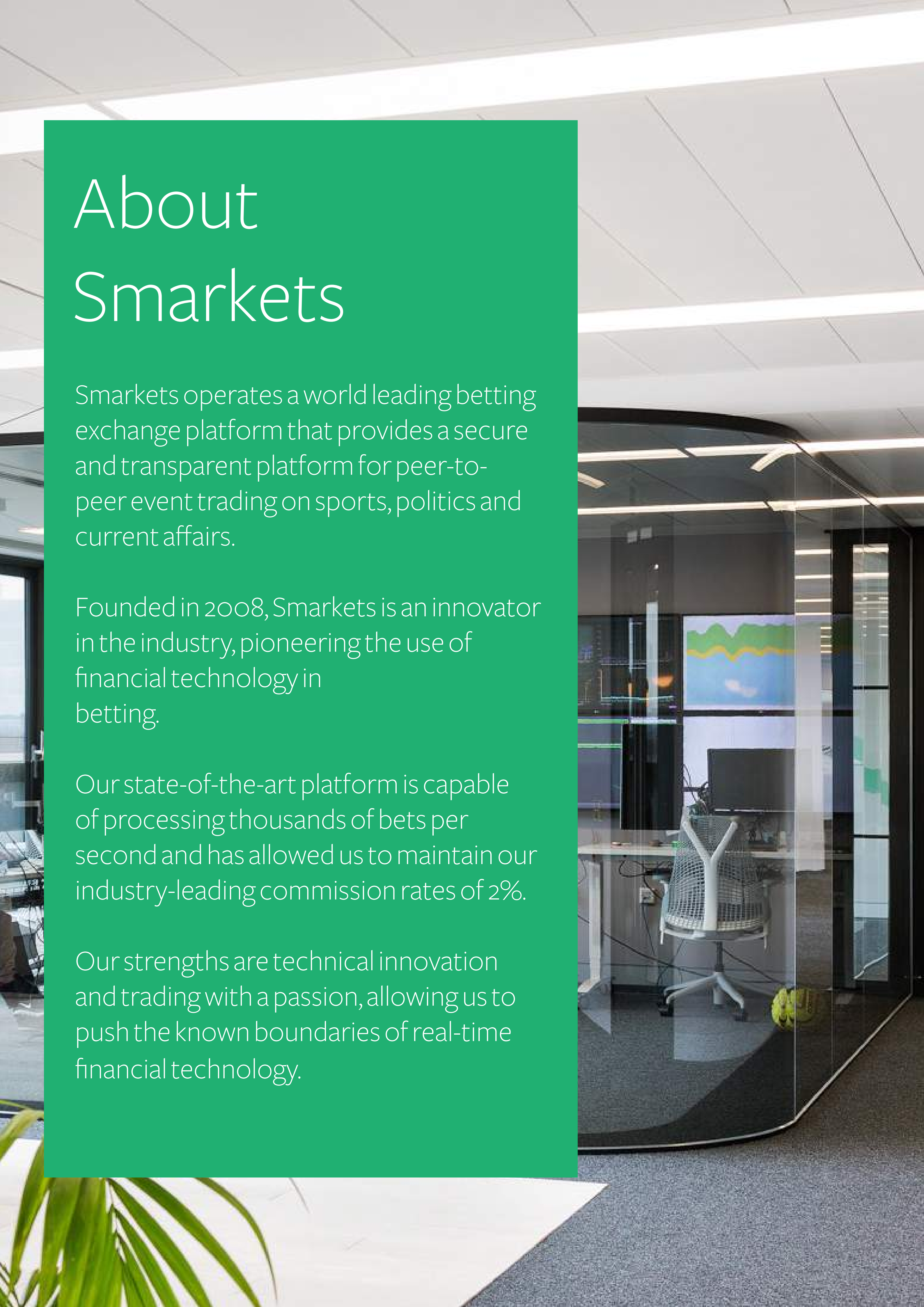
SMARKETS

ANNUAL REPORT 2016



About Smarkets

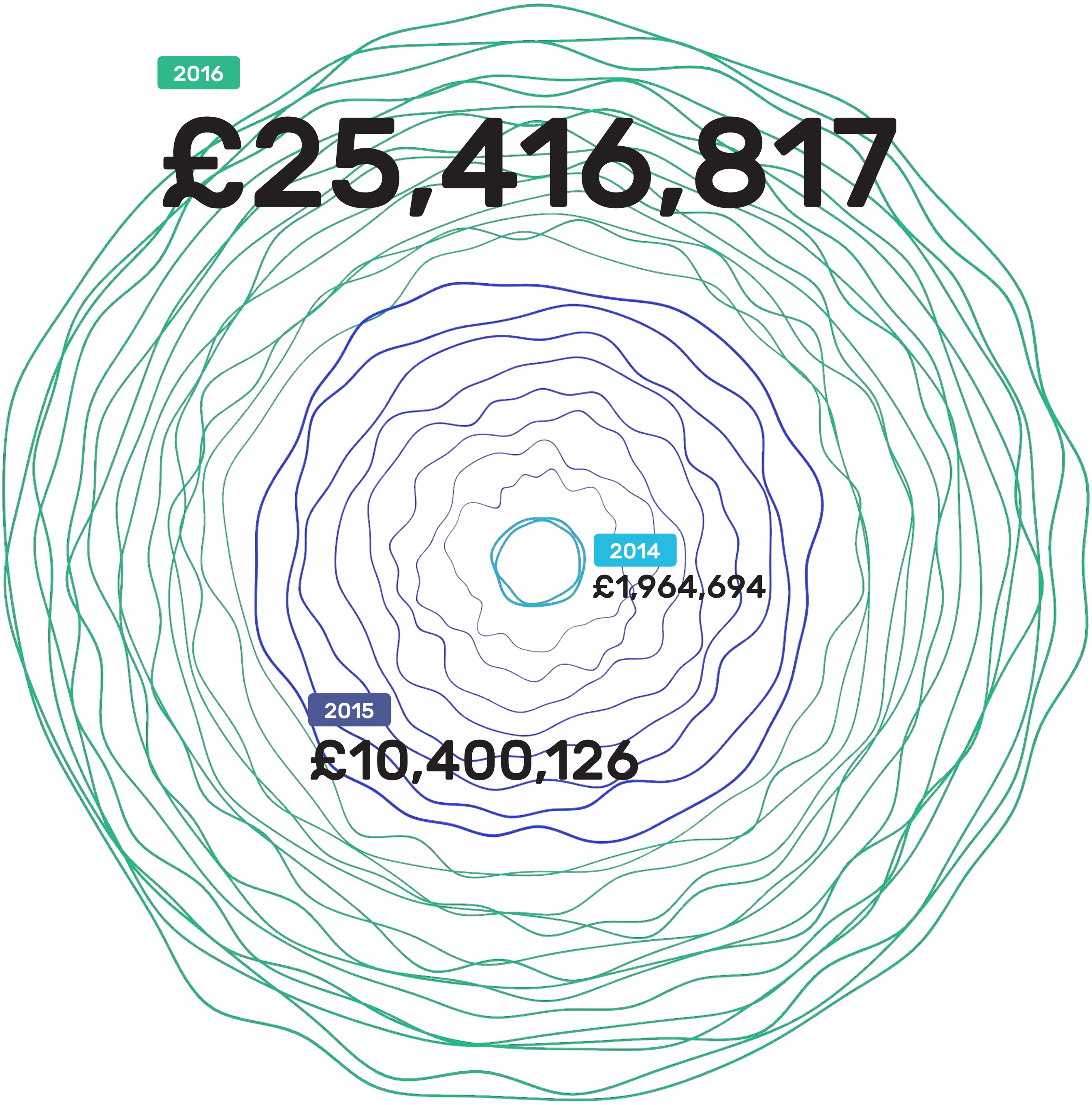
Smarkets operates a world leading betting exchange platform that provides a secure and transparent platform for peer-to-peer event trading on sports, politics and current affairs.

