21m customers

181,940 LIVE BETTING events

37,818 STREAMED events

# 20 years in the game

OVER 22m transactions EVERY single DAY

1,357 dedicated employees

OVER 100 countries

20 languages

11 brands

5 international brands

kindred

**Kindred Group plc**
Annual Report and Accounts 2017

# We're **focused** on getting the **numbers** right

A scalable, resilient IT platform allows the Kindred Group to process over 22 million transactions a day, supporting multiple brands across different licensed jurisdictions, all with different terms and conditions.

Kindred Group undertook audit certifications across all of its licensed activities as required by the terms of its licences. During the year ended 31 December 2017, the number of audits was 27, with no material findings in compliance noted.

**Strategic report**



**Governance**



**Financial statements**



**Other information**



This document is the English original. In the event of any discrepancy between the original English document and the Swedish translation, the English original shall prevail.

# Highlights

## Kindred is one of the largest online gambling operators in the European market with over 21 million registered customers worldwide.

GBP
**751.4m**
Gross winnings revenue
+38%

GBP
**113.6m**
Betting duties
+68%

GBP
**186.6m**
Marketing expenditure
+29%

GBP
**185.0m**
Underlying EBITDA
+50%

GBP
**0.516**
Earnings per share
+41%

GBP
**0.735**
Free cash flow per share
+78%

### Strategic highlights

- Launched the new brands, Storspelare and Storspiller.
- Acquired the UK leading brand 32Red.
- Launched a new cutting-edge racing platform.
- Won fourteen industry awards.

### Operational highlights

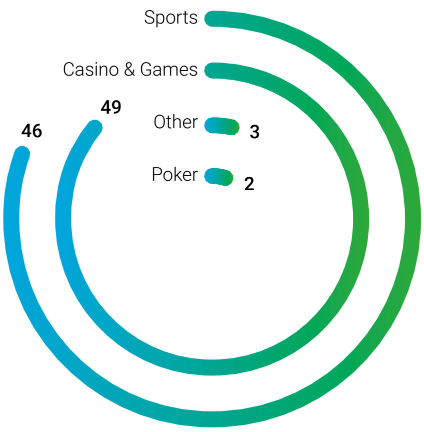
- A strong year with all-time highs across all key revenue, profitability and cash generation metrics, showing how adaptable the business is.
- A 68 per cent increase in betting duties was absorbed as a result of scalability and cost control.
- Increased free cash flow has resulted in a proposed increase in the cash dividend.

For definitions please see page 88

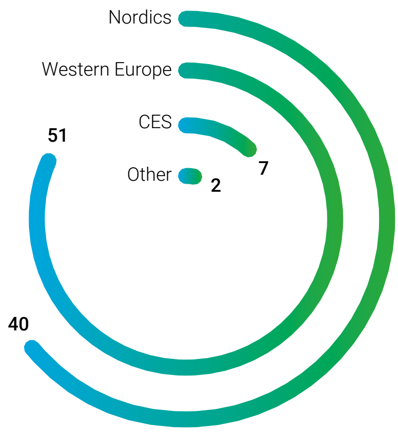
## At a glance

# The Kindred Group offers Sports betting, Racing, Casino & Games, Bingo and Poker through our distinctive brands.

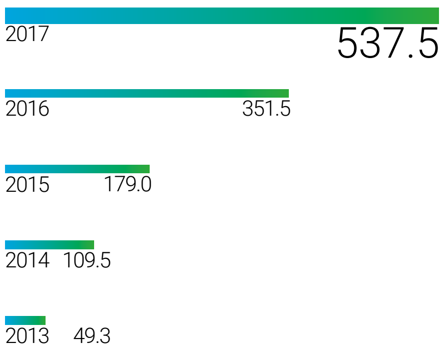
**Our products**
(%)



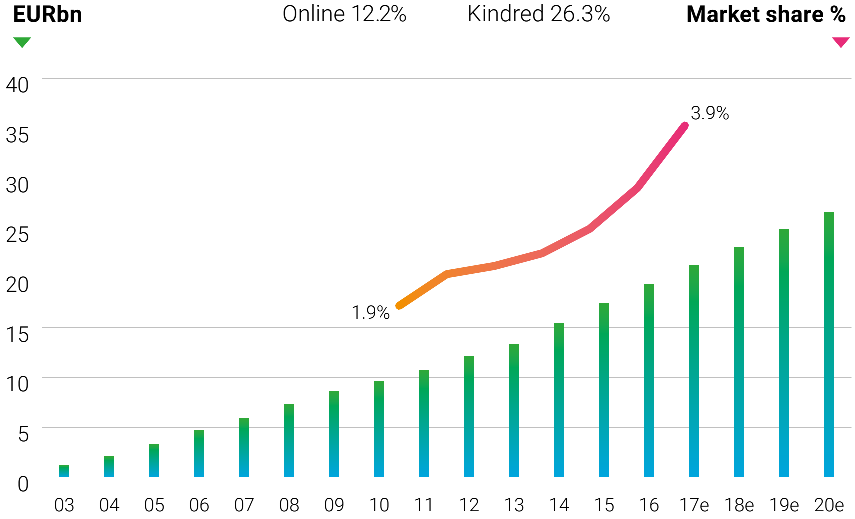

**Our markets by region**
(%)




**Gross winnings revenue from mobile**
(GBPm)

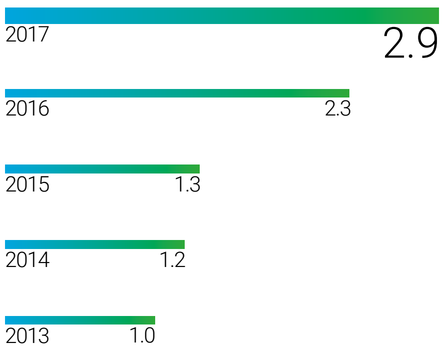



**Kindred's share of the European online market**
**CAGR 2011-2017**




Source: H2 Gambling Capital December 2017

**Active customers (full year)**
(Millions)



**Key international brands**
For the international markets, Kindred's key brands are those below. On 26 February 2018, Stan James customers were migrated to Unibet and the brand closed

**Local brands**
For some of the local markets Kindred's hyper local brands are those below.

Read more about our brands on page 10

UNIBET
iGame
MARIACASINO
StanJames.com
bingo.com

32Red
BOHEMIA CASINO
kolikkopelit
RoxyPalace
VEIKKAUSHUONE
CASINOHUONE
POKERIHUONE
BINGOHUONE
STORSPELARE
STORSPILLER
VLAD CAZINO

**24%**
EBITDA margin

**1,357**
Number of employees

GBP
**537.5m**
Gross winnings revenue from mobile

**+16%***
Active customers

For definitions see page 88.

*based on Q4 2016 to Q4 2017

The brand Unibet has grown in the last twenty years to be one of the leading brands both by size and reputation in the digital gambling market. Unibet will continue to be the Group's leading all-product brand and the Board is confident that the Unibet brand and business will continue to grow strongly by living up to its brand promise: "By Players, For Players".

But Kindred Group has developed in recent years to be much more than Unibet, the brand. There are different segments in the gambling market and to maximise shareholder value it was essential to broaden the offer to customers. Through a series of successful acquisitions, the Group has secured a range of complementary businesses and brands.

The Group's business is organised around centralised technology, product, operations and commercial teams in support of the different consumer brands, which drives efficiency of operations. Separating the Group's corporate identity from the Group's leading individual brand, therefore, reflects the current reality of a scalable centralised model that can continue to develop and support multiple brands in the future.

# CEO's review

**Henrik Tjärnström** CEO

In 2017 we celebrated 20 years since Anders Ström founded the business. Kindred today is very different from the start-up of 1997.

**+38%**

Increase in GWR

**+50%**

Increase in underlying EBITDA

As a leading global operator, Kindred drives the development and regulation of the industry, while putting the customer first in everything we do. But we remain committed to the entrepreneurial spirit, innovation and providing a great place to work. 2017 was another year of strong development for Kindred against a range of strategic priorities. It was also our first full year as the Kindred Group, following the change of corporate identity in December 2016.

Our new identity provides many benefits, but there are two key aspects that we demonstrated in 2017. The Kindred corporate identity makes clear that we are a multi-brand organisation, that is much greater than the strength of our legacy Unibet brand. The Kindred brand is also focused on technology leadership, both in the continued investments we make in all aspects of our own business as well as the innovation plays that we support through Kindred Futures.

In 2017, we welcomed the 32Red team to Kindred following the successful completion of the largest acquisition in our

During peak days in 2017 we processed **30m** transactions PER DAY

history. 32Red is a leading brand in the key strategic market of the UK, so the acquisition was fully in line with our strategy to be a market leader in locally regulated markets.

At Kindred we are never satisfied, which means that we are always challenging ourselves to perform better.

"Odd" years are supposed to be quiet years with the received wisdom being that the main opportunity for growth in this industry comes from the major international football events which fall in "even" years. At Kindred, we try to see opportunities that the market does not see and this drive to improve has been a key factor in our ability to grow our business faster than the market over an extended period.

In 2017, I am delighted that we were able to deliver 38 per cent overall growth in gross winnings revenue (including of course 32Red for part of the year). Even more impressive was the underlying organic growth of 23 per cent in constant currency, against very tough comparables from 2016.

