance, 31 December 2020** | **8.0** | **7.3** | **15.3** |
| Accumulated depreciation | | | |
| Balance, 1 January 2020 | 0.8 | 2.4 | 3.2 |
| Depreciation | 1.2 | 2.3 | 3.5 |
| Disposals | (0.1) | (0.1) | (0.2) |
| Translation | - | (0.1) | (0.1) |
| **Balance, 31 December 2020** | **1.9** | **4.5** | **6.4** |
| Carrying value | | | |
| **Balance, 31 December 2020** | **6.1** | **2.8** | **8.9** |

### As at 31 December 2019

| | Fixtures and fittings (£m) | Hardware and equipment (£m) | Total (£m) |
|---|---|---|---|
| Cost | | | |
| Balance, 1 January 2019 | 1.3 | 2.3 | 3.6 |
| Additions | 5.9 | 3.2 | 9.1 |
| **Balance, 31 December 2019** | **7.2** | **5.5** | **12.7** |
| | | | |
| Accumulated depreciation | | | |
| Balance, 1 January 2019 | 0.3 | 1.1 | 1.4 |
| Depreciation | 0.6 | 1.2 | 1.8 |
| Translation | (0.1) | 0.1 | - |
| **Balance, 31 December 2019** | **0.8** | **2.4** | **3.2** |
| | | | |
| Carrying value | | | |
| **Balance, 31 December 2019** | **6.4** | **3.1** | **9.5** |

## 13. Intangible assets and goodwill

### As at 31 December 2020

| | Player relationships (£m) | Software (£m) | Brand (£m) | Partnership agreements (£m) | Goodwill (£m) | Total (£m) |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance, 1 January 2020 | 515.0 | 123.0 | 68.2 | 17.5 | 544.4 | 1,268.1 |
| Additions | - | 16.8 | - | - | - | 16.8 |
| Translation | 1.2 | 2.2 | 0.3 | 0.3 | 1.3 | 5.3 |
| **Balance, 31 December 2020** | **516.2** | **142.0** | **68.5** | **17.8** | **545.7** | **1,290.2** |
| | | | | | | |
| Accumulated amortisation/impairment | | | | | | |
| Balance, 1 January 2020 | 188.4 | 25.6 | 16.5 | 8.7 | 20.2 | 259.4 |
| Amortisation | 72.4 | 12.0 | 3.4 | 3.4 | - | 91.2 |
| Impairment[1] | - | - | - | 4.1 | - | 4.1 |
| Translation | 1.2 | 1.1 | 0.1 | - | (0.7) | 1.7 |
| **Balance, 31 December 2020** | **262.0** | **38.7** | **20.0** | **16.2** | **19.5** | **356.4** |
| | | | | | | |
| Carrying value | | | | | | |
| **Balance, 31 December 2020** | **254.2** | **103.3** | **48.5** | **1.6** | **526.2** | **933.8** |

*[1]During the year ended 31 December 2020, a number of the Group's purchase price partnership agreements have either expired or have been terminated. As a result, the Group recognised a £4.1 million impairment for the unamortised portion of the relevant contracts.*

### As at 31 December 2019

| | Player relationships (£m) | Software (£m) | Brand (£m) | Partnership agreements (£m) | Non-compete clauses (£m) | Goodwill (£m) | Total (£m) |
|---|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance, 1 January 2019 | 320.1 | 31.0 | 70.3 | 12.9 | 20.4 | 309.1 | 763.8 |
| Additions | 223.3 | 94.0 | - | 4.6 | - | 252.7 | 574.6 |
| Disposals | (27.2) | (0.4) | (1.6) | - | - | (14.3) | (43.5) |
| Translation | (1.2) | (1.6) | (0.5) | - | - | (3.1) | (6.4) |
| **Balance, 31 December 2019** | **515.0** | **123.0** | **68.2** | **17.5** | **20.4** | **544.4** | **1,288.5** |
| Accumulated amortisation/impairment | | | | | | | |
| Balance, 1 January 2019 | 172.6 | 18.3 | 13.6 | 6.1 | 17.9 | 20.8 | 249.3 |
| Amortisation | 41.6 | 8.7 | 3.4 | 2.6 | 2.5 | - | 58.8 |
| Disposals | (24.7) | (0.3) | (0.4) | - | - | - | (25.4) |
| Translation | (1.1) | (1.1) | (0.1) | - | - | (0.6) | (2.9) |
| **Balance, 31 December 2019** | **188.4** | **25.6** | **16.5** | **8.7** | **20.4** | **20.2** | **279.8** |
| Carrying value | | | | | | | |
| **Balance, 31 December 2019** | **326.6** | **97.4** | **51.7** | **8.8** | **-** | **524.2** | **1,008.7** |

### Goodwill impairment testing

As discussed in note 1, the Group offers bingo, casino and other games to its players through brands that operate off proprietary software, comprised of two platforms, Excite and Enjoy. The Jackpotjoy, Starspins, Botemania, Virgin Games, Heart Bingo, Virgin Casino, Monopoly Casino and Rainbow Riches Casino brands operate off the Excite platform, with Vera&John and InterCasino brands operating off the Enjoy platform. Therefore, the Group designated Excite and Enjoy as its CGUs.