Founded in 2008, Smarkets is an innovator in the industry, pioneering the use of financial technology in betting.

Our state-of-the-art platform is capable of processing thousands of bets per second and has allowed us to maintain our industry-leading commission rates of 2%.

Our strengths are technical innovation and trading with a passion, allowing us to push the known boundaries of real-time financial technology.

Revenue Growth



Financial Highlights

Revenue

2016 £25.4 million	2015 £10.4 million	INCREASE 2015/16 **144%** ↑

Trading volume

2016 £2.7 billion	2015 £1.1 billion	INCREASE 2015/16 **141%** ↑

Business profit[1]

2016 £13.7 million	2015 £5.3 million	INCREASE 2015/16 **160%** ↑

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

	Year ended 31 December (figures in £'000)		
	2016	**2015**	**2014**
Profit before tax	**10,481**	5,273	316
Share based payments	**3,230**	5	5
	13,711	**5,278**	**321**

Moments

Smarkets became lead sponsor of Queens Park Rangers and we proudly hosted the club's new kit unveiling at our penthouse London HQ overlooking St Katharine Docks.

The sponsorship increased brand visibility and we continued to provide fantastic value for customers with a 0% commission offer on all QPR matches.

Moments

We adopt an engineering-first approach and are committed to building an innovative event exchange entirely in-house. So naturally, we were extremely proud to receive recognition for our success, notably making the top five for both the Sunday Times Tech Track 100 and Deloitte Fast 50 - rankings of the fastest growing tech companies in the UK. CEO Jason Trost was also named Innovation Entrepreneur of the Year at the Great British Entrepreneur Awards.

GREAT BRITISH ENTREPRENEUR AWARDS 2016
IN ASSOCIATION WITH NatWest

THE SUNDAY TIMES TECH TRACK 100
HISCOX

500 | Technology Fast 500
2016 EMEA WINNER
Deloitte.

Cheltenham 2016

2016 was a record-breaking year across a number of markets but most notably at the Cheltenham Festival which saw £111m traded on the 28 races. We also expanded our political markets with £5m traded on the EU referendum and US Election.

£111m
TRADED VOLUME

17.6k
UNIQUE TRADERS

8.1k
PEAK CONCURRENT USERS

£13m
TOTAL WINNINGS PAID OUT

Contents

> "Our mission is clear; we are striving to establish ourselves as a top-tier technology company. I strongly believe that the results of the past two years show the positive trajectory of the business, demonstrate our significant growth opportunities and confirm our ability to challenge an industry ripe for disruption."
>
> **Jason R. Trost**
> Chief Executive Officer

Letter from Jason Trost, CEO of Smarkets Limited

The year 2016 was a landmark year for Smarkets and reinforced our status as one of the most exciting high-growth companies in the UK and Europe. Revenue climbed 144% to £25.4m for the year ending 31 December 2016, while Business profit jumped 160% to £13.7m.

We have now had more than £5 billion in trading volume on our exchange after £2.6 billion was traded in 2016 alone, a year-on-year increase of 141%. That's more than the Company's first five years as a public exchange combined.

In 2016, Smarkets effectively turned the corner from start-up to growth business and saw previous records smashed across our markets in sports, politics and current affairs.

In the summer, we upgraded our partnership with Queens Park Rangers Football Club to become chief sponsor of the Championship team. This has increased brand visibility with Smarkets appearing on the front of all three kits and more prominently around the stadium. In conjunction, we continued to offer 0% commission on all matches involving the team, providing our customers with the best value and fairest odds.

We are delighted to have received recognition for our successful growth in 2016, which notably saw Smarkets finishing in the top five for both the Sunday Times Tech Track 100 and Deloitte Fast 50 lists of the fastest growing private technology companies in the UK.

We continue to focus on having the lean, agile mind of a start-up, even as we grew to a team of 78, optimising many processes that our competitors use significant headcount on. This allows us to be extremely profitable per employee, even with last year's addition of 24-hour live customer service. We have a team truly dedicated to making a difference in the industry, and they were rewarded when our first profit share programme was introduced in September.

Initiatives like this, along with our self-management approach, mean that engineers feel valued at Smarkets and our company culture has been a big pull when we compete with other companies to hire the best developers to help build our platform. The value of a happy, highly-functioning neural network is of extreme importance to me and something that we will continue to invest in as we grow across three offices and two continents.

We will continue to further develop our product to deliver a unique and fair trading experience by offering superior technology and industry leading rates. During 2017, we released our first apps on iOS and Android, started to move our customers onto the improved platform, and began the process of integrating more market-makers via API. Consequently, users will have access to superior mobile and desktop products, with increased liquidity for trading across the site.

Smarkets will also explore moving into new regulated markets to increase its customer base and open its first office in America to access US engineering talent as we plan on tackling other inefficient verticals.

Our mission is clear; we are striving to establish ourselves as a top-tier technology company. I strongly believe that the results of the past two years show the positive trajectory of the business, demonstrate our significant growth opportunities and confirm our ability to challenge an industry ripe for disruption.

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

J. R. T

Jason R. Trost
Chief Executive Officer

June 2017

Strategic Report

How we operate and who we are

Smarkets Limited (the "Company") and its subsidiaries (together "Smarkets" or the "Group") own and operate an online betting exchange which enables traders to set odds and bet against other traders, rather than against a bookmaker, on sporting and other events. Unlike bookmakers, the exchange offers two way pricing and odds continually change up to and during the events themselves up until their conclusion. The platform is secure and transparent, with access to deep market data, and is state of the art.

Online betting on sports, politics, and current affairs continues to be a popular and rapidly growing activity in the UK and around the world, and the market for exchange websites is very competitive. As a result, in order to attract users, the Group has to offer a market differentiable experience, and provide a reliable and robust service.