Equally important to our owners is that we do not focus only on growth in top line revenues. In everything we do, Kindred places priority on scalability and efficiency, in order to ensure that growth in top line revenues converts into growth in profits and cash flows. This not only allows us to reward our owners through increased dividend capacity, but it also provides us with the funds to continue to invest in the business.

Even more impressive than the 38 per cent growth in top line revenues, therefore, was the growth of 40 per cent in profit after tax. This successful conversion of revenue growth into profit growth is also reflected in the Board's proposed dividend of 0.551 GBP per share, an increase of 78 per cent on the dividend paid during 2017.

The acquisition of 32Red of course delivered more than just additional revenues, profits and cash flows. The Kindred Group has been focused on the strategic opportunity to grow in the UK market for several years. Our market share in the UK accelerated following the successful acquisition of Stan James Online in 2015 and the acquisition of 32Red in 2017 means that the UK is now one of our top markets.

Acquisitions also bring the challenge of delivering successful integration, in order to deliver increased scalability while providing the customers of the acquired business with an improved offer and experience. Kindred Group now has a lot of experience in this area from previous acquisitions of businesses with different brand identities in various markets. But the success of these projects depends on highly technical work behind the scenes and good cooperation with the local teams. I really appreciate the contribution that both the integration teams and the management and employees of 32Red have made to ensuring the success of this project.

While the acquisition of 32Red was a key event of 2017, the biggest achievement of the year was to deliver sustained organic growth across all our brands. This is only possible through the contributions of all our teams across all our locations and I am extremely grateful for this.

In this annual report, we focus on a number of areas where the way that Kindred works makes a difference. One area that does not seem to be very much understood is how much Kindred uses technology as a differentiator. I have no doubt that one of the key reasons why we are able to consistently grow our business faster than the overall market is because of our focus on technology and innovation. Every year, the opportunities and threats presented by technology change and it is key to our success that we continue to invest to maintain leadership.

2018 will, of course, bring new challenges and opportunities for the Kindred Group, including the continued evolution of the regulatory landscape in all of our key markets. We have been working for many years with the regulators and other stakeholders in markets such as the Netherlands and Sweden, which are in the process of re-regulation. This will continue to be a key focus for the future, as we aim to ensure a sustainable business that puts the customer at the centre of everything that we do.

**Henrik Tjärnström**
CEO
Malta, 9 March 2018

# Revenue model

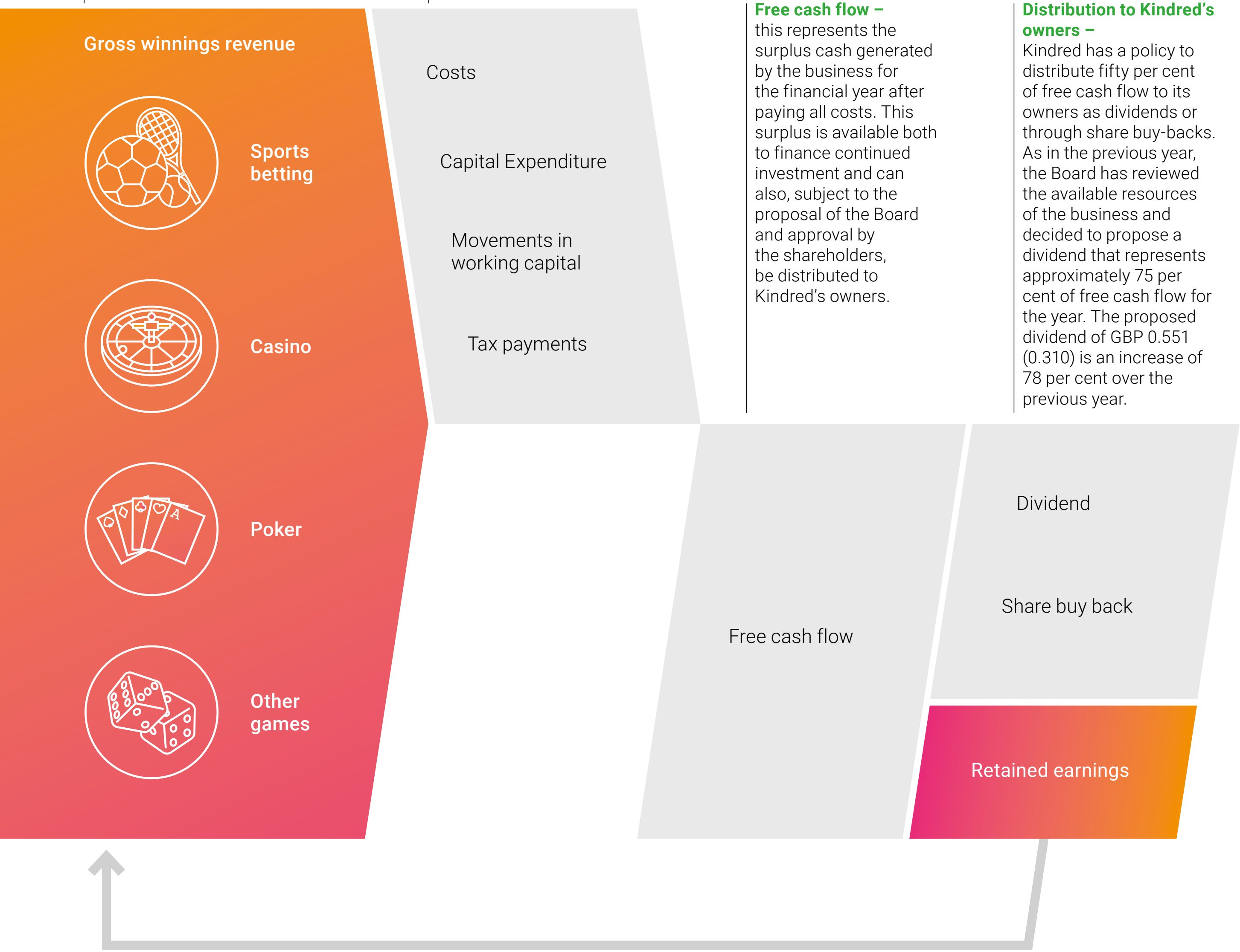
The model shows how Gross winnings revenue, adjusted for costs, capital investments, movements in working capital and tax payments, flows through to free cash flow which is available to distribute to shareholders as a cash dividend and/or share buy backs.

**Gross winnings revenue –** generated from across all of Kindred's brands, products and markets. Across all products, Kindred's average margin is approximately 4.8 per cent (meaning that the average pay-back ratio to our customers is 95.2 per cent).

**Costs and other adjustments –** these include all of Kindred's operating expenses including betting duties and other taxes paid in our various territories, marketing and operating expenses as well as investments in new technology.

**Free cash flow –** this represents the surplus cash generated by the business for the financial year after paying all costs. This surplus is available both to finance continued investment and can also, subject to the proposal of the Board and approval by the shareholders, be distributed to Kindred's owners.

**Distribution to Kindred's owners –** Kindred has a policy to distribute fifty per cent of free cash flow to its owners as dividends or through share buy-backs. As in the previous year, the Board has reviewed the available resources of the business and decided to propose a dividend that represents approximately 75 per cent of free cash flow for the year. The proposed dividend of GBP 0.551 (0.310) is an increase of 78 per cent over the previous year.




Retained earnings, after approval and distribution of the annual dividend, represent the increase in the Group's reserves that can be used to continue to invest in delivering future growth.

# One year as Kindred Group

We're a diverse network of passionate and talented individuals who are proud to be part of Kindred. As experts in our different areas, we all add something special to the Group. Our success depends on attracting and keeping the best talent, whose most important skill is being team players.

**One year as Kindred Group**
In December 2016, Unibet Group formally changed its name to Kindred Group. This was done to give the Group greater flexibility to add and remove brands to its portfolio, but also to give greater clarity around the 'house of brands' strategy adopted several years earlier.

After one year as Kindred, we can look back at an great year both in terms of financial success for the Group but also impressive engagement among all employees. Over 90 per cent of employees understand why we have become Kindred Group, which is an excellent result considering our continuing rapid growth and the fact that we welcomed many new colleagues from 32Red to the Group in June.

**Extremely data driven scientific organisation**
It is not new news that data is a big deal for all companies, especially those operating in the digital space, like Kindred Group. It is an area that has been talked about for quite some time, with a high focus on how businesses use data and specifically their ability to deploy Big Data and, more recently, Artificial Intelligence technologies.

It is certainly true that as more and more data is being created, it is also becoming cheaper to store than ever before. The advances in analytical tools and technology have enabled some companies to build amazing things.

But there is still scepticism as to whether those who master this really gain business advantage over their competition.

The key to generating value is to turn data into action and action into results.

At Kindred, we have built an organisation and systems focused on exactly this, making data a source of value creation and competitive advantage.

At Kindred we believe that the power in data is not in the data itself, it is not even in the insights that it allows us to gain. It is the systematic, scientific and repeated use of this data and insight to drive action that creates value. In order to make this possible, we have built first-class capabilities to collect, manage and process data in our proprietary platform. We have also significantly enhanced our ability to analyse data in order to create new insights and data models.