For the purpose of the annual impairment test, goodwill has been allocated to each CGU of the business. The recoverable amount of the Excite CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 16.0% (year ended 31 December 2019 - 14.0%) and cash flows beyond the five-year period are extrapolated using a 2.0% (year ended 31 December 2019 - 2.0%) growth rate. At 31 December 2020, the carrying amount of goodwill related to the Excite CGU is £469.8 million (year ended 31 December 2019 - £469.8 million).

The recoverable amount of the Enjoy CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 18.0% (year ended 31 December 2019 - 19.0%) and cash flows beyond the five-year period are extrapolated using a 2.0% (year ended 31 December 2019 - 2.0%) growth rate. At 31 December 2020, the carrying amount of goodwill related to the Enjoy CGU is £56.4 million (year ended 31 December 2019 - £54.4 million).

The fair value less selling costs calculations are based on level 3 in the fair value hierarchy. As at 31 December 2020, there was no indication of impairment of goodwill, nor does senior management expect any reasonably possible change in a key assumption that may give rise to an impairment.

## 14. Other long-term receivables

| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
|---|---|---|
| Secured convertible loan | **3.9** | 3.8 |
| Long-term loan receivable (net of ECL provision discussed in note 16) | **1.0** | 1.2 |
| Other | **0.2** | 0.2 |
| | **5.1** | 5.2 |

## 15. Cash, restricted cash and player deposits

| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
|---|---|---|
| Cash | **212.6** | 100.3 |
| Restricted cash | - | 6.3 |
| | **212.6** | 106.6 |
| Player deposits - restricted cash[1] | **29.6** | 12.4 |

*[1]Player deposits - restricted cash consists of cash held by the Group in relation to amounts payable to players.*

## 16. Trade and other receivables

| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
|---|---|---|
| Trade receivables | **8.4** | 5.5 |
| Due from payment service providers | **20.4** | 12.2 |
| Prepaid expenses | **12.4** | 10.4 |
| Sales tax receivable | **4.7** | 4.8 |
| Other receivables | **3.5** | 4.8 |
| ECL on above balances | **(9.5)** | (4.5) |
| | **39.9** | 33.2 |

The above ECL figure includes an £8.6 million (31 December 2019 - £3.6 million) provision on certain high-risk balances in transit from, and rolling reserves held with payment service providers, as discussed in note 3, as well as a £0.9 million (31 December 2019 - £0.9 million) provision on trade and other receivables discussed below.

The following table summarises the movement of the Group's expected credit loss provision on trade and other receivables:

| | **(£m)** |
|---|---|
| Balance, 1 January 2019 | 0.6 |
| ECL on trade and other receivables | 0.3 |
| ECL on certain balances held with PSPs | 3.6 |
| Balance, 31 December 2019 | 4.5 |
| ECL on certain balances held with PSPs | 5.0 |
| **Balance, 31 December 2020** | **9.5** |

ECL on certain high-risk balances in transit from, and rolling reserves held with payment service providers is calculated as approximately 42% (year ended 31 December 2019 - 30%) of certain high-risk balances in transit from, and rolling reserves held with payment service providers. If the ECL rate percentage increased by 10%, net income before taxes would decrease by 3%.

Under the ECL Model, the Group's trade receivables are classified in stage 1 - financially healthy assets that are expected to perform in line with their contractual terms and which show no signs of increased credit risk.

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

- 0-30 days past due: 1% of carrying value (year ended 31 December 2019 - 1%);
- 31-60 days past due: 15% of carrying value (year ended 31 December 2019 - 15%);
- 61-90 days past due: 19% of carrying value (year ended 31 December 2019 - 19%); and
- More than 90 days past due: 25% of carrying value (year ended 31 December 2019 - 25%).