To meet these challenges, Smarkets has developed a website, and an innovative underlying betting engine, which are continually refined and evolving. In particular, the technical development team at Smarkets works continually to find innovative ways of handling the increasingly large volumes of customer, market and transaction data and making it accessible via its website to the community.

Technology

Smarkets believes in innovative technology designed to provide scalable, reliable and highly available systems. The betting exchange software operates like a stock exchange, yet it is easy to use. It allows users to bet on anything from sporting events to political elections in a matter of seconds and with clearly defined potential winnings. This focus on the product and user experience means that the Smarkets platform is fast and efficient, capable of processing a transaction in milliseconds and coping with thousands of transactions per second.

In 2016, we introduced a number of new initiatives to improve the customer experience. We launched our first mobile optimised site to provide the best experience for customers using Smarkets on a mobile device. In terms of functionality, we enhanced our market offering with the addition of trade out and keep bets in-play features. To further support our customers, we also added 24-hour customer service and re-engineered a number of our back-end technologies and infrastructure.

Business model

Smarkets generates revenue from levying a flat transaction fee, or commission, which is earned on net winnings on individual markets. Thanks to our innovative technology, we are able to offer customers an industry low flat commission rate of 2%. This represents unparalleled value to our customers and, in turn, attracts more users and liquidity to our exchange. The Group, through its 100% owned subsidiary, Hanson Applied Sciences Limited, also provides liquidity on the exchange by entering into algorithmic trades on the market to enhance the user experience and for profit making purposes. The positions so arising are closely risk managed. As we grow, our aim is to offer better prices and further enhance the liquidity of existing and new markets.

Whilst Smarkets has a diverse customer base by channel and by nature, a significant proportion of our revenue is currently derived from 'serious players' or market professionals, such as financial traders. However, we also appeal to the usual sports fan and recreational punters. Customer delivery channels include our affiliate network and we have also partnered with Income Access, a digital marketing and technology agency, to deliver a state of the art platform to facilitate further customer acquisition. Irrespective of their nature or the delivery channel, we aim to continue to attract profitable users to the platform by offering unparalleled value.

To date, the business has grown organically and user acquisition has increased mainly via our affiliate program, as well as by word of mouth. Our marketing spend has been kept intentionally low and we have no plans to alter this approach significantly going forward.

Market context

Remote gambling (mostly online and excluding the National Lottery) is the largest gambling industry sector in the UK and constitutes 32% of the overall market and £4.5 billion gross gambling yield. Betting exchanges account for approximately 4% of the UK remote market by this measure, according to the UK Gambling Commission Industry Statistics, October 2015 - September 2016. As such, it has been an opportune time for technology entrants such as Smarkets to acquire market share and establish and cement our position as technology leaders. Our proprietary technology platform allows us to deliver faster solutions than our competitors and offer an enhanced customer experience as a result.

In particular, one of Smarkets' goals for the year ahead is to capitalise on the trend of increasing smartphone technology usage to offer an iOS and Android app to offer customers multi-channel betting options. Market share is expected to further rise as a result.

The Group, through its subsidiary Smarkets (Malta) Limited, holds licences to operate in the UK, Malta and Ireland and over 96% of turnover was generated from these markets in 2016. The principal competition in these jurisdictions, and particularly the UK, is provided by the market leading competitor Betfair, as well as other smaller exchange operators such as Betdaq and Matchbook.

Financial review

Highlights of the 2016 performance were as follows:

	2016 £'000	2015 £'000	2014 £'000	Increase 2015/16
Average monthly active traders	**24,958**	**11,429**	**3,154**	**118%**
Trading volume (bets placed)	**2,689,000**	1,114,000	390,000	**141%**
Revenue	**25,417**	10,400	1,965	**144%**
Cost of sales	**(3,653)**	(2,059)	(404)	
Gross profit	**21,764**	8,341	1,561	**161%**
Administrative expenses	**(8,180)**	(3,141)	(1,355)	
Other income and expense	**127**	78	95	
Business Profit before tax [2]	**13,711**	5,278	321	**160%**
Liabilities to customers	**17,485**	9,385	3,079	**86%**

[2] See footnote on page 4

With the continuous evolution of the product range and improved robustness and reliability in operation, the customer base has expanded rapidly as shown by the average number of monthly active traders in the table above. It is also evident from the increase, albeit at a slightly lower rate, in Liabilities to customers which represent the amounts deposited by customers in order to make bets. These balances are invested in segregated short term interest bearing bank deposits. Note that total assets of the Group at 31 December 2016 were £39,725,000 (2015 - £17,137,000) which includes these segregated bank deposits.

The result of the expansion in customer accounts in financial terms has been much expanded trading volume, this expansion exceeding the rate of increase in customer numbers as the market shows greater awareness and acceptance of the reliability of the product and the maturity of the exchange platform. Revenues rose 144% year on year as a result. Revenue consists of commission income of £8.1 million (2015 - £3.7 million), and net revenue on betting activities of £17.3 million (2015 - £6.7 million).

Total costs of the Group comprise Cost of sales, which includes betting taxes, payment service provider costs for customer deposits, and costs of new customer incentive schemes such as bonuses, and Administrative Expenses, which largely comprise employee and office related costs. Staff numbers rose from an average of 30 in 2015 to 62 in 2016, with the total headcount at 31 December 2016 being 78.

Management monitors a measure of net profit referred to as Business Profit that excludes the effect of share based payments and which rose by 160% year on year, greater than the increase in revenues largely because staffing levels did not rise to the same extent.

The effective rate of taxation of the Group rose from 20% in 2015 to 42% in 2016 as an increased proportion of the Group earnings was subject to Maltese income taxes at 35%. However, much of this increased cost may be reclaimed in forthcoming periods in accordance with Maltese legislation.

Risks

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

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

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

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

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

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

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

Geopolitical: Smarkets is exposed to developments in the European Union ("EU") as predominantly all of the customer base and the workforce are based in countries that are members of the EU. In particular, on 23 June 2016, the UK electorate voted to discontinue its membership of the EU. It is unknown what the wider regulatory and legal consequences of the UK leaving the EU will be and whilst the risk to Smarkets is mitigated to an extent by the holding of licences both in the UK and elsewhere in the EU (including Malta and Ireland), there remains a risk that the activities of Smarkets might be affected under such circumstances.

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

Financial risks: The Group is exposed to credit risk, liquidity risk, market risk (including open betting position risk), foreign currency risk and interest rate risk as a result of its day to day operations. These are discussed further in note 19 to the financial statements.

Responsible Gambling

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

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

People

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

Diversity: We pride ourselves in a workforce with representation from over 20 nationalities who have made Smarkets their home. Our hiring efforts are aimed at capturing the brightest talent from around the world irrespective of gender, age, disability, ethnicity, nationality, sexual orientation, and religion or other beliefs.

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

By order of the Board,

Jason R. Trost
Chief Executive Officer

27 June 2017

Directors' Report

The Board of Directors (the "Directors") present their Report and the audited financial statements for the year ended 31 December 2016.