Together, these allow us to drive targeted actions based on insights, increasing success and reducing inefficiency. This process also allows us to learn from the analyses we perform, through collecting more data from the results of these insight driven actions. For us, marketing is not about TV commercials or big advertisement campaigns. For us, marketing is how we use all this data. It is this ultimate focus on action that drives value creation.

In respect of the use of data, Kindred will make sure that it is fully compliant with the new General Data Protection Regulation.

We have also launched five new values articulating Kindred's culture. These values are part of our everyday life at Kindred and permeate everything we do as individuals and as a company.

We Are Individuals United

We Dare to Challenge

We Build on Trust

We Seek to Innovate

We Believe in Friendship

# Kindred's customers drive our business

181,940
Live betting events

37,818
Streamed events

All companies claim to be focused on their customers, but at Kindred we build our entire strategy and operations around what our customers tell us.

Understanding how customers interact with our products and sites is crucial to our goal of building a best in class customer experience. What really drives our success, however, is not just consulting our customers, but ensuring that the results are analysed and fed directly back into both our business strategy and our detailed operational plans.

At all stages of the customer journey with our different Kindred brands, we seek their input to help us to identify where and how we can improve. In the User Research & Analysis team, for example, we run regular test sessions with our customers to support product design and optimisation initiatives from around the business.

Input from customers comes from a range of data sources, including surveys and customer focus groups. We recognise that online gambling sites can be complex and sometimes confusing, especially to new customers. This is a natural consequence both of the wide range of different product offers and also the reality of operating in a regulated industry where customer protection is paramount. A major focus of our research with customers, therefore, is to ensure that our sites are laid out in a transparent way, removing unnecessary complexity in the customer journey.

### Customers are at the heart of our strategy

It might seem strange for an online gambling business to be so focused on its customers. At first glance, after all, it can appear that the fundamental dynamic of online gambling is that the business wins when its customers lose. That does not seem a promising scenario for building a good customer experience, or the customer loyalty that drives long-term customer relationships and business value.

The reality of Kindred's relationship with our customers is much more sophisticated than that. Kindred operates at the convergence of the technology and entertainment industries and what matters to our customers is the overall entertainment value including, of course, the possibility of winning that they get from playing with our brands. And what matters above all to Kindred is that we build a sustainable relationship with our customers, so that they play with us in a safe way as part of their overall entertainment and leisure activities.

### Getting honest and detailed feedback on where we can improve drives business value

Asking customers what they really think about their experience with Kindred's brands is not an easy or comfortable task. While the

> Every transaction with a customer is managed with consistent standards of responsible gaming and consumer protection.

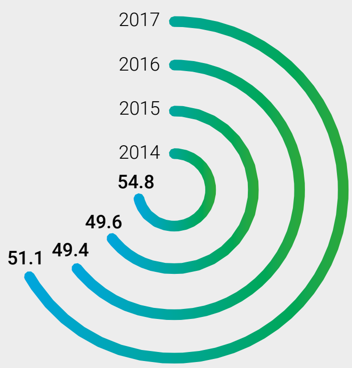
**21 million registered customers**

**No compromise on quality, safety and efficiency**

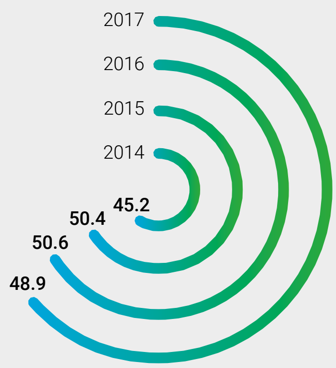
Fundamental to Kindred's relationship with our customers is the promise that, whichever brand they play with, they can be assured that the processes to ensure player protection are standardised across the group. This ensures not just compliance with all relevant regulations, but also protection for our players, whether they are casual punters having the occasional flutter, or experienced gamblers.

Standardisation of processes not only ensures that the same high levels of protection and player safety are maintained, but also guarantees that our business model continues to be scalable as the group expands either into new territories or new market segments. This means that the same approach which guarantees the best protection for our customers also drives efficiency in the group's business model.

**Pre-game betting** (% of Sports betting GWR)




**Live betting** (% of Sports betting GWR)




overall net promoter score that we receive from customers is an important indicator, what we are always seeking is to identify the areas of friction. These are the issues that can deter new customers from playing with us, or can cause existing customers to leave. It is essential to our long-term success that we continually evaluate areas for improvement and that these are acted on.

In addition to our existing range of customer analytics, in 2017 we added a specific survey on customers who ceased to be active on our brands and this has already provided valuable intelligence on reasons for lapsing. In all our analytics, we assess customer feedback by brand and by market. Even as a major global operator, we recognise that the drivers of our business are local and the factors that drive customer feedback include local market characteristics, differences in regulatory and competitive environments, as well as our own different brand positioning and legacy in each territory.

Our research on customers is broad and includes research that we conduct on customers' experience with competitors, so that we can benchmark Kindred against them. As with our internal customer research, the focus is always on how we can improve.

Our customer research also adds business value by helping us to plan the migrations of customers of businesses acquired by Kindred – any change in the customer experience creates a potential risk, so the better we understand what matters to customers the more we can manage that risk. In 2017, therefore, we have prioritised including the 32Red brands in our process to ensure that we can optimise the customer experience when we migrate the customers to the Kindred group platform.

### Using data to drive competitive advantage

The information that we obtain from our full range of customer analytics is extensive as we receive data from tens of thousands of customers per quarter. We also analyse extensive customer data based on actual customer activity (which is required, for example, for regulatory reporting and also to manage our responsible gambling activities).

The real business value comes when we convert all the data we hold from multiple sources into meaningful information using our range of data analytics tools and then when we use that information to drive continuous improvement in our business.

The one thing we can be sure of is that our customers will be even more demanding in 2018 and that Kindred will work even harder to meet our customers' needs.

# Building brands that appeal to all

3

New additions to the group

11

Consumer brands

## Targeted brands meet the needs of different segments of the gambling population.

One of the key developments of the last ten years has been the acquisition of a focused portfolio of different brands. Each brand satisfies the specific requirements of a different segment of the gambling public.

For the first ten years of Kindred's history, we built Unibet as a full service, full product premium brand, providing an unrivalled gambling experience to all customers. For many players, that approach is still very relevant and so Unibet remains the core brand in the business. But we recognise that many players are not attracted by a diversified offer and their focus is on a niche position in the market.

Since the acquisition of Maria in 2007, Kindred has managed an increasingly diverse portfolio of targeted brands that provide a contrast to the strengths of the Unibet brand and meet the needs of customers in different segments.

The key to success in a multi-brand environment is to manage the brand portfolio actively, so you do not just add more and more brands. This disciplined approach enables Kindred to maintain efficiency and scalability and ensures that expansion in the number of brands does not lead to loss of control on operating costs.

### Brands focused on customer needs

Kindred Group manages a diversified portfolio of digital brands focused on different customer segments.

The core brand of the Group continues to be Unibet, which for 20 years has honoured the brand promise "By Players, For Players" to provide the best possible sports betting based experience to our customers in all markets. But Unibet is not just about the excitement of sports betting, as the brand provides the full range of mobile and digital products to ensure that both the leisure punter and serious player can find everything they need. In an extremely dynamic and competitive market, this requires constant reinvention of the brand and the offer to the customer to ensure that Unibet remains not just relevant, but a market leader in each of our major markets.

For many years, the whole group traded under the name of the Unibet Group. We recognised, however, that this could cause misunderstanding about the breadth of the value created through our other brands. In 2016, therefore, the group was renamed as the Kindred Group, so it is now clear that while the Unibet brand remains at the heart of what we do, the group has a wide range of additional brands that address different segments of the market.

> Since completing the acquisition of 32Red in June 2017, the Group is executing a detailed integration plan


OVER 70 NEW OFFERS

**Launching a new brand**
Gamblers are individual, with different needs. In January 2017, we launched new brands for the first time since Unibet started: Storspelare and Storspiller. It has been fantastic work by a lot of departments working across many different countries to take an idea, release it to the market and deliver on the brand promise. The brand is a good example of how a big company like Kindred have the scale and agility to bring ideas to life. In February 2018, the casino brand Vlad Cazino was launched in Romania.

These brands have been developed through a combination of acquisitions and our own organic development. Each brand focuses on specific areas of the market, which could be defined by customer segment, product preference, or geographic focus.

### Active brand management

Key to the success of a multi-brand strategy is the active management of the brand portfolio. This means that we do not just add additional brands year by year, but rather that we proactively assess customer needs and ensure that our overall offer is always focused where it is most relevant to our customers.

In 2017, therefore, our strategy was focused on building our strength in the key locally-regulated market of the UK, through the acquisition of 32Red, one of the leading casino-focused operators in the UK market.

In parallel, we had identified from our customer intelligence that high-rollers in the casino segment required a different approach to customer service. This drove our successful launch of the Storspelare and Storspiller brands in the Nordic region.

As part of our continuing review of our brands, we identified that some of the minor brands acquired with iGame in 2015 were sub-scale and that customer needs could be met through other existing brands.

On 26 February 2018, Stan James customers were migrated to Unibet, which provides both a stronger overall sports and multiproduct offer to customers and the scalability that comes with a single sports-focused brand.