The following table summarises the Group's expected credit loss on its trade and other receivables and other long-term receivables at 31 December 2020:

| | 0-30 days (£m) | 31-60 days (£m) | 61-90 days (£m) | 90 days + (£m) | **Total (£m)** |
|---|---|---|---|---|---|
| Trade and other receivables | 0.1 | - | 0.1 | 0.7 | **0.9** |
| Other long-term receivables (note 14) | - | - | - | 0.4 | **0.4** |
| | 0.1 | - | 0.1 | 1.1 | **1.3** |

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

| | 0-30 days (£m) | 31-60 days (£m) | 61-90 days (£m) | 90 days + (£m) | **Total (£m)** |
|---|---|---|---|---|---|
| Trade and other receivables | 0.1 | - | - | 0.8 | **0.9** |
| Other long-term receivables (note 14) | - | - | - | 0.4 | **0.4** |
| | 0.1 | - | - | 1.2 | **1.3** |

## 17. Currency swap and interest rate swap

A fundamental reform of major interest rate benchmarks is being undertaken, including the replacement of some interbank offered rates ('IBORs') with alternative nearly risk-free rates (the 'IBOR Reform'). The Group has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this initiative. The Group will monitor and manage its transition to alternative rates by evaluating the extent to which its contracts reference IBOR and whether such contracts need to be amended as a result of the IBOR Reform.

IBOR Reform amendments to IFRS 9 are effective as of 1 January 2020. However, the amendments provide relief in applying the requirements of IFRS 9 to certain hedges and allow the Group to assume that interest rate benchmarks on which hedged cash flows are based will not be altered as a result of the IBOR Reform. Consequently, hedging relationships that may have otherwise been impacted by the IBOR Reform have remained in place and no additional ineffective portions of the hedges have been recognised during the year ended 31 December 2020.

As at 31 December 2020, the Group's main floating rate was LIBOR.

### Currency swap

The Group manages its foreign exchange risk by utilising currency swaps.

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

As at 31 December 2020, the fair value of the Currency Swap was a £5.0 million payable (31 December 2019 - £9.3 million). The Group has included £2.9 million of this amount in current liabilities (31

December 2019 - £3.3 million), with the remaining balance included in other long-term payables, as discussed in note 24. For the year ended 31 December 2020, the Group recognised a gain of £2.0 million in other comprehensive income (year ended 31 December 2019 - loss of £9.3 million).

| | (£m) |
|---|---|
| Balance, 1 January 2019 | - |
| FVOCI | 9.3 |
| Balance, 31 December 2019 | 9.3 |
| FVOCI[1] | (4.3) |
| **Balance, 31 December 2020** | **5.0** |

*[1]The difference between the total gain/(loss) on the Currency Swap and the portion connected to fair value revaluations relates to cash payments made on the Currency Swap.*

The Group considers there to be a clear economic relationship between the EUR Term Facility and the Currency Swap. Therefore, due to the straightforward nature of this relationship, the Group has not experienced, nor does it expect to experience, any notable hedge ineffectiveness.

### Interest rate swap

The Group manages its interest rate risk by utilising interest rate swaps.

On 5 August 2019, Gamesys Group plc amended the terms of its existing Interest Rate Swap to further minimise its exposure to interest rate fluctuations. Under the new terms, the Group will pay a margin rate as per the terms of its GBP Term Facility plus a fixed 1.08% rate of interest instead of a margin rate as per the terms of its GBP Term Facility plus floating GBP LIBOR. On 15 August 2019, the starting Notional Amount went back to being 60% of the GBP Term Facility (£150.0 million) and will decrease to £69.0 million by 15 June 2021.

As at 31 December 2020, the fair value of the Interest Rate Swap was a £1.8 million payable (31 December 2019 - £1.1 million). The Group has included £0.8 million of this payable in current liabilities (31 December 2019 - £0.4 million), with the value of the remaining balance included in other long-term payables, as discussed in note 24. For the year ended 31 December 2020, the Group recognised a loss of £1.6 million in other comprehensive income (year ended 31 December 2019 - £1.2 million).

| | (£m) |
|---|---|
| Balance, 1 January 2019 | 0.5 |
| FVOCI[1] | 0.6 |
| Balance, 31 December 2019 | 1.1 |
| FVOCI[1] | 0.7 |
| **Balance, 31 December 2020** | **1.8** |

*[1]The difference between the total loss on the Interest Rate Swap and the portion connected to fair value revaluations relates to cash payments made on the Interest Rate Swap.*

The Group considers there to be a clear economic relationship between the GBP Term Facility and the Interest Rate Swap. Therefore, due to the straightforward nature of this relationship, the Group has not experienced, nor does it expect to experience, any notable hedge ineffectiveness.

As at 31 December 2020, the Group's exposure to LIBOR designated in hedging relationships is £90.0 million, representing the Notional Amount in effect at the reporting date.

## 18. Leases

The Group's leasing activity consists solely of leases of property. As at 31 December 2020, the carrying value of the right-of-use assets amounted to £21.9 million and the carrying value of lease liabilities amounted to £22.7 million, with £6.1 million (year ended 31 December 2019 - £4.7 million) of this balance shown in current liabilities and the remaining portion of £16.6 million (year ended 31 December 2019 - £18.0 million) reflected under non-current liabilities.