The Directors' Report should be read in conjunction with the other sections of this Annual Report including the Strategic Report on page 12 in which the principal activities of the Group and those factors likely to affect its future development, together with a description of its financial position are described. The following also form part of this report:

- The information relating to financial instruments, as provided in the notes to the financial statements.
- The related party transactions as set out in the notes to the financial statements.
- An indication of likely future developments in the business and particulars of significant events which have occurred since 31 December 2016.

Directors

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

Jason R. Trost - Chief Executive Officer and Company Secretary

Robert Simon Dighero

Randeep Singh Wilkhu

Share Capital

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

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

Dividends

The directors do not recommend the payment of a dividend.

Political contributions

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

Research and development

In developing the online betting exchange platform discussed in the Strategic Report on page 12, the Group has continually to refine and develop the underlying software and infrastructure that supports its operation. In particular, the Company's technical development team has to continually work to find innovative ways of handling the increasingly large volumes of customer, market and transaction data and making it accessible via its website to the user community.

Subsequent events

On 13 January 2017, the Company entered into a 5 year lease, which can be terminated by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review.

On 3 January 2017, the Company sponsored the formation of Smarkets Inc. a company incorporated under the laws of Delaware in the United States, acquiring 100% of the Ordinary Stock of the company in the process.

Other than these matters and the share buy-back referred to under Share capital above, no matters arose in the period from the balance sheet up to the date of approval of this Directors' report that merit further disclosure.

Annual Report and Accounts

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

The Statement of Directors' Responsibilities appears on page 17.

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

Disclosure of information to auditors

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

Auditor

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

By order of the Board,

Jason R. Trost
Chief Executive Officer

Commodity Quay, 7th Floor
St. Katharine Docks
London
E1W 1AZ
27 June 2017

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

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Smarkets Limited

We have audited the financial statements of Smarkets Limited for the year ended 31 December 2016 set out on pages 20 to 53. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ashley Rees

Ashley Rees (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
29 June 2017

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	2	**25,417**	10,400
Cost of Sales		**(3,653)**	(2,059)
Gross profit		**21,764**	8,341
Other operating income	3	**117**	76
Administrative expenses		**(11,410)**	(3,146)
Operating profit	4	**10,471**	5,271
Financial income	7	**14**	3
Financial expenses	7	**(4)**	(1)
Net financial income		**10**	2
Profit before tax		**10,481**	5,273
Taxation	8	**(4,361)**	(1,039)
Profit for the year		**6,120**	4,234
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive income for the year		**6,120**	4,234

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

The notes on pages 24 to 41 form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	9	**759**	491
Intangible assets	10	**9**	1
		768	492
Current assets			
Tax receivable		**803**	-
Other financial assets	12	**7**	9
Trade and other receivables	13	**1,231**	1,136
Cash and cash equivalents	14	**36,916**	15,500
		38,957	16,645
Total assets		**39,725**	17,137
Current liabilities			
Trade and other payables	15	**(19,241)**	(9,957)
Corporation taxes payable		**(4,936)**	(1,115)
Other financial liabilities	12	**(11)**	(35)
Total liabilities		**(24,188)**	(11,107)
Net assets		**15,537**	6,030
Equity attributable to equity holders of the Parent			
Share capital	18	**15**	14
Share premium		**3,737**	3,581
Retained earnings		**11,785**	2,435
Total equity		**15,537**	6,030

The notes on pages 24 to 41 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 27 June 2017 and were signed on its behalf by:

Jason R. Trost
Director
Company registered number: 06475845

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2015	14	3,581	(1,804)	1,791
Total comprehensive income for the year				
Profit for the year	-	-	4,234	4,234
Total comprehensive income for the period	-	-	4,234	4,234
Total transactions with owners of the Company				
Share based payment transactions	-	-	5	5
Total transactions with owners of the Company	-	-	5	5
Balance at 31 December 2015	**14**	**3,581**	**2,435**	**6,030**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	14	3,581	2,435	6,030
Total comprehensive income for the year				
Profit for the year	-	-	6,120	6,120
Total comprehensive income for the period	-	-	6,120	6,120
Total transactions with owners of the Company				
Issue of shares (note 18)	1	156	-	157
Share based payment transactions	-	-	3,230	3,230
Total transactions with owners of the Company	1	156	3,230	3,387
Balance at 31 December 2015	**15**	**3,737**	**11,785**	**15,537**

The notes on pages 24 to 41 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		**6,120**	4,234
Adjustments for:			
Depreciation and amortisation	9, 10	**107**	42
Granting of share options		**3,230**	5
Net financial income		**(10)**	(2)
Effect of foreign exchange movements		**(368)**	64
Taxation	8	**4,361**	1,039
		13,440	5,382
Increase in trade and other receivables		**(95)**	(1,029)
Decrease/(Increase) in other financial assets		**2**	(9)
Increase in trade and other payables		**9,284**	6,966
(Decrease)/Increase in other financial liabilities		**(24)**	35
		22,607	11,345
Tax (paid)/credit received		**(1,343)**	77
Net cash from operating activities		**21,264**	11,422
Cash flows from operating activities			
Interest received		**14**	3
Acquisition of property, plant and equipment	9	**(374)**	(491)
Acquisition of intangible assets	10	**(9)**	-
Net cash from investing activities		**(369)**	(488)
Cash flows from financing activities			
Proceeds from the issue of share capital	18	**157**	-
Interest paid		**(4)**	(1)
Net cash from financing activities		**153**	(1)
Net increase in cash and cash equivalents		**21,048**	10,933
Cash and cash equivalents at 1 January		**15,500**	4,631
Effect of foreign exchange movements		**368**	(64)
Cash and cash equivalents at 31 December	14	**36,916**	15,500

The notes on pages 24 to 41 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(forming part of the financial statements)

1 Accounting policies

Smarkets Limited (the "Company" or the "Parent") is a company incorporated and domiciled in the UK.

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

The Group consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its Parent company financial statements in accordance with FRS 101; these are presented on pages 44 to 53.

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

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

1.1 Measurement convention

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

1.2 Going concern

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

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 12 to 14. In addition, note 19 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

1.3 Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

1.4 Foreign currency

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

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

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be.

1.5 Classification of financial instruments issued by the Group

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

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

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

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

1.6 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.7 Derivative financial instruments

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

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

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

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

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

1.9 Intangible assets

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

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets.

The estimated useful lives are as follows:

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

- Other intangibles
  3 years

1.10 *Impairment excluding deferred tax assets*

Financial assets (including receivables)

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

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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

1.11 *Employee benefits*

Defined contribution pension plans

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

Short-term employee benefits

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

Share-based payment transactions

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

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

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

1.12 *Provisions*

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

1.13 *Revenue*

Revenue from the Group's online betting exchange arises from the commission earned on betting transactions, recognised on the date that the market for an individual sporting or other event is settled.