We believe this combination of focus on giving our customers what they need in different segments, combined with the business awareness to avoid unnecessary duplication helps to set Kindred apart from the competition. This has enabled us to drive continued growth in market share, while securing our profitability in a period of continuing regulatory and competitive pressures.

### Local brands

32Red
kolikkopelit
VEIKKAUSHUONE
CASINOHUONE
STORSPELARE
STORSPILLER
BOHEMIA CASINO
RoxyPalace
POKERIHUONE
BINGOHUONE
VLAD CAZINO

# Creating a **world class employee** experience

**6,413**

Total training hours undertaken

**92%**

Kindred employees' rating of diversity

## Our culture is at the centre of how we drive shareholder value through effective team-work.

Kindred has a transparent culture that showcases our values and creates high employee engagement in the delivery of our strategic objectives. By listening to, and acting upon, feedback from employees we aim to continuously improve and to facilitate a world class employee experience that inspires pride in being part of the Kindred Group.

A strong but inclusive culture is especially important to facilitate the successful integration of new businesses that we acquire. Each business that joins Kindred has its own distinctive culture, heritage and methodologies. Successful integration depends on aligning our organisation around shared goals and ways of working.

With multiple offices around the world, more than fifty nationalities and languages represented among our employees and hundreds of teams working on complex projects, Kindred epitomises the modern diverse workforce needed to compete in today's global economy. Through commitment to our five core values and building a culture that transcends the individual components, we truly believe we can make the sum of the whole greater than its parts.

We're very proud that our highest scoring category in the 2017 Great Place to Work Survey was our diversity score of 92 per cent. At Kindred, we strive to attract and recruit the best talent irrespective of race, religion or gender and create an environment in which individuality is celebrated and, as experts in our different areas, we all add something special to the Group.

**Employee voice**
Creating a great employee experience starts with making sure our employees have a voice. We have many informal and formal channels available to us to receive feedback from employees including the annual Great Place to Work survey which enables us to benchmark Kindred against the best global tech companies. A new initiative in 2017 was the introduction of quarterly "snapshot" surveys enabling us to obtain more regular employee feedback and allowing for rapid action to be taken to address issues and ensure that a complex organisation works as well as possible.

# 1,357

## **Employees** across our brands

Our culture, our strategy and how we interact with each other and the world around us are determined by our values. They are universal and, at Kindred, we all work and live by them.

// Key to our success is our ability to engage with our teams to ensure focus on our business goals and a shared motivation to achieve them. //

**Developing our people**
Kindred continues to invest heavily in the development of all our employees and 2017 has seen the launch of the Kindred Academy. This is a one stop shop where employees can request relevant training or access a library of over 6,500 online courses. We have also totally refreshed our management training and launched a new programme called Kindred Manager DNA. This equips our managers and leaders at all levels with the skills and competencies they need to be successful and allows them to continually develop throughout their careers with Kindred.

# 52

## nationalities

**Employee age breakdown** (%)

| | <30 | 31-40 | 41+ |
|---|---|---|---|
| 2017 | 34 | 45 | 21 |
| 2016 | 28 | 50 | 22 |
| 2015 | 31 | 47 | 22 |
| 2014 | 24 | 56 | 20 |

**Employee gender** (%)

| | Female | Male |
|---|---|---|
| 2017 | 34 | 66 |
| 2016 | 32 | 68 |
| 2015 | 32 | 68 |
| 2014 | 33 | 67 |

Listening to employees is important, but taking action as a result of employee feedback to improve the employee experience is vital.

**Investing in new offices and technology**
As Kindred competes for the best employees with the world's leading technology companies, it is essential that we provide an attractive working environment and all the technology and tools needed to deliver the best results.

2017 saw significant investments, with our employees in Gibraltar and London moving into new state-of-the-art offices which have transformed the day-to-day work experience. An additional focus in Gibraltar was to facilitate the rapid integration of the 32Red team. 2018 and 2019 will see further investment focused in Malta and Sweden. These investments are, of course, planned to support the overall business strategy to enable Kindred to continue to drive growth faster than the market and deliver consistent value to our shareholders.

**Aligning our goals by investing in our people**
Kindred believes that employees perform better and contribute more if they are directly aligned with the interests of the Company and its shareholders. We believe

that Kindred's All Employee Share Plan, introduced in 2017, is unique within our industry in providing every employee with an opportunity to share in the success of the group through share ownership. At the end of 2017, 11 per cent of our employees had an ownership interest in Kindred. The Group's chairman and the CEO are amongst the largest individual shareholders in the Group.

More information on pages 32 and 34.

Our strategy in action

1 2 3 4

# Continuing to profit from our **in-house platform**

4.2m

Push notifications monthly

GBP

**25.8m**

capitalised IT investment

## Maximum adaptability based on maximum efficiency.

Our proprietary technology is a key driver of Kindred's ability to grow significantly faster than the market and to deliver the scalability that has protected profit margins despite increasing business and regulatory complexity.

The challenge of providing a seamless experience to our customers grows every year, as we add new products, features and channels. Our business grows organically by more than 30 per cent a year, with a consequent increase in the number of transactions to over 22 million a day. During peak days in 2017 we processed 30 million transactions per day. In addition, we manage and integrated the three major acquisitions completed since September 2015. On top of that we make sure that the ever-changing requirements of regulators in many different markets are satisfied at all times, across all our brands.

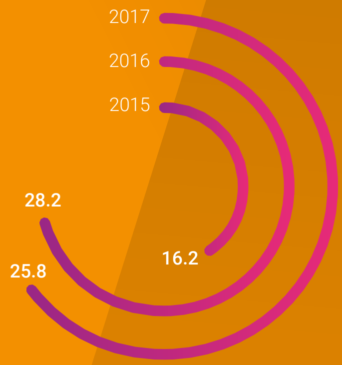
Kindred invests heavily in our technology platform, to ensure it meets the challenges of constant change and growing demand. We also have to offer our customers around the world a 24/7 service, so our technology is robust, so that as we continually upgrade different components, there is no interruption in service or negative impact on customers.

### Overview of the Kindred Group's technical platform

At Kindred, we have a culture and a mindset of constantly improving our services and customer experience. We naturally place top priority on ensuring our sites are available to customers 24/7/365. This means not only working on redundancy and other mitigations for unwanted interruptions, but also ensuring availability when making changes and releases of our services.

During the last three years, we have made more than 10,000 releases with no interruption in service to our customers.

The digital world continues to evolve at rapid pace. At Kindred, we continuously monitor developments in the wider Tech universe, so that we can be ready to provide new experiences to our customers as soon as new platforms and technologies come to market.




One area we focus on is the availability of our site. This means not only working on redundancy and other mitigations for unwanted interruptions, but also ensuring availability during changes and releases of our services.

On peak days we process **30m** transactions PER DAY

> We combine our skill and experience with novel thinking to spot new trends and tools.


1 **Gambling products**
Kindred works closely with our product suppliers to ensure that we provide an engaging and relevant experience to our customers, tailored to their local market and specific to each brand.

2 **Payments**
As with gambling products, Kindred works with multiple payment suppliers to ensure we provide our customers in each market with a full range of payment solutions fitted to the territory.

3 **Analytics**
Kindred uses sophisticated data analytics tools to monitor customer activity. This customer intelligence gives us a competitive edge and also helps in early detection of player safety risks.

4 **Reporting and control**
Our platform provides the capability to generate the wide range of reports needed both for internal control processes and to satisfy our regulatory reporting requirements.

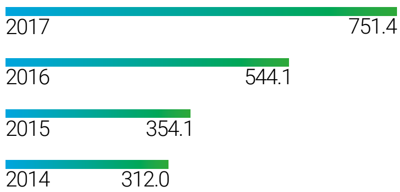
# Key performance indicators[1]

The Group assesses the performance of the business on a regular basis, to measure results and help deliver on the strategy and objectives.

## Gross winnings revenue

GBP million

**751.4**




**Definition**

Gross winnings revenue on Sports betting is defined as the net gain or loss from bets placed. Within Casino and Games, the Group defines GWR as the net gain from bets placed and Poker GWR reflects the net income ("rake") earned from poker games completed. GWR across all products is reported net of the cost of promotional bonuses.

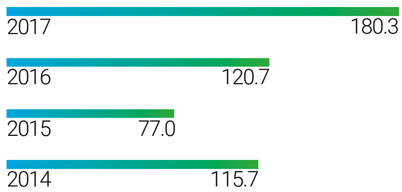
**Performance**

Combination of strong organic growth in core markets in all brands supported by the acquisition of 32Red has led to an all-time high in GWR.

## EBITDA

GBP million

**180.3**




**Definition**

Profit from operations before depreciation and amortisation charges.

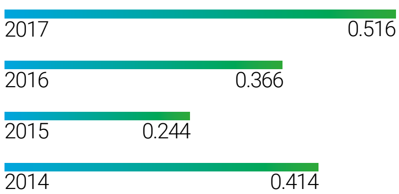
**Performance**

Strategic focus on core markets and cost control continues to deliver improved performance and prove the scalability of the business and its ability to absorb the impact of regulatory changes.

## Earnings per share

GBP

**0.516**




**Definition**

Profit after tax divided by the weighted average number of ordinary shares for the period.