### Right-of-use assets

| | (£m) |
|---|---|
| Balance, 1 January 2019 | 3.2 |
| Additions | 5.3 |
| Additions arising on business combination | 18.8 |
| Depreciation | (2.6) |
| Effect of modification of lease terms | (2.5) |
| Balance, 31 December 2019 | 22.2 |
| Additions | 4.2 |
| Depreciation | (5.3) |
| Effect of modification of lease terms | 0.4 |
| Foreign exchange movements | 0.4 |
| **Balance, 31 December 2020** | **21.9** |

The lease liabilities balances were calculated using an incremental borrowing rate range of 2.0% - 5.0%.

### Lease liabilities

| | (£m) |
|---|---|
| Balance, 1 January 2019 | 3.2 |
| Additions | 5.3 |
| Additions arising on business combination | 19.0 |
| Interest expense | 0.6 |
| Effect of modification of lease terms | (1.8) |
| Lease payments | (3.6) |
| Balance, 31 December 2019 | 22.7 |
| Additions | 4.2 |
| Interest expense | 1.2 |
| Effect of modification of lease terms | 0.4 |
| Lease payments | (5.9) |
| Foreign exchange movements | 0.1 |
| **Balance, 31 December 2020** | **22.7** |

## 19. Accounts payable and accrued liabilities

| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
|---|---|---|
| Trade payables | **12.2** | 20.3 |
| Accruals | **52.3** | 30.2 |
| Gaming taxes, social security and other taxes | **34.1** | 27.5 |
| | **98.6** | 78.0 |

## 20. Provisions

| | (£m) |
|---|---|
| Balance, 1 January 2019 | - |
| Arising on business combination (note 5) | 3.8 |

| | |
|---|---|
| Provisions in the year | 6.0 |
| Balance, 31 December 2019 | 9.8 |
| Transfer to taxes payable | (3.8) |
| Release of provisions in the year | (6.0) |
| Provisions in the year | 6.8 |
| **Balance, 31 December 2020** | **6.8** |

During the year ended 31 December 2019, the Group recognised a provision arising on business combinations of £3.8 million as per a probability-based estimate of the fair value of potential UK tax liabilities, which have been disclosed under HMRC's Profit Diversion Compliance Facility. During the year ended 31 December 2020, the £3.8 million provision has been transferred to taxes payable.

During the year ended 31 December 2019, the Group recognised a tax liability of £6.0 million relating to income derived from UK players. Having taken further external advice, the directors of the Group consider that the liability is no longer probable, and the £6.0 million provision has been released.

During the year ended 31 December 2020, a provision of £6.8 million (31 December 2019 - £nil) has been made for additional foreign gaming tax and interest liabilities attributable to changing norms in calculation criteria, which would be paid on assessment, if any.

## 21. Financial risk management

### Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. As at 31 December 2020, the Group is largely exposed to credit risk through its relationship with its service providers as well as its cash balances. Credit risk also arises from payment services providers ('PSPs'). Prior to accepting new PSPs, credit checks are performed using a reputable external source, where available. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. As at 31 December 2020 the Group recognised a £9.9 million provision (31 December 2019 - £4.9 million) for potentially uncollectable trade and other receivables and other long-term receivables, as explained in note 3. With the exception of the balances discussed in note 16, no other receivables are considered past due or impaired. Quantitative analysis of the Group's exposure to credit risk arising from its receivables is included in note 16 and analysis of the Group's exposure to its credit risk arising from cash is presented below.

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

| Financial Institution Rating[1,2] | **31 December 2020 (£m)** | 31 December 2019 (£m) |
|---|---|---|
| AA- | **2.1** | 1.5 |
| A+ | **33.8** | 12.8 |
| A | **70.8** | 25.3 |
| A- | **9.3** | 5.3 |
| BBB | **49.0** | 38.2 |
| BBB- | **6.0** | 2.2 |
| BB- | **18.2** | 2.4 |

*[1]Balances as of 31 December 2019 have been adjusted to reflect the revised ratings of financial institutions as of 31 December 2020.*

*[2]Figures exclude balances held with unrated institutions.*

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

## Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Gamesys Group plc is exposed to cash flow interest rate risk on its credit facilities, described in note 22, which bear interest at variable rates. A one percentage point increase (decrease) in interest rates would have decreased (increased) net earnings before income taxes by approximately £5.1 million for the year ended 31 December 2020 (year ended 31 December 2019 - £4.2 million), with all other variables held constant.

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

Gamesys Group plc has an Interest Rate Swap in place to mitigate its exposure to interest rate volatility. A one percentage point increase (decrease) in interest rates would have increased (decreased) the fair value of the Interest Rate Swap by approximately £1.8 million for the year ended 31 December 2020 (year ended 31 December 2019 - £2.7 million), with all other variables held constant.