Revenue from betting activities with other counterparties on sporting and other events comprises the aggregate amount due in respect of winning bets shown after deduction of the amounts lost on losing bets and any commissions incurred.

The value of open betting positions is recognised in revenue based on the best estimate of the amount that will be required to settle the position at the balance sheet date. The transactions are accounted for as derivatives at fair value in accordance with note 1.7 above with the change in value being recognised in revenue.

1.14 *Expenses*

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

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

Financing income and expenses

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

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

1.15 *Taxation*

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

1.16 *IFRS not yet applied*

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

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective from 1 January 2019) – As detailed in note 20, the Group has operating leases with a remaining commitment of £4,818,000 at 31 December 2016. Whilst management have yet to undertake a detailed impact assessment regarding the adoption of IFRS 16, including modelling the various transition options available, the adoption of the new standard will result in an the recognition of a lease asset and the associated lease liability.
- Amendments to IAS 1 Disclosure initiative (effective from 1 January 2017)
- Annual Improvements to IFRSs – 2014-2016 Cycle (effective 1 January 2017 and 1 January 2018).

2 Revenue

	2016 £000	2015 £000
Commission earned from betting activity on sporting and other events	**8,072**	3,664
Net revenue from betting activity on sporting and other events	**17,345**	6,736
Total Revenue	**25,417**	10,400

3 Other operating income

	2016 £000	2015 £000
Credit card commission income	**105**	56
Profit on sale of subsidiary (note 11)	**10**	-
Software consultancy fees	**-**	20
Other	**2**	-
Total Other operating income	**117**	76

4 Expenses and auditor's remuneration

Included in profit are the following:

	2016 £000	2015 £000
Research expensed as incurred	**1,015**	766
Employment costs (note 5)	**8,267**	1,567
Employer contributions to defined contribution pension plans	**36**	-
Foreign exchange losses	**197**	20
Depreciation of property, plant and equipment (note 9)	**106**	32
Amortisation of intangible fixed assets (note 10)	**1**	10
Operating lease rentals (note 20)	**551**	342
Auditors' remuneration:		
For audit of these financial statements	**46**	44
For taxation compliance services	**9**	8
For other services	**62**	-

Amounts receivable by the Group's auditors in respect of the audit of financial statements of subsidiaries of the Company amounted to £12,000 for the year ended 31 December 2016 (2015 - £7,000).

5 Staff numbers and costs

The aggregate employment costs of these persons were as follows:

	Number of employees	
	2016	2015
Software engineers	**38**	21
Business operations	**19**	7
Management and Administration	**5**	2
	62	30

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

	£000	£000
	2016	2015
Wages and salaries	**4,593**	1,403
Share based payments (note 17)	**3,230**	5
Social security costs	**444**	159
	8,267	1,567

6 Directors' Remuneration

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

	2016	2015
	£	£
Salary and bonuses	**353,264**	136,667
Social security costs	**47,619**	17,741
	400,883	154,408

Neither of the other Directors received any compensation from the Company for their services to the Group or the company for the year ended 31 December 2016 (2015 - £Nil).

7 Financial income and expense

	2016	2015
	£000	£000
Financial income recognised in profit or loss		
Interest income on financial assets	**14**	3
Total financial income	**14**	3
Finance expense recognised in profit and loss		
Interest expense on financial liabilities	**(4)**	(1)
Total financial expense	**(4)**	(1)

8 Taxation

Recognised in the income statement

	2016 £000	2015 £000
Current tax expense		
Current year	**4,361**	1,039
Current tax expense	**4,361**	1,039
Deferred tax expense		
Accelerated capital allowances	**74**	44
Short term temporary differences	**(6)**	-
Tax value of loss carry-forwards	**(68)**	(44)
Deferred tax expense (note 16)	**-**	-
Tax expense recognised in income statement	**4,361**	1,039
Total tax recognised in other comprehensive income	**-**	-
Total tax recognised directly in equity (i.e. not in comprehensive income)	**-**	-

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	**6,120**	4,234
Total tax expense	**4,361**	1,039
Profit excluding taxation	**10,481**	5,273
Tax using the average UK corporation tax rate of 20% (2014 – 20.25%)	**2,096**	1,067
Effect of tax rates in foreign jurisdictions	**1,917**	192
Research and development tax credit	**(264)**	(201)
Tax reclaimable on dividends received	**(460)**	-
Tax losses not recognised	**869**	(51)
Deferred tax rate adjustments	**157**	8
Other	**46**	24
Total tax (credit)/expense	**4,361**	1,039

Reductions in the rate of UK Corporation Tax from 21% (effective from 1 April 2014) to 20% (from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016.

9 Property, plant and equipment

	Leasehold improvements £000	Computer equipment £000	Fixtures and fittings £000	Total £000
Cost				
Balance at 1 January 2015	-	69	7	76
Additions	352	58	81	491
Disposals	-	(40)	(4)	(44)
Balance at 31 December 2015	352	87	84	523
Balance at 1 January 2016	352	87	84	523
Additions	240	60	74	374
Disposals	-	-	-	-
Balance at 31 December 2016	592	147	158	897
Depreciation and impairment				
Balance at 1 January 2015	-	(41)	(2)	(43)
Depreciation charge for the year	(5)	(17)	(10)	(32)
Disposals	-	39	4	43
Balance at 31 December 2015	(5)	(19)	(8)	(32)
Balance at 1 January 2016	(5)	(19)	(8)	(32)
Depreciation charge for the year	(56)	(25)	(25)	(106)
Disposals	-	-	-	-
Balance at 31 December 2016	(61)	(44)	(33)	(138)
Net book value				
At 1 January 2015	-	28	5	33
At 31 December 2015	347	68	76	491
At 31 December 2016	**531**	**103**	**125**	**759**

10 Intangible assets

	Other intangibles £000	Total £000
Cost		
Balance at 1 January 2015, 31 December 2015 and 1 January 2016	28	28
Additions	9	9
Balance at 31 December 2016	37	37
Amortisation and impairment		
Balance at 1 January 2015	(17)	(17)
Amortisation for the year	(10)	(10)
Balance at 31 December 2015	(27)	(27)
Balance at 1 January 2016	(17)	(17)
Amortisation for the year	(1)	(1)
Balance at 31 December 2016	(18)	(18)
Net book value		
At 1 January 2015	11	11
At 31 December 2015	1	1
At 31 December 2016	9	9

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

11 Investments in Subsidiaries

The Group has the following investments in subsidiaries.

	Principal place of business/ Country of Incorporation	Registered number	Class of shares held	Ownership 2016	Ownership 2015
Green Affiliates Limited	United Kingdom	09342254	Ordinary Shares	**0%**	100%
Hanson Applied Science Limited	United Kingdom	08509475	Ordinary Shares	**100%**	100%
Smarkets (Malta) Limited	Malta	C 44795	Ordinary Shares	**100%**	100%
Smarkets Holdings (Malta) Limited	Malta	C 72638	Ordinary Shares	**100%**	100%
Robin Trading Limited	Malta	C 73382	Ordinary Shares	**100%**	100%
Robin Holding Company Limited	Malta	C 73171	Ordinary Shares	**100%**	100%

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

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

On 3 January 2017, the Company acquired Smarkets Inc. a company newly incorporated under the laws of Delaware in the United States, acquiring 100% of the Ordinary Stock of the company in the process.