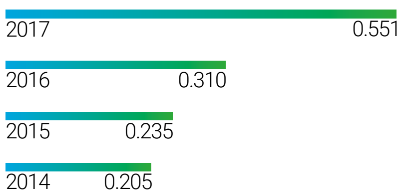
**Performance**

Strong year on year growth supported by the acquisition of 32Red has increased the earnings per share continuing to add shareholder value.

## Dividend per share

GBP

**0.551**




**Definition**

Amount proposed by the Board or paid out for the respective year, divided by the number of ordinary shares in issue.

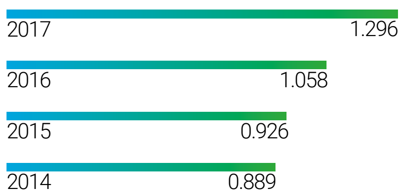
**Performance**

The Board has reviewed the projected cash requirements for 2018 and has proposed to increase the 2017 dividend above the Group's policy of 50 per cent of free cash flow, to approximately 75 per cent. This is in line with the prior year but has resulted in a 78 per cent increase in the dividend per share.

## Equity/share

GBP

**1.296**




**Definition**

Total assets less total liabilities, divided by the number of ordinary shares at the balance sheet date.

**Performance**

The 2017 performance has strengthened the balance sheet, creating stability from which to grow.

1: The results for 2014 within the key performance indicators include the one-off gain from the disposal of Kambi.

## Operating margin

%

**18**

| | |
|---|---|
| 2017 | 18 |
| 2016 | 18 |
| 2015 | 18 |
| 2014 | 32 |

**Definition**
Profit from operations as a percentage of Gross winnings revenue.

**Performance**
With a continued focus on cost control and a strategic approach to marketing investments, the operating margin has remained stable despite a significant increase in betting duties in locally regulated markets and the additional costs relating to the acquisition of 32Red, where synergies are expected in future years.

## Other costs, share of GWR

%

**9**

| | |
|---|---|
| 2017 | 9 |
| 2016 | 8 |
| 2015 | 8 |
| 2014 | 9 |

**Definition**
Other costs as a percentage of GWR. Other costs are defined as operating costs, excluding salaries, depreciation and amortisation.

**Performance**
Continued focus on cost control enables absorption of increased betting duties and higher shareholder return.

## Active customers last quarter of the year

**1,329,124**

| | |
|---|---|
| 2017 | 1,329,124 |
| 2016 | 1,150,027 |
| 2015 | 921,150 |
| 2014 | 570,360 |

**Definition**
An active customer is a customer who has placed at least one bet during the last quarter.

**Performance**
Strong year-on-year growth of 16 per cent supported by the acquisition of 32Red and increased marketing expenditure has accelerated the growth.

## Free cash flow per share

GBP

**0.735**

| | |
|---|---|
| 2017 | 0.735 |
| 2016 | 0.413 |
| 2015 | 0.301 |
| 2014 | 0.249 |

**Definition**
Cash flow from operations, adjusted for movements in working capital, capital investments, tax payments and items affecting comparability (see page 85) divided by the number of ordinary shares at the balance sheet date.

**Performance**
A solid performance during the year has translated into strong shareholder return via significant free cash flow generation.

## Capital expenditure on intangible assets

GBP million

**20.4**

| | |
|---|---|
| 2017 | 20.4 |
| 2016 | 19.2 |
| 2015 | 11.1 |
| 2014 | 11.7 |

**Definition**
Capital expenditure on intangible assets.

**Performance**
Capital expenditure was higher in 2017 predominantly due to increased investment in IT development which enables the Group to deliver the best technology to our customers. During 2017, capital expenditure was focused on the migration of acquired brands to the Group's platform, data analytics, customer experience improvements and the development of the new horse racing product.

## Employees who view Kindred as having a good employee culture

%

**83**

| | |
|---|---|
| 2017 | 83 |
| 2016 | 84 |
| 2015 | 85 |
| 2014 | 84 |

**Definition**
The result of this survey represents the degree to which employees believe that the Kindred Group has a good employee culture.

**Performance**
The Group consistently achieves high scores in the annual employee engagement survey in relation to employee culture which assists the Group to attract and retain the best talent.

# Sustainability

## Sustainability is at the heart of the Kindred Group's business strategy.

## As one of the largest international operators in a regulated business that has a high political and social profile, Kindred consistently takes the lead in embedding all aspects of sustainability within our business strategy.

### Sustainability is central to our business strategy

Each time that management and the Board reviews and updates the Kindred Group business strategy for the next period, all aspects of sustainability form an integral part of the plan.

### How did we determine areas of focus in sustainability for the Kindred Group?

As part of the development of the Kindred Group's business strategy, management performed an in-depth evaluation based on input from a combination of external and internal stakeholders, including customers, shareholders, employees, industry bodies and other business partners. The purpose of this project was to enable us to ensure that we identified all of the key areas of Kindred's operations that have sustainability impact. This evaluation was specific to Kindred's business, so it allowed us to develop a sustainability strategy that is fully relevant to Kindred and not based on a generic checklist.

Our evaluation of the key issues in the area of sustainability was a key input into the development of Kindred's current business strategy (along with the other elements such as developments in relevant markets, technology, competition, regulation etc.).

The evaluation allowed us not only to identify a wide range of different areas where sustainability is important to Kindred, but also to drive a materiality assessment so that we can focus our resources on those areas where we can truly make a difference.

### Results of our evaluation

The findings of our investigation focused on sustainability impacts in three main areas:

Environment aspects, such as building efficiency, energy and waste management and responsible business travel.

Social aspects, such as responsible gaming and player protection, ethical marketing, transparency and integrity in all dealing with our customers, employee engagement and development, equality and diversity, and community involvement.

Governance aspects, such as data protection and integrity, ensuring our supply chain meets our own high standards, focus on anti-money laundering and anti-corruption, fair competition and transparency regarding our operating model and how that affects the taxes that Kindred pays.

In this Annual Report, we have provided an overview of sustainability in the Kindred Group. Separate to this report, the Kindred Group is publishing a comprehensive 2017 Sustainability Report, copies of which are available at our corporate website, **www.kindredgroup.com.**


### Kindred Group's priority areas

Based on the detailed evaluation of Kindred's impact in all aspects of sustainability, we have developed five priority areas, which are described below. Each priority area is integrated within the Kindred Group's strategic plans, with accountability for executive management and sponsorship from the Board.

**Priority 1**
Responsible Gambling

**Priority 2**
Maintaining Integrity

**Priority 3**
Running a Compliant Business

**Priority 4**
Being Kindred

**Priority 5**
Contributing to our Communities

## Priority 1
Responsible Gambling

**At Kindred, we want our customers to enjoy the entertainment we provide through our games in a safe, secure and supported manner.**

Kindred exists to offer players entertainment on a platform that is safe and secure. Our success is built on long-term sustainable relationships with our players, based on delivering an excellent customer experience. We understand and know our customers, the vast majority of whom enjoy gambling as entertainment in a safe and responsible way. We recognise that while the overwhelming majority of customers use gambling as a recreational activity, for some individuals gambling can stop being entertaining and can cause personal, financial and/or social and psychological health problems. We are committed to being best in class in the industry in promoting responsible gambling both to protect our customers and to help and support those who develop gambling problems.

For more than a decade we have been investing heavily in developing state of the art technologies to detect and prevent problematic gambling behaviours and to allow our customers to stay in control of their gambling through a range of tools that we provide. Since 2011, Kindred Group has collaborated with a group of researchers from the University of Luzern to develop an algorithm that detects early signs of problem gambling. The indicators in our detection system are based on findings from research studies and range from written and verbal communication style, chasing losses and winnings, declined deposits, reversed withdrawals and change in deposit methods.

We call our detection system the Player Safety–Early Detection System (PS-EDS), which allows us to monitor, support and protect players. Customer data is run through this algorithm and based on the indicators the system classifies the customer into one of three risk classifications. Gambling addiction is a progressive addiction and therefore a behaviour takes time to develop, so PS-EDS is a powerful way to identify these risks early.

As soon as a customer is identified as at risk, our trained analysts build a profile of the customer and advise on the best possible responsible gambling tools to help the customer stay in control. While we have a specialist Player Safety team, all Kindred employees receive training in responsible gaming to ensure the best standards are in place across the Group.

A whole range of tools are available to our players to ensure that they can regulate their gambling experience. These include the ability to set deposit limits or loss limits, to create reality checks on the time they spend on our sites; to self-exclude for a period; to restrict access to specific products that they can select; and we even provide software that allows users to block all gambling sites.

A key part of our work to secure responsible play is collaboration with regulators, treatment centres, partners and researchers in all our markets. This is the key to learning more about problem gambling, in order to minimise its harmful effects on the small minority of players who are susceptible.


**Kindred's business is based on trust.** Our customers and regulators must have assurance that Kindred provides a safe and fair place to play, while for other stakeholders such as employees and owners, it is just as important that we are building a business that works for the long term and not one that cuts corners to achieve short-term goals.