## Foreign exchange risk

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

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

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

**At 31 December 2020**

| | Net foreign currency financial assets/(liabilities) (£m) | Effect of 10% strengthening in foreign exchange rates on comprehensive income (£m) | Effect of 10% weakening in foreign exchange rates on comprehensive income (£m) |
|---|---|---|---|
| Canadian dollar | 1.2 | 0.1 | (0.1) |
| EURO | (214.0) | (21.4) | 21.4 |
| United States dollar | 6.8 | 0.7 | (0.7) |

**At 31 December 2019**

| | Net foreign currency financial assets/(liabilities) (£m) | Effect of 10% strengthening in foreign exchange rates on comprehensive income (£m) | Effect of 10% weakening in foreign exchange rates on comprehensive income (£m) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Canadian dollar | (0.1) | - | - |
| EURO | (245.5) | (24.5) | 24.5 |
| United States dollar | 5.1 | 0.5 | (0.5) |

## Liquidity risk

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

Liquidity risk arises from the Group's ability to meet its financial obligations as they become due. The following tables summarise the Group's undiscounted financial and other liabilities as at 31 December 2020 and 31 December 2019:

| At 31 December 2020 | On demand (£m) | Less than 1 year (£m) | 2-3 years (£m) | 4-5 years (£m) | After 5 years (£m) |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 98.6 | - | - | - | - |
| Other payables | 0.3 | 3.7 | 13.1 | - | - |
| Lease liabilities | - | 6.1 | 10.0 | 8.6 | 2.4 |
| Payable to players | 29.6 | - | - | - | - |
| Long-term debt | - | - | - | 513.4 | - |
| Interest payable on long-term debt | - | 20.0 | 37.6 | 18.8 | - |
| | **128.5** | **29.8** | **60.7** | **540.8** | **2.4** |

| At 31 December 2019 | On demand (£m) | Less than 1 year (£m) | 2-3 years (£m) | 4-5 years (£m) | After 5 years (£m) |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 78.0 | - | - | - | - |
| Other payables | 1.0 | 8.4 | 16.7 | - | - |
| Lease liabilities | - | 4.7 | 8.9 | 8.0 | 5.8 |
| Payable to players | 12.4 | - | - | - | - |
| Long-term debt | - | - | - | 536.3 | - |
| Interest payable on long-term debt | - | 25.8 | 51.5 | 52.6 | - |
| | **91.4** | **38.9** | **77.1** | **596.9** | **5.8** |

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

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

## 22. Credit facilities

| | EUR Term Facility | GBP Term Facility | Total (£m) |
|---|---|---|---|

| | (£m) | (£m) | |
|---|---|---|---|
| Balance, 1 January 2019 | 124.4 | 247.0 | 371.4 |
| Add-on Debt | 173.6 | - | 173.6 |
| Debt issuance costs | (2.6) | - | (2.6) |
| Accretion[1] | 0.3 | 0.4 | 0.7 |
| Foreign exchange translation | (12.8) | - | (12.8) |
| Balance, 31 December 2019 | 282.9 | 247.4 | 530.3 |
| Accretion[1] | 0.7 | 0.5 | 1.2 |
| Repayment | - | (40.0) | (40.0) |
| Debt repricing costs | - | (0.3) | (0.3) |
| Foreign exchange translation | 16.9 | - | 16.9 |
| **Balance, 31 December 2020** | **300.5** | **207.6** | **508.1** |
| | | | |
| Current portion | - | - | - |
| Non-current portion | 300.5 | 207.6 | 508.1 |

[1]*Effective interest rates are as follows: EUR Term Facility - 3.51% (2019 - 4.26%), GBP Term Facility - 4.56% (2019 - 5.97%).*

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

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

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023 and remains undrawn as at 31 December 2020.

On 6 February 2020, the Facilities have been repriced to lower the overall cost of debt by 50 basis points while maintaining the step downs based on reduction in SSLR (as defined below).

As a result of the above, the EUR Term Facility now has an interest rate of EURIBOR (with a 0% floor) plus an opening margin of 3.75% per annum, subject to a margin ratchet with step downs of 0.25% to 3.0% based on reductions in the senior secured net leverage ratio ('SSLR') and meeting certain ratings requirements. The GBP Term Facility now has an interest rate of LIBOR (with a 0% floor) plus an opening margin of 4.75% per annum, subject to a margin ratchet with step downs of 0.25% to 4.0% based on reductions in the SSLR and meeting certain ratings requirements. The RCF now has an interest rate of EURIBOR (for Euro loans, with a 0% floor) or LIBOR (for GBP loans, with a 0% floor) plus, in each case, an opening margin of 3.75% per annum, subject to a margin ratchet with step downs of 0.50% to 2.75% based on reductions in the SSLR.

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

Gamesys Group plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2020.