Disposal of subsidiary

On 31 October 2016, the investment in Green Affiliates Limited was sold for a consideration of £12,432, generating a profit on sale to the Group of £10,499. This company contributed £1,002 to the profit before tax of the Group for the year ended 31 December 2016 (2015 - £1,164).

12 Other financial assets and liabilities

	2016 £000	2015 £000
Current asset		
Fair value of open betting positions	**7**	9
	7	9
Current liability		
Fair value of open betting positions	**11**	35
	11	35

Open betting position asset and liabilities are derivative positions which are valued at fair value in the balance sheet. The fair valuation methodology is discussed in note 19.

13 Trade and other receivables

	2016 £000	2015 £000
Balances with other betting businesses	**404**	278
Rent deposits	**529**	618
Prepayments	**246**	181
Other debtors	**52**	59
Total trade and other receivables due within 1 year	**1,231**	1,136

At 31 December 2016, there were no receivables that were past due nor considered to be impaired (2015 - £Nil).

14 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank	36,916	15,500
Total cash and cash equivalents	36,916	15,500

Cash and cash equivalents comprises short term interest bearing bank deposits and includes £17,485,000 (2014 - £9,385,000) of assets held in separate bank accounts on behalf of players and which represent the amounts that those players have deposited in order to transact on the Group's betting exchange.

15 Trade and other payables

	2016 £000	2015 £000
Player account liabilities	17,485	9,385
Betting, indirect and payroll taxation liabilities	132	125
Other betting related trade payables	103	55
Accounts payable and accrued expenses	1,488	380
Other creditors	33	12
Total trade and other payables due within 1 year	19,241	9,957

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

16 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

Tax effected temporary timing differences	2016 £000	2015 £000
Property, plant and equipment	74	44
Short term temporary differences	(6)	-
Tax value of loss carry-forwards	(68)	(44)
Net deferred tax	-	-

Movement recognised in income	2016 £000	2015 £000
Property, plant and equipment	30	37
Short term temporary differences	(6)	-
Tax value of loss carry-forwards utilised	(24)	(37)
	-	-

Unused tax losses in the Company for which no deferred tax asset was recognised amounted to £5,860,000 at 31 December 2016 (2015 – £434,000).

17 Employee benefits

Defined contribution pension plan

From 1 April 2016, the Company has operated a defined contribution pension plan for the benefit of qualifying UK based employees. The Company makes contributions to the plan on a two for one basis to match employee contributions of up to 1% of salary. The total expense relating to this plan for the year ended 31 December 2016 was £36,000 (2015 - £Nil). The total unpaid balance to the scheme is included in creditors and at 31 December 2016 was £20,000 (2015 - £Nil).

The Group does not operate any other pension plans for employees nor did it operate any such plans prior to 1 April 2016.

Share-based payments

The Company operated the following equity-settled share-based payment arrangements during the two years ended 31 December 2016, as follows:

- An employee share based incentive scheme for eligible employees of the Company. The options grant the holder the right to acquire Ordinary shares in the Company and vest over a four year period commencing from the employee's employment start date. The first 25% of the number of options granted vest after 1 year of service, and the remainder vest in equal monthly tranches over the following three years of service. If the employee leaves the employment of the Company during this period then all unvested options are forfeited. All options granted up to 31 December 2016 have an exercise price of £1.00. During the year ended 31 December 2016, holders exercised 13,968 options (2015 – 158 options) and paid £13,968 (2015 - £158) to receive 13,968 Ordinary shares (2015 – 158 shares).

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

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

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

The weighted average share price at the date of exercise of share options exercised during the year was £21.00 (2015 - £1.00).

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

The number of share options in issue, all of which had an exercise price of £1.00, was as follows:

	Number of options 2016	**Number of options 2015**
Outstanding at the beginning of the year	**75,700**	66,000
Exercised during the year	**(157,168)**	(158)
Granted during the year	**175,659**	10,200
Lapsed during the year	**(23,441)**	(342)
Outstanding at the end of the year	**70,750**	75,700
Exercisable at the end of the year	**48,570**	43,376

Valuation methodology

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

The inputs into the Black-Scholes for the share option plans for the share options issued in the years ending 31 December 2016 and 2015 were as follows:

	2016	2015
Weighted average share price at grant date	£21.00	£1.00
Weighted average option exercise prices	£1.00	£1.00
Expected volatility	16%	11%
Expected option life	5 years	5 years
Weighted average contractual life of outstanding share options	7.4 years	8.2 years
Risk-free interest rate	1.5%	1.5%
Expected dividend yield	0.0%	0.0%
Fair-value of options granted in the year	£22.08	£0.30

Volatility for the options issued in both 2016 and 2015 was determined by reference to movements in the share prices of the FTSE 350 index for the previous 12 months adjusted for the increased risk of a private company.

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

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share based payments were £3,230,000 for the year ended 31 December 2016 (2015 - £5,000).

18 Capital and reserves

Share capital

	Series A Preference shares of £0.005 each		Deferred shares of £0.005 each		Ordinary shares of £0.005 each	
Fully Paid Shares	**2016**	2015	**2016**	2015	**2016**	2015
In issue at 1 January	**755,489**	755,489	**124,144**	124,144	**1,908,131**	1,908,131
Exercise of share options	**-**	-	**-**	-	**157,531**	-
In issue at 31 December	**755,489**	755,489	**124,144**	124,144	**2,065,662**	1,908,131

Fully paid shares	2016 £	2015 £
Allotted, called up and fully paid		
Ordinary shares of £0.005 each	**10,328**	9,540
Deferred shares of £0.005 each	**621**	621
Series A Preference shares of £0.005 each	**3,777**	3,777
Shares classified as shareholders' funds	**14,726**	13,938

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

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

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

In the event of liquidation, dissolution or winding up of the Company, the deferred shareholders will receive £1 for the entire issue and the remaining proceeds shall be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend, provided that the amount of the distribution per share exceeds £15.54. Below this threshold amount, holders of the Series A Preference shares will receive an amount of up to £3.108 per share and then the deferred shareholders will receive £1 for the entire issue. Any remaining proceeds, if any, will then be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend.

During the year ended 31 December 2016, the Company issued 363 shares in respect of share options exercised in the year ended 31 December 2015 and 150,487 shares as a result of share options exercised in the year ended 31 December 2016.