# Sustainability continued

## Priority 2
Maintaining Integrity

**Since the very beginning in 1997 Kindred Group has aimed at delivering a safe and secure platform where our customers can enjoy our gambling products knowing that the games they play are fair.**

We want our customers to enjoy a rewarding and joyful journey through our digital entertainment platform and part of this is to secure the required levels of system and data security, and a trustworthy gambling product. One of Kindred's core values is Trust, and we aim to behave with integrity and fairness in everything we do.

One of the key elements in the popularity of sports is the unpredictable nature of the outcome of the events. Taking this unpredictability away by fixing the outcome of an event puts the future of the favourite pastime of billions in jeopardy. Match-fixing is a threat to Kindred's industry, not only because of short term losses due to customers having inside information, but because if people lose faith in the honesty of a sports event, they will lose trust in our betting product. The fight against match-fixing is therefore a top priority for Kindred.

We believe that cooperation is key in the battle against match-fixing, and Kindred works in collaboration with other stakeholders such as local authorities, policy makers and sports federations in eradicating any attempt to pollute sport with criminal activity.

Fairness and integrity are equally important in the world of online casino and other games. To ensure a safe place to play for our customers, both Kindred and its product suppliers undertake a certification process as well as regular audits.

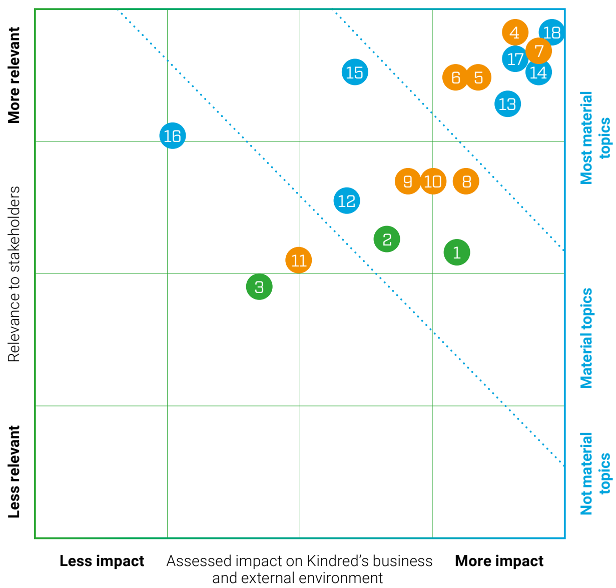
On a more granular level, before launching a new game from a previously approved supplier, we require certification documents for the game and the specific market. The certification approval informs us that the game follows all local regulatory requirements and that the mathematics of the game is accurate according to specification. We never launch a game that does not have all the required certification documentation.

The matrix below charts the results of our evaluation of Kindred's sustainability impact, by assessing each factor in terms of both its importance to the various stakeholder groups and the impact of each factor on Kindred's business model and the external environment in which we operate.

Environmental aspects
1 Green buildings and energy management
2 Responsible business travel
3 Waste management

Social aspects
4 Responsible gaming and player protection
5 Ethical marketing
6 Product transparency
7 Integrity in Sportsbetting
8 Employee engagement
9 Diversity and equality
10 Employee training and development
11 Community involvement management

Governance aspects
12 Responsible sourcing
13 Tax transparency
14 Anti-money laundering
15 Anti-corruption
16 Fair competition
17 Customer data integrity
18 Cyber security




## Priority 3
Running a Compliant Business

**Kindred operates a digital entertainment business in a politically sensitive and regulated industry and it is essential to our business that we comply with regulations and requirements in every local market where we have a licence.**

Kindred Group holds international gambling licences in Malta and Gibraltar and local licences in 11 jurisdictions including the UK, Denmark, France, Italy, Belgium, Malta, Estonia, Ireland, Germany, Romania and Australia, which are all monitored through local gambling authorities. Kindred Group pays betting duties in all markets in accordance with applicable local laws. Currently, 42 per cent of our gross winning revenue is derived from locally regulated markets and this number is growing in line with our corporate strategy.

Kindred's business is subject to strict rules and provisions in all countries where we hold licences and compliance is a prerequisite for our business. Due to the complexity of operating across licences, we have over the years invested heavily in our compliance and governance functions. As we are subject to continuous audits by regulators and stakeholders, external verification of the way we work is 'business as usual' for us. In 2017, Kindred went through 27 external regulatory audits to ensure compliance across all brands and markets.

### Anti-money laundering
Kindred takes crime prevention very seriously. Our systems and controls are designed to keep money launderers and other criminals away from our platform, and our employees are trained to prevent and detect money laundering. As an online gambling operator, Kindred faces many of the same challenges as banks and financial institutions. We process millions of transactions daily and each of these are subject to strict anti-money laundering rules.

Our global Anti-Money Laundering/Counter Terrorism Financing Policy, together with detailed procedures, provide the foundation for all our employees to know and adhere to requirements in this area. All of our employees undertake regular training on our Anti-Money Laundering policies. Enhanced training is mandatory for functions with increased risk.

We operate with zero tolerance for corruption and bribery in our business. We enforce a Global Bribery Policy and a Global Gift Policy and carry out global employee training to support these policies.

| Sustainability in our business | Responsible Gambling | Maintaining Integrity | Running a compliant business | Being Kindred | Contributing to our communities |
|---|---|---|---|---|---|
| Strategic pillars | Sustainability | | Winning and keeping the customer | | Digital DNA |
| OUR FOUNDATION: Our strategic intent | We will become the number one operator across our markets | | | | |
| OUR FOUNDATION: Our purpose | We want to transform gambling to ensure fair play, the best deal and a great experience for our players | | | | |
| OUR FOUNDATION: Our values | We believe in Friendship | We build on Trust | We seek to Innovate | We are Individuals United | We Dare to Challenge |

## Priority 4
### Being Kindred

**Our people are our strongest assets and we rely on attracting and keeping key talent to deliver on our strategy. We aim to provide a great place to work for our employees through a distinctive culture based on key values. While we have a culture in common, we also promote diversity and equality in everything we do.**

We invest heavily in building a great place to work through offering access to a great office environment, training and development of our employees, highly competitive benefits and great events for all employees.

Kindred is a value-led community with a strong culture. Our five values are the foundation of our business and they guide behaviours, policies and decisions. We also use our values to help potential candidates better understand our culture. This is important because we want to attract people who share our values and are therefore more likely to make a positive contribution to the Kindred community.

Equal opportunities lie at the heart of the entire employee journey, including recruitment, training and benefits regardless of gender, marital status, disability, race, nationality, religion, sexual orientation, or age. We know that a diverse workforce is crucial to our business success and we are very focused on promoting diversity in our recruitment and promotion processes. We are also an extremely international business, with employees from more than 50 nationalities.

## Priority 5
### Contributing to our Communities

**Kindred strives to be a good corporate citizen by actively taking part in the communities in which we operate.**

As an online company, Kindred has a limited effect on the environment. However, we do our part in combating climate change through a focus on energy efficiency and minimising travel through use of advanced communication tools. We undertake several initiatives to limit our environmental impact to the greatest extent possible. To be compliant with the Greenhouse Gas Protocol Corporate Standard, we use a third party to calculate the Group $CO_2$ emissions.

We also have a broad range of initiatives to support our employee-led engagements by matched funding, paid leave for charity projects and local office initiatives.

All Kindred Group employees are entitled to three days of additional paid leave every year that can be devoted to charity work.

Each of our offices undertake a number of initiatives to support our local communities. In 2017, we engaged in local activities including 'Kick for L-Istrina', the largest local sports fundraising event in Malta, while the Responsible Gambling Conference, sponsored by Kindred Group, donated all entrance fees to the Maltese treatment centre, Foundation for Social Welfare Service. In Stockholm, our employees contributed to the Stockholm Donation Week and donated clothes to Stockholm's Stadsmission.

Even in countries where we do not yet have an office, we still seek to contribute positively where we can. In the Netherlands, for example, we are supporting 'Fonds Gehandicaptensport' a charity that helps mentally and physically challenged people to participate in sport.

# Sustainability continued

### Ensuring high standards throughout our business

The legacy Unibet and Maria brands have been managed in an integrated way on the Kindred Group technology platform for many years. This platform has been developed to facilitate standard processes to support our sustainability goals in respect of player protection, data integrity and regulatory compliance.

When we acquire new businesses, e.g. Stan James Online and iGame Group in late 2015 and 32Red in mid-2017, we follow a two-stage process to ensure that the same high standards apply across the Kindred Group as a whole.

In the initial period while the acquired businesses are still deploying their legacy technical platforms, typically from third party providers, we review the related processes and make any interim changes that are required to ensure that policies and methodologies are aligned with Kindred Group's high standards.

The long-term solution is, of course, to migrate those businesses to the Kindred Group platform, which then automatically ensures that processes are fully aligned. The integration is a complex process that depends on a range of factors including the number of products, territories, brands and regulatory licences that need to be considered in each case. Above all, we plan the migrations to ensure that there is no negative impact on customers, because forcing change too rapidly could damage the customer experience.

### Tax transparency

The Kindred Group complies with tax legislation relevant to its business in line with applicable legislation in all territories in which we have operations or customers. Taxation of international digital businesses is complex and Kindred takes expert advice to ensure that we comply in an environment where both national and international tax legislation can be subject to rapid change.

Kindred balances its obligation to pay appropriate taxes in each country in which it has operations or customers with its obligations to shareholders to manage the Group's operations and cost base in a scalable manner, by ensuring that the operating structure is efficient.