## 23. Financial instruments

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

### *Financial assets*

| | Financial assets as subsequently measured at amortised cost | |
|---|---|---|
| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
| Cash and restricted cash | **212.6** | 106.6 |
| Trade and other receivables | **35.2** | 28.4 |
| Other long-term receivables | **1.2** | 1.4 |
| Player deposits | **29.6** | 12.4 |
| | **278.6** | 148.8 |

### *Financial liabilities*

| | Financial liabilities as subsequently measured at amortised cost | |
|---|---|---|
| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
| Accounts payable and accrued liabilities | **64.5** | 50.5 |
| Other short-term payables | **0.3** | 5.6 |
| Deferred consideration payable | **10.0** | 10.0 |
| Interest payable | **1.9** | 1.0 |
| Payable to players | **29.6** | 12.4 |
| Lease liabilities | **22.7** | 22.7 |
| Long-term debt | **508.1** | 530.3 |
| | **637.1** | 632.5 |

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

### *Other financial instruments*

| | Financial instruments at fair value through profit or loss - assets/(liabilities) | |
|---|---|---|
| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
| Interest Rate Swap | **(1.8)** | (1.1) |
| Currency Swap | **(5.0)** | (9.3) |
| Other long-term receivables | **3.9** | 3.8 |
| | **(2.9)** | (6.6) |

### Fair value hierarchy

All of the Group's financial instruments carried at fair value are classified in level 2 of the hierarchy.

The Interest Rate Swap and Currency Swap balances represent the fair values of expected cash flows under the Interest Rate Swap and Currency Swap agreements. Counterparty valuation reports are used as the basis of fair values of these instruments.

Other long-term receivables represent the fair value of the loan receivable from Gaming Realms. The key inputs into the fair value estimation of this balance include the share price of Gaming Realms on the date of cash transfer, a 2-year risk-free interest rate of 0.0278%, and an estimated share price return volatility rate of Gaming Realms of 73.0%.

## 24. Other long-term payables

| | **31 December 2020 (£m)** | 31 December 2019 (£m) |
|---|---|---|
| Deferred consideration payable | **10.0** | 10.0 |
| Interest Rate Swap (note 17) | **1.0** | 0.7 |
| Currency Swap (note 17) | **2.1** | 5.9 |
| | **13.1** | 16.6 |

## 25. Share capital

| | | **Ordinary shares of 10p** |
|---|---|---|
| | **(£m)** | **#** |
| Balance, 1 January 2019 | 7.4 | 74,328,930 |
| Issue of shares, net of costs | 3.4 | 33,653,846 |
| Exercise of options | 0.1 | 682,472 |
| Balance, 31 December 2019 | 10.9 | 108,665,248 |
| Exercise of options | 0.1 | 630,000 |
| Issue of shares under the G MINE SIP | - | 27,066 |
| **Balance, 31 December 2020** | **11.0** | **109,322,314** |

### Ordinary shares

During the year ended 31 December 2020, Gamesys Group plc did not issue any additional ordinary shares, except as described below. The issued share capital is fully paid up.

### Dividends

During the year ended 31 December 2020, Gamesys Group plc declared and paid an interim dividend of 12.0p per share amounting to a total dividend of £13.0 million (year ended 31 December 2019 - £nil). On 8 March 2021, the Group declared a final dividend of 28.0p per share for the year ended 31 December 2020.

### Share options

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

The changes in the number of share options outstanding during the year ended 31 December 2020 were as follows:

| | **Share options (#)** | **Weighted average exercise price (£)** |
|---|---|---|
| Balance, 1 January 2019 | 2,395,490 | 6.66 |
| Forfeited | (121,166) | 7.53 |
| Exercised | (682,472) | 3.93 |
| Balance, 31 December 2019 | 1,591,852 | **7.76** |
| Exercised | (630,000) | 6.79 |

| | | |
|---|---|---|
| Expired | (587,186) | 9.42 |
| **Balance, 31 December 2020** | **374,666** | **6.79** |

## Long-term incentive plan

On 25 March 2020 (the 'Grant Date'), Gamesys Group plc granted additional equity-settled awards over ordinary shares of Gamesys Group plc under the Group's long-term incentive plan ('LTIP4'). The awards will (i) vest on the date on which the remuneration committee determines the extent to which the performance conditions (as described below) have been satisfied and (ii) are subject to a holding period of two years beginning on the vesting date. At 31 December 2020, the number of ordinary shares that may be allotted under the Group's LTIP4 awards is 877,876.

The performance condition as it applies to 50% of each LTIP4 award (the 'TSR Peer Tranche') is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting Gamesys' peer group over three years commencing on 1 January 2020.

The performance condition as it applies to another 25% of each LTIP4 award (the 'TSR Index Tranche') is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the FTSE250 index (excluding investment trusts and financial services companies) over three years commencing on 1 January 2020.