Dividends

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

Share buy-back

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

19 Financial instruments

Fair values of financial instruments

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

Fair values

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

	Carrying amount 2016 £000	**Fair value 2015 £000**	Carrying amount 2016 £000	Fair value 2015 £000
Trade and other receivables (note 13)	**972**	**972**	900	900
Cash and cash equivalents (note 14)	**36,916**	**36,916**	15,500	15,500
Other financial assets (note 12)				
Open betting transactions	**7**	**7**	9	9
Total financial assets	**37,895**	**37,895**	16,409	16,409
Trade and other payables (note 15)	**(17,701)**	**(17,701)**	(9,506)	(9,506)
Other financial liabilities (note 12)				
Open betting transactions	**(11)**	**(11)**	(35)	(35)
Total financial assets	**(17,712)**	**(17,712)**	(9,541)	(9,541)
Net financial assets	**20,183**	**20,183**	6,868	6,868

For all financial assets and liabilities except open betting positions, the carrying value approximates to fair value because of their short term maturities.

Open betting asset and liability transactions are derivative positions which are valued at fair value in the balance sheet. These fair values are calculated based upon the latest open market prices on the relevant underlying sporting or other events available at the close of business at the valuation date. As such, the valuation method used falls into Level 2 of the standard financial instruments fair value hierarchy, as follows:

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

Credit risk

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

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

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

The credit risk arising from deposits with other betting businesses is best represented by their balance sheet carrying value which at 31 December 2016 amounted to £404,000 (2015 - £278,000).

No impairment losses have been recognised against such assets.

Liquidity risk

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

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

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

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

The Group has no outstanding borrowings, nor financial liabilities for which the contractual maturity extends beyond one year.

Market Risk

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

Betting position risk

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

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

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

Foreign currency risk

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

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

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

At 31 December 2016, the Group's exposure to foreign currency risk was as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 December 2016	GBP £000	EUR £000	SEK £000	Other £000	Total £000
Cash and cash equivalents	33,561	2,282	618	455	36,916
Other financial assets	7	-	-	-	7
Trade and other receivables	972	-	-	-	972
Other financial liabilities	(11)	-	-	-	(11)
Trade and other payables	(14,893)	(2,232)	(392)	(184)	(17,701)
Net exposure	19,636	50	226	271	20,183

31 December 2015	GBP £000	EUR £000	SEK £000	Other £000	Total £000
Cash and cash equivalents	13,189	1,844	180	287	15,500
Other financial assets	9	-	-	-	9
Trade and other receivables	893	7	-	-	900
Other financial liabilities	(35)	-	-	-	(35)
Trade and other payables	(8,325)	(913)	(154)	(114)	(9,506)
Net exposure	5,731	938	26	173	6,868

Sensitivity analysis

A 10% percent weakening of the principal foreign exchange exposure of EUR against GBP at 31 December 2016 would have decreased equity and profit or loss by £61,000 (2015 - £126,000). This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date and assumes that all other variables, and in particular, other exchange rates remained constant.

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

Interest rate risk

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

Capital management

The capital structure of the Group consists of the equity attributable to equity holders of the Company comprising Capital and Reserves and Retained Earnings. The Group finances its operations through generation of retained earnings and management of the cash and cash equivalent balances and has sufficient capital to meet its regulatory and operational needs.

To date, as the Company has expanded, retained earnings have been fully reinvested in the business and no dividends have been paid nor are proposed for the year ended 31 December 2016.

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	**952**	435
Between one and five years	**3,591**	2,319
More than five years	**290**	869
	4,833	3,623

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

On 5 February 2016, the Smarkets (Malta) Limited entered into a five year lease, with a tenant exercisable break clause after one year, for office space on Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 15 February 2016 with an annual rental of EUR30,000.

On 16 September 2016, the Hanson Applied Science Limited entered into a five year lease, with a tenant exercisable break clause after two years, for office space on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 February 2017 with an annual rental of EUR27,260.

On 13 January 2017, the Company entered into a 5 year lease, terminatable by the tenant with six months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review.

During the year ended 31 December 2016 £542,000 (2015 - £342,000) was recognised as an expense in the income statement in respect of operating leases.

21 Related parties

Transactions with shareholders

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

Other related party transactions

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

Transactions with key management personnel

At 31 December 2016, Directors of the Company and their immediate relatives control 27.6 per cent of the voting shares of the Company (2015 – 23.7 per cent).

22 Ultimate parent company

The Company is the ultimate parent company of the Group.

23 Subsequent events

No other matters arose in the period from the balance sheet up to the date of approval of these financial statements that require further disclosure other than those matters referred to in notes 11, 18 and 20.

Company Balance Sheet

at 31 December 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Intangible assets	27		9		1
Tangible assets	28		744		490
Investments	29		42		41
			795		532
Current assets					
Debtors	30	3,809		1,803	
Cash at bank and in hand		2,750		880	
		6,559		2,683	
Creditors: amounts falling due within one year	31	(1,416)		(371)	
Net current assets			5,143		2,312
Total assets less current liabilities			5,938		2,844
Creditors: amounts falling due after more than one year			-		-
Provisions for liabilities					
Deferred tax liability	32		-		-
Net assets			5,938		2,844
Capital and reserves					
Called up share capital	33		15		14
Share premium account			3,737		3,581
Profit and loss account			2,186		(751)
Shareholders' funds			5,938		2,844

The notes on pages 44 to 53 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 27 June 2017 and were signed on its behalf by:

Jason R. Trost
Director
Company registered number: 06475845

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015	14	3,581	(2,934)	760
Total comprehensive income for the year				
Loss for the year	-	-	2,178	2,178
Total comprehensive income for the year	-	-	2,178	(858)
Total transactions with owners of the Company				
Issue of shares	-	-	-	-
Share based payment transactions	-	-	5	5
Total transactions with owners of the Company	-	-	5	759
Balance at 31 December 2015	**14**	**3,581**	**(751)**	**2,844**

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	14	3,581	(751)	2,844
Total comprehensive income for the year				
Loss for the year	-	-	(293)	(293)
Total comprehensive income for the year	-	-	(293)	(293)
Total transactions with owners of the Company				
Issue of shares (note 33)	1	156	-	157
Share based payment transactions	-	-	3,230	3,230
Total transactions with owners of the Company	1	156	3,230	3,387
Balance at 31 December 2016	**15**	**3,737**	**2,186**	**5,938**

The notes on pages 44 to 53 form an integral part of these financial statements.

Notes to the Company Financial Statements

(forming part of the financial statements)

24 Accounting policies

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

24.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

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

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The Company's loss for the financial year was £293,000 (2015 – profit of £2,178,000).

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

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

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

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

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

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

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

24.2 Measurement convention

The financial statements are prepared on the historical cost basis.