Some of the taxes applicable to Kindred's business are calculated based on where the Group's operations are located (including some betting duties, corporate tax, employee taxes and social contributions and some elements of the Group's VAT cost). Other relevant taxes are calculated based on where customers are based (including some betting duties and VAT or GST where this is chargeable on revenues).

In determining the appropriate tax cost in each relevant territory, the Kindred Group complies both with local laws and with relevant international frameworks that specify how profits should be allocated in multinational businesses. This includes compliance with the OECD Transfer Pricing guidelines, which specify that, for the purpose of corporate taxation, profits are allocated and taxed where operations and functions are located.

### MSCI Environment, Social and Governance Rating – "AAA"

In 2016, Kindred Group became the first digital operator to receive the "AAA" rating following an evaluation the MSCI ESG Ratings. MSCI uses a detailed methodology to "research and rate companies on a "AAA" to "CCC" scale according to their exposure to industry specific ESG risks and their ability to manage those risks relative to peers."

This evaluation is updated annually and in March 2017 the Kindred Group rating was unchanged at "AAA".

The 2017 report stated that Kindred "has set some of the most ambitious targets for energy use reduction across the industry. Additionally, it also scores well above peers on implementing employee engagement programmes and offering competitive compensation packages that are likely to improve productivity. It has taken proactive measures to manage risks of facing reputational damage related to problem gambling on the part of its customers."

### Working with stakeholders to ensure sustainable regulation

Kindred understands that gambling is a politically sensitive industry that needs to be regulated in a balanced manner to ensure protection that considers both the needs of the individual player and wider social impacts. This is why Kindred has worked for many years in co-operation with legislators, regulators, industry bodies and other stakeholder groups to ensure that gambling regulation achieves a sustainable balance.

Gambling regulation is also dynamic, with continuous development at a national and international level. This change is driven both by political factors and by technological change.

Regardless of the law, people will gamble. Some of the highest levels of gambling participation occur in countries that have little or no legal framework for gambling. Kindred avoids these markets because the lack of regulation means that there is little or no consumer protection and the risk of corruption in gambling is higher.

Kindred operates in more developed markets that are subject to national regulation or international regulation

### Kindred Group $CO_2$ emissions

| | Tonnes of $CO_2e$ | | |
|---|---|---|---|
| | 2016/17 | 2015/16 | 2014/15 |
| Scope 1 – Operation of site facilities (tonnes $CO_2e$) | 51 | 5 | 65 |
| Scope 2 – Grid electricity purchased (tonnes $CO_2e$) | 2,428 | 2,577 | 2,517 |
| Scope 3 – Indirect emissions including travel (tonnes $CO_2e$) | 4,686 | 3,162 | 1,766 |
| **Total** | **7,165** | **5,678** | **4,348** |
| $CO_2$ ratio (tonnes $CO_2$ per employee) | 5.28 | 4.59 | 5.15 |
| $CO_2$ ratio (tonnes $CO_2$ per GWR GBP million) | 9.50 | 10.36 | 12.28 |

All flights $CO_2$ emissions were offset in 2017.

### Our role in the Environment

As a truly digital company, our environmental impact is minimal and limited to energy usage and business travel. To be compliant with the Greenhouse Gas Protocol Corporate Standard, we use a third party to calculate the Group $CO_2$ emissions. Overall, our absolute emissions have increased by 26.2 per cent from 2016, predominantly due to business growth where both employee numbers and turnover have increased. Group emissions by turnover have decreased by 8.3 per cent. All of the above emissions related to flights were offset in 2017.

(e.g. EU/EFTA members that do not have a local legislative framework).

Based on Kindred's experience of working with different regulatory systems, there are several elements that are essential to the design of a successful regulatory regime. Each factor contributes to the key aim of channelisation, which means that gamblers in the territory should play within the regulated system and not try to circumvent it by playing with unlicensed operators. The reality of a digital economy is that if a competitive product is not available to consumers through the regulated system, they will find ways to source that product from unlicensed operators outside the system. If customers are driven outside the system, it means that the regulatory framework has failed to provide the individual and social protections that it was designed to achieve.

Product offer – the range of products within the regulated system should be comprehensive. If product groups are banned or severely restricted by regulation, customers who want to play the full range of products will simply look for unlicensed providers. This is the reality, for example, for most US citizens who want to place a sports bet, or for Australian or French citizens who want to play casino or who want the full range of sports offer.

Taxation levels – these need to be set at a balanced level that does not deter customers from playing within the regulated system. It is normal for local gambling regulation to include betting duties and other charges. If such charges are set at too high a rate, however, that inevitably has an impact on the value that can be offered to customers. French regulation, for example, explicitly combines high taxation levels with a limited pay-back ratio to sports betting customers. This makes the odds offered by licensed operators quite unattractive to customers.

The combined impact of restricted product offer and high taxation can be demonstrated by comparing the regulated markets of three of Europe's largest countries. Compared to the UK market, which has lower taxes and minimal product restrictions, the French and Spanish regulated markets for online sports betting are tiny. French gross gaming revenues were EUR 106 million in the third quarter of 2017 and the Spanish total was EUR 74 million, compared to the UK total of more than GBP 1.7 billion for the year to March 2017.

Successful design of a regulated market matters – if large numbers of players are forced to play outside the regulated system, all of the objectives of regulation fail:

- Individual players are not protected
- Tax revenues are not optimised
- Sports integrity, anti-money laundering and other anti-corruption controls are ineffective
- Data about the market used to drive further refinements of policy is misleading.

# Risk management

## The Kindred Group has implemented a holistic risk management process to ensure that Group risks are managed in a proactive manner.

### Risk governance
The Board, via the Audit Committee, has overall responsibility for the risk management process and risk governance. The Executive Management team is responsible for identifying, assessing and managing the risks within the Group.

The Risk Management and Internal Audit teams perform reviews of the effectiveness of the risk mitigation controls and report the results to the Audit Committee on a quarterly basis.

The Kindred Group divides the principal risks into general risks and industry-specific risks.

**General:**
> Strategic
> Operational
> Financial (see Note 2C pages 66 and 67)
> Compliance

**Industry-specific risks:**
> Odds/Trade related risks

Fraud, anti-money laundering and legal risks are discussed in the Running a compliant business section of the Sustainability report page 20.

### Risk management process
Risks are identified using the process as described in the diagram below.

Identification and assessments are done across the Group via regular workshops with key stakeholders. The results are compiled into a risk report which is presented on an annual basis to the Audit Committee and Board.

A risk owner is identified for all risks and has the responsibility to implement the mitigation strategy and to monitor the risk.

### Sensitivity analysis
The Kindred Group's performance is affected by a number of factors.

Kindred Group considers movements in the factors below to have the most impact on profit before tax (PBT).

| Factor | % change | PBT impact GBP m |
|---|---|---|
| Gross winnings revenue | +/− 1 | +/− 7.514 |
| Administrative expenses | +/− 1 | +/− 1.615 |
| Marketing expenses | +/− 1 | +/− 1.866 |

### Monthly returns and tracking errors
The Group manages the risk of the Sportsbook by using its expert B2B provider Kambi Sports Solutions and maintaining a close working relationship with it. Kambi employs various risk management tools to assess and manage the risks. For example, to dynamically monitor the relative risk of the Sportsbook, it has risk tools and models normally used in the investment management industry.

The chart on page 25 sets out the monthly return on the Sportsbook from mid-2003 to date (pre-game and live betting combined).

The two outside lines represent the upside and downside tracking error of this return, benchmarked against a long-term average

**Risk management and internal audit cycle**

| | Executive Committee | Audit Committee | Kindred Group's Board | Risk Management and Internal Audit teams |
|---|---|---|---|---|
| Nov/Dec | **Risk assessment**<br>Identify and assess key risks for the Kindred Group | **Review key risks**<br>Review the Group risk assessment<br>Add risks as appropriate<br>Review risk management process<br>Sign-off on key risks and risk management process | **Review of key risks and sign-off** | **Revision of Internal Audit Plan**<br>Update, add and remove audit projects if necessary |
| Jan/Feb | | **Approval of annual Internal Audit Plan**<br>Update and add audit projects if necessary | | |
| Apr/May | | **Review of Internal Audit Plan**<br>Review the revised Internal Audit Plan<br>Discuss updates with the Internal Audit function | | **Revision of Internal Audit Plan**<br>Update, add and remove audit projects if necessary |
| Jul/Aug | | **Review of Internal Audit Plan**<br>Review the revised Internal Audit Plan<br>Discuss updates with the Internal Audit function | | **Revision of Internal Audit Plan**<br>Update, add and remove audit projects if necessary |

return. The tracking errors are measured by taking the standard deviation on the difference in return between the sportsbook and the average return at a 95 per cent confidence interval. A 95 per cent confidence interval indicates that on average, for 19 months out of 20, the actual return should be between the two tracking error lines.

The chart below illustrates that over time the tracking error band has become narrower, indicating that the monthly margins have become more stable. One of the main contributors is the fact that the relative amount of live betting within the Sportsbook has increased, and live betting is more stable, although it has a lower margin.