The performance condition as it applies to the remaining 25% of the award (the 'EPS Tranche') is based on the compound annual growth rate ('CAGR') of the Group's earnings per share ('EPS') over a three-year period commencing on 1 January 2020 and vests as to 25% if the EPS CAGR equals 5.0%, between 25% and 100% (on a straight-line basis) if final year EPS CAGR is more than 5.0% but less than 14.0%, and 100% if final year EPS CAGR is 14.0% or more.

As discussed in note 3, the Group uses the Monte Carlo model to value the TSR Peer and TSR Index Tranches and the Black-Scholes model to vale the EPS Tranche. The key inputs into the fair value estimation under the models include an exercise price of £nil, a risk-free interest rate of 0.13%, expected dividend yield of 0%, expected term of 5.02 years and an estimated share price return volatility rate of 28.0%.

During the year ended 31 December 2020, the Group recorded £1.7 million (year ended 31 December 2019 - £0.5 million) in share-based compensation expense relating to its long-term incentive plans with a corresponding increase in share-based payment reserve.

## Employee share incentive plan

During the year ended 31 December 2020, the Group introduced an employee share incentive plan (the 'G MINE SIP'), whereby eligible employees can acquire Gamesys Group plc ordinary shares and have their contributions matched, up to a certain maximum annual amount, by an equal number of ordinary shares issued by the Group for UK participants or as a right to an equal number of ordinary shares issued by the Group for non-UK participants. Any dividends received by participants are reinvested in further shares, which are held in the G MINE SIP. At 31 December 2020, the number of ordinary shares allotted under the G MINE SIP was 27,066.

During the year ended 31 December 2020, the Group recorded £0.1 million (year ended 31 December 2019 - £nil) in share-based compensation expense relating to its G MINE SIP with a corresponding increase in share-based payment reserve. Additionally, during the year ended 31 December 2020, the Group recorded an additional £1.8 million (year ended 31 December 2019 - £nil) in share-based compensation expense for a one-time share distribution to the Group's employee base with a corresponding increase in share-based payment reserve.

## Warrants

On 26 September 2019, the Group granted a warrant to subscribe for 300,000 ordinary shares of Gamesys Group plc to Virgin Enterprises Limited. The warrant confers the right, but not the obligation, on the warrant holder to subscribe for the ordinary shares at a price of 892.878p per ordinary share. The warrant was valued using the Black-Scholes model, applying a risk-free interest rate of 2.10%, expected term of five years and an estimated share price return volatility rate of 29.0%. The entire value of the warrant was expensed during the year ended 31 December 2019.

### Reserves

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

***Share capital***

The purpose of this reserve is to show Gamesys Group plc's issued share capital at its nominal value of 10p per share.

***Share premium***

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

***Merger reserve***

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

In connection with the issuance of shares as part of the consideration for the Gamesys Acquisition, Gamesys Group plc applied the requirements of the *Companies Act 2006* in relation to merger relief, and recorded excess of the nominal value of the shares issued in the merger reserve.

***Share-based payment reserve***

The purpose of this reserve is to show cumulative share-based compensation expense relating to the Group's Share Option Plan, G MINE SIP, LTIP, LTIP2, LTIP3 and LTIP4.

***Translation reserve***

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

***Hedge reserve***

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

***Retained earnings***

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

## 26. Capital management

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

The Group monitors its SSLR, which is calculated in accordance with the Senior Facilities Agreement, on a frequent basis as this ratio impacts, among other things, the amount of excess cash flow required to be applied in prepayment of the Term Facilities. Commencing on 31 December 2018, if the Group's SSLR is greater than 2.5, 50% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls between 2.0 and 2.5, 25% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. If the Group's SSLR falls below 2.0, 0% of the Group's excess cash flow is required to be applied in prepayment of the Term Facilities. At 31 December 2020 the Group's SSLR is below 2.0.

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

There have been no changes to Gamesys Group plc's approach to capital management or in the items the Group manages as capital during the year ended 31 December 2020.

## 27. Cash generated from operations

The following table provides a reconciliation of net income for the year to cash generated from operations:

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Net income for the year | **67.2** | 8.4 |
| Adjustments for: | | |
| Share-based compensation expense | **3.6** | 0.5 |
| Issuance of ordinary share warrants | **-** | 0.5 |
| Amortisation and depreciation | **100.0** | 63.2 |
| Impairment of purchase price intangibles | **4.1** | - |
| Tax expense | **1.5** | 2.9 |
| Interest expense, net | **24.7** | 22.7 |
| Fair value adjustments on contingent consideration | **-** | 0.5 |
| Foreign exchange loss/(gain) | **4.2** | (1.5) |
| Loss on sale of discontinued operation, net of tax | **-** | 0.1 |
| Release/(restriction) of cash balances | **6.4** | (1.4) |
| Increase in trade and other receivables | **(5.4)** | (6.3) |
| Reduction /(increase) in other long-term receivables | **0.2** | (0.1) |
| Increase in accounts payable and accrued liabilities | **19.0** | 6.3 |
| Reduction in other short-term payables | **(0.7)** | (23.7) |
| Increase in provisions | **0.8** | 6.0 |
| **Cash generated from operations** | **225.6** | 78.1 |

## 28. Contingent liabilities

### Indirect taxation

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

Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted.