24.3 Foreign currency

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

24.4 Intangible fixed assets and amortisation

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

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- Other intangibles
  3 years

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

24.5 Tangible fixed assets

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

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

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

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

24.6 Investments in subsidiaries

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

24.7 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

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

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

Non-financial assets

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

The recoverable amount of an asset or is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

24.8 Leases

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

24.9 Employee benefits

Defined contribution pension plans

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

Share based payments

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

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

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

24.10 Classification of financial instruments issued by the Company

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

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

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

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

24.11 Non-derivative financial instruments

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

Trade and other debtors

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

Trade and other creditors

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

Cash at bank and in hand

Cash and cash equivalents comprise cash balances and call deposits.

24.12 Derivative financial instruments

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

24.13 Provisions

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

24.14 Revenue

Revenue from services rendered is measured as the consideration received from customers and represents amounts received for services provided by the Company. It is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Revenue arises from the provision of software development and support services provided predominantly to other Group companies.

24.15 Taxation

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

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

25 Remuneration of directors

The compensation of Jason R. Trost, the Chief Executive Officer of the Company for the year ended 31 December 2016 was £353,264, (2015 – £136,667).

Neither of the other Directors received any compensation from the Company for their services for the year ended 31 December 2016 (2015 - £Nil).

On 14 June 2016, Jason R. Trost, the Chief Executive Officer was granted the option to acquire 133,000 £0.005 Ordinary shares in the Company at an exercise price of £1.00. On 1 July 2016, he exercised this option by paying £133,000 to receive the 133,000 Ordinary shares. No other share options were exercised by Directors in the year ended 31 December 2016 (2015 – Nil).

26 Dividends

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

27 Intangible fixed assets

	Other intangibles £000	Total £000
Cost		
Balance at 1 January 2015, 31 December 2015 and 1 January 2016	28	28
Additions	9	9
Balance at 31 December 2016	37	37
Amortisation and impairment		
Balance at 1 January 2015	(17)	(17)
Amortisation for the year	(10)	(10)
Balance at 31 December 2015	(27)	(27)
Balance at 1 January 2016	(17)	(17)
Amortisation for the year	(1)	(1)
Balance at 31 December 2016	(18)	(18)
Net book value		
At 1 January 2015	11	11
At 31 December 2015	1	1
At 31 December 2016	9	9

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

28 Tangible fixed assets

	Leasehold improvements £000	Computer equipment £000	Fixtures and fittings £000	Total £000
Cost				
Balance at 1 January 2015	-	69	7	76
Additions	352	58	80	490
Disposals	-	(40)	(4)	(44)
Balance at 31 December 2015	352	87	83	522
Balance at 1 January 2016	352	87	83	522
Additions	240	55	64	359
Disposals	-	-	-	-
Balance at 31 December 2016	592	142	147	881
Depreciation and impairment				
Balance at 1 January 2015	-	(41)	(2)	(43)
Depreciation charge for the year	(5)	(17)	(10)	(32)
Disposals	-	39	4	43
Balance at 31 December 2015	(5)	(19)	(8)	(32)
Balance at 1 January 2016	(5)	(19)	(8)	(32)
Depreciation charge for the year	(56)	(24)	(25)	(105)
Disposals	-	-	-	-
Balance at 31 December 2016	(61)	(43)	(33)	(137)
Net book value				
At 1 January 2015	-	28	5	33
At 31 December 2015 and 1 January 2016	347	68	75	490
At 31 December 2016	**531**	**99**	**114**	**744**

29 Fixed asset investments

Cost and Net Book Value	Shares in group undertakings £000	Total £000
At 1 January 2015	**37**	**37**
Additions	**4**	**4**
At 31 December 2015	**41**	**41**
Balance at 1 January 2016	**41**	**41**
Additions	**1**	**1**
At 31 December 2016	**42**	**42**

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

30 Debtors

Due within 1 year	2016 £000	2015 £000
Amounts owed by group undertakings	**3,028**	977
Prepayments and accrued income	**224**	156
Rent deposit	**516**	616
Income and other taxes recoverable	**12**	54
Other debtors	**29**	
Total Debtors due within 1 year	**3,809**	1,803
Debtors due after more than 1 year	-	-

At 31 December 2016, there were no debtors that were past due nor considered to be impaired (2015 - £Nil).

31 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	**103**	42
Amounts owed to group undertakings	**-**	30
Taxation and social security	**121**	54
Other creditors	**-**	-
Accruals and deferred income	**1,192**	245
Total creditors due within 1 year	**1,416**	371

32 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

Tax effected temporary timing differences	**2016 £000**	2015 £000
Tangible fixed assets	74	44
Short term temporary differences	(6)	-
Tax value of loss carry-forwards utilised	(68)	(44)
Net deferred tax	-	-

Movement recognised in income	**2016 £000**	2015 £000
Tangible fixed assets	30	37
Short term temporary differences	(6)	-
Tax value of loss carry-forwards utilised	(24)	(37)
	-	-

Unused tax losses for which no deferred tax asset was recognised amounted to £5,860,000 at 31 December 2016 (2015 – £434,000).

33 Called up share capital

	Series A Preference shares of £0.005 each		**Deferred shares of £0.005 each**		**Ordinary shares of £0.005 each**	
Fully Paid Shares	**2016**	2015	**2016**	2015	**2016**	2015
In issue at 1 January	**755,489**	755,489	**124,144**	124,144	**1,908,131**	1,908,131
Issued for cash	**-**	-	**-**	-	**157,531**	-
In issue at 31 December	**755,489**	755,489	**124,144**	124,144	**2,065,662**	1,908,131

During the year ended 31 December 2016, the Company issued 363 shares in respect of share options exercised in the year ended 31 December 2015 and 150,487 shares as a result of share options exercised in the year ended 31 December 2016.

Fully paid shares	2016 £	2015 £
Allotted, called up and fully paid		
Ordinary shares of £0.005 each	**10,328**	9,540
Deferred shares of £0.005 each	**621**	621
Series A Preference shares of £0.005 each	**3,777**	3,777
Shares classified as shareholders' funds	**14,726**	13,938

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

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

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

In the event of liquidation, dissolution or winding up of the Company, the deferred shareholders will receive £1 for the entire issue and the remaining proceeds shall be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend, provided that the amount of the distribution per share exceeds £15.54. Below this threshold amount, holders of the Series A Preference shares will receive an amount of up to £3.108 per share and then the deferred shareholders will receive £1 for the entire issue. Any remaining proceeds, if any, will then be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend.

Share buy-back

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

34 Operating leases

Non-cancellable operating lease rentals are payable as follows:

Fully paid shares	2016 £000	2015 £000
Less than one year	**903**	435
Between one and five years	**3,410**	2,319
More than five years	**290**	869
	4,603	3,623

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

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

During the year ended 31 December 2016 £522,000 (2015 - £342,000) was recognised as an expense in the income statement in respect of operating leases.

35 Related party disclosures

Transactions with shareholders

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

Transactions with related parties

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

Ultimate parent company

The Company is the ultimate parent company of the Group.

SMARKETS

Smarkets Limited

Commodity Quay
St. Katharine Docks
London
E1W 1AZ

For general enquires please contact:
Email: press@smarkets.com