Where the likelihood of a liability arising is considered less than probable the contingency is not recognised as a liability at the balance sheet date.

## 29. Related party transactions

### Compensation of key management

Key management is comprised of officers and members of management of the Group. The composition of the key management group has been revisited during the year ended 31 December 2020 and the comparative financial information for the year ended 31 December 2019 has been updated accordingly. Key management personnel compensation for services rendered is as follows:

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Salaries, bonuses and benefits | **7.8** | 6.0 |
| Share-based compensation | **0.9** | 0.3 |
| | **8.7** | 6.3 |

## 30. Employees

| | **Year ended 31 December 2020 (£m)** | Year ended 31 December 2019 (£m) |
|---|---|---|
| Wages and salaries[1] | **79.4** | 37.3 |
| Pensions | **2.4** | 0.9 |
| Social security | **7.9** | 3.7 |
| Benefits | **1.4** | 0.5 |
| | **91.1** | 42.4 |

[1]*Wages and salaries figures include severance costs.*

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

| | **31 December 2020 (#)** | 31 December 2019 (#) |
|---|---|---|
| Group | **1,530** | 600 |

## 31. Auditors' remuneration

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

| | **Year ended 31 December 2020 (£000's)** | Year ended 31 December 2019 (£000's) |
|---|---|---|

| | | |
|---|---|---|
| Audit fees for the audit of the Group's annual accounts | **650** | 588 |
| Audit fees for the audit of the Group's subsidiaries | **257** | 110 |
| Audit related assurance services | **93** | 167 |
| Services relating to corporate finance transactions | **15** | 1,528 |
| Tax compliance services | **26** | - |
| | **1,041** | 2,393 |

## 32. Recent accounting pronouncements

New standards that have been adopted in the Group's Consolidated Financial Statements for the year ended 31 December 2020 but have not had a significant effect on the Group are:

- IAS 1 - *Presentation of Financial Statements*; and IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors* (definition of material);
- IFRS 3 - *Business Combinations* (definition of a business), as discussed in note 5; and
- IBOR reform and its effects on financial reporting - phase 1, as discussed in note 17.

New standards, interpretations and amendments not yet effective:

- IAS 37 - *Onerous Contracts* (cost of fulfilling a contract - effective 1 January 2022);
- IAS 16 - *Property, Plant and Equipment* (proceeds before intended use - effective 1 January 2022);
- Annual Improvements to IFRS Standards 2018 - 2020: amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 - effective 1 January 2022);
- IFRS 3 - *Business Combinations* (reference to conceptual framework - effective 1 January 2022); and
- IAS 1 - *Presentation of Financial Statements* (classification of liabilities as current or non-current - effective 1 January 2023).

The Group will not be adopting any of the above standards prior to their effective dates and they are not expected to have a material impact on the Group's reporting.

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[1] This release contains non-IFRS financial measures, which are noted where used. For additional details, including with respect to the reconciliations from these non-IFRS financial measures, please refer to the information under the heading 'Note regarding non-IFRS measures' on page 10 of this release and Note 6 - 'Segment information' of the consolidated financial statements on pages 32 through 35 of this release.
[2] Figures for the year ended 31 December 2019 have been amended to include share-based compensation expense that is no longer excluded from adjusted EBITDA and adjusted net income.
[3] Figures for the year ended 31 December 2019 have been amended to exclude deferred tax on purchase price intangibles.
[4] Per share figures are calculated on a diluted weighted average basis using the IFRS treasury method.
[5] All figures in the pro-forma financial summary and related discussions present Group results as though the acquired Gamesys brands have been a part of the Group for the entire comparative period.
[6] Adjusted net leverage ratio consists of existing term loans, deferred consideration, fair value of interest rate swap and currency swap, less non-restricted cash divided by LTM to 31 December 2020 adjusted EBITDA of £206.2 million.
[7] Operating cash flow net of capital/intangible asset expenditures.
[8] Adjusted net debt consists of existing term loans, deferred consideration, fair value of interest rate swap and currency swap, less non-restricted cash.
[9] For additional details, please refer to the information under the heading 'Key performance indicators - pro-forma' on page 16 of this release.

[10] Organic growth is growth achieved without accounting for acquisitions or disposals.
[11] Total Real Money Revenue for the twelve months ended 31 December 2020 consists of total revenue less revenue earned from B2B activity of £29.4 million (31 December 2019 - £20.5 million on a pro-forma basis).