### Sports betting integrity at Kindred Group

Match-fixing is a big threat to sports, with athletes manipulating the outcome of matches in order to gain an undue advantage. When matches are being fixed and athletes (and the criminals they work with or are influenced by) are looking to obtain an undue financial advantage on the betting market, match-fixing becomes betting related.

Kindred sees match-fixing as a threat to society as a whole. Billions of people around the world enjoy participating in or consuming sport, and if the unpredictability of sport events is taken away, this passion is in severe jeopardy. However, match-fixing is also a threat to our industry, and not only because of short-term losses due to customers having inside information. If people lose faith in the honesty of a sport event, they will lose interest in our betting product, too.

Therefore, it is imperative for individual operators to take up our responsibility towards society and our business and to contribute to the fight against this problem. This can only be done by working closely together.

A regulated healthy betting business is a valuable partner in combating match-fixing. The more betting activities that are channelled outside a regulated system due to unattractive regulations, the more difficult it will be to combat match-fixing in an organised and efficient way.

Kindred operates under the 'See something, say something' approach. Suspicious betting activity will always be reported, along three lines: to the relevant local authority, to the relevant sports governing body if possible, and to ESSA.

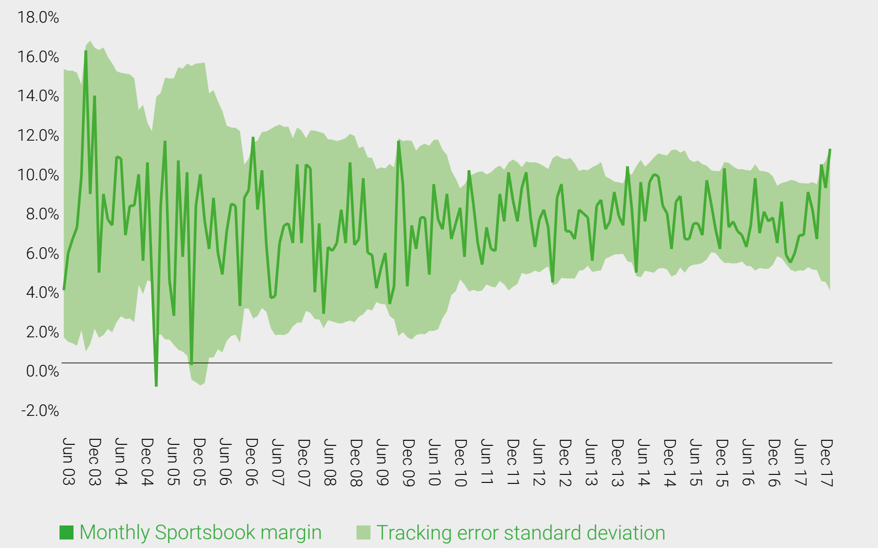
ESSA is the integrity body of the regulated European betting industry, and reports aggregated findings on suspicious betting events to regulators and sports governing bodies. ESSA works closely with many of the world's leading sport federations, such as the International Olympic Committee (IOC) and FIFA. Moreover, ESSA has signed Memoranda of Understanding with European gaming regulators to make sure relevant intelligence is shared with the respective authorities as soon as possible. In 2017, 266 events were deemed to be suspicious and were reported to the authorities.

Together with the European Gaming and Betting Association (EGBA) and the Remote Gambling Association (RGA), ESSA is also in close cooperation with European Union (EU) Athletes, an independent athletes association representing over 25,000 professional athletes throughout Europe. A Code of Conduct and education programme co-financed by the European Commission have been set up. Both initiatives help professional athletes and sports people understand and comply with the sports rules against match-fixing.

In July 2017, Kindred Group was the first private operator to sign a Memorandum of Understanding with Anti Doping Danmark, joining the National Platform in the battle against match-fixing. Under the agreement, Kindred Group will report suspicious betting activity directly into this platform. In December 2017, Kindred Group joined the UK's Sports Betting Integrity Forum, which brings together representatives from sports governing bodies, betting operators, sport and betting trade associations, law enforcement and gambling regulation in order to coordinate the battle against match-fixing.

Kindred Group also invited Ethisport to conduct an audit of the internal sports betting integrity processes in summer 2017. Ethisport concluded that Kindred demonstrates best practice regarding employees' sports betting integrity interest, grading us as 'very good'.

**Sportsbook monthly returns and tracking errors**




In the view of Kindred Group, match-fixing can only be fought when all stakeholders cooperate. It is a form of criminal activity that many suffer from, and it is in the interest of the Group, but also of society as a whole, to eradicate match-fixing it in full.

# Principal risks and uncertainties

**1 STRATEGIC RISKS**

| Risk | Mitigation |
|---|---|
| **Non-sustainable re-regulation of core markets**<br>If core markets establish a non-sustainable re-regulation model with both high taxes and significant product restrictions, then it is hard to achieve a profitable business.<br>The technical/operational risk posed by future re-regulation is now lower than it was previously, as a result of the significant investments made to the operating platform. | The Kindred Group has ongoing dialogue with regulators and policy-makers in the core markets, providing input regarding new or updated re-regulations to help create sustainable regulation that is aligned to customer demand and the cross-border digital market reality. The Group's compliance with existing re-regulation is embedded in the wider organisation and tested regularly by external agencies. |
| **Supplier related risks**<br>Lack of control over availability of external suppliers gives rise to risk of either business disruption or sub-optimisation. As the industry evolves there is a risk of supplier concentration; if key suppliers acquire dominant or monopoly positions, that creates a risk of uncontrolled price increases.<br>To operate effectively in local markets, the Group needs all major product suppliers to be prepared to make the necessary investments to comply with local requirements. | The risk is mitigated by reducing dependency on single suppliers where commercially viable, and working with multiple third-party suppliers. This allows the Group to mitigate the risks of suppliers failing to operate effectively. |
| **Technology and market changes in core markets**<br>Kindred Group faces a risk in relation to potential new products, technologies, channels and markets (such as social gaming) that might emerge and change the behaviour of the digital customers.<br>The Group also faces the risk of new market entrants or stronger competition.<br>As a result of these factors, Kindred Group might find it difficult to generate adequate growth to meet medium to long-term market expectations. | The risk is mitigated by a number of activities:<br>> Investments in new markets to help diversify the exposure to any single market.<br>> Mobile investment to ensure that the Kindred Group maintains and enhances its market position.<br>> Focus on innovation projects to explore new revenue streams, or new ways to generate additional revenues or cost savings from the existing business. |

**2 OPERATIONAL RISKS**

| Risk | Mitigation |
|---|---|
| **Platform stability**<br>Failures in the Kindred Group's platform, including those triggered by internal or external IT failures or deliberate acts, could lead to disabling of the site or unavailability of business-critical products.<br>An unacceptable level of errors would undermine user experience and could motivate customers to look for other sites. | The risk is mitigated by using continuous monitoring 24/7 to detect any problems as early as possible.<br>All critical servers are duplicated and regularly tested, i.e. if one server fails, another will immediately take over.<br>Following any downtime, a detailed root cause analysis is performed to ensure that the underlying reason for the downtime is understood and rectified. |
| **Failure in recruiting or keeping key staff**<br>Failure to recruit or retain existing key staff will lead to difficulties in reaching the Group objectives. | The risk is mitigated by identifying key staff and ensuring that Kindred Group is an attractive employer to encourage key staff to stay with the Group.<br>Succession planning is also performed for all key staff and functions. |
| **External security intrusion attempts**<br>Either as a result of a cyber-attack or internal security weakness, the Kindred Group customer data, including sensitive data such as passwords and/or banking details, could leak into the public domain.<br>This could have a devastating reputational effect on the Group's brand and business. | To be able to detect any signs of intrusion, Kindred Group has a dedicated Security Operations Centre that monitors the internal networks 24/7.<br>The Group performs several security tests per year to ensure that the systems are secure.<br>The tests are performed by external security companies. Any issues discovered during the tests are resolved. In line with requirements, Kindred Group is compliant with and audited against PCI standards. All customer data, including personal information and credit card numbers, are stored encrypted using industry best-practice standards. |

## 3 FINANCIAL RISKS

| Risk | Mitigation |
|---|---|
| **Intangible asset impairment**<br>The Kindred Group has approximately GBP 389 million of intangible assets on the balance sheet which have indefinite useful lives. These assets are reviewed annually for impairment to ensure there is no risk of overstatement of assets. | Risk is managed by monitoring and ensuring any issues are anticipated and all steps necessary are taken in time to prevent problems arising (e.g. considering if business restructuring has an impact on goodwill or other asset values). |
| **Foreign exchange**<br>The Group operates internationally and in addition to GBP, is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, Swedish krona, Norwegian krone, Danish krone and Australian dollar. | The Group's operating cash flows provide a natural hedge of operating currency risks, since deposits and pay-outs to customers in different territories are matched in the same currency. The spread of the Group's operations, including material revenue and expenses denominated in many different currencies, and taking into account the fact that customers can trade with the Group in currencies other than the currency of their territory of residence, makes it impractical to give an indication of the impact of single currency movements on the results from operations. In general, if the reporting currency of GBP weakens against the euro and other major trading currencies of the Group, that tends to increase operating profits because of the positive operating profits and cash flows generated by the Group.<br><br>At the year end, Kindred Group plc had term and revolving loan facilities with a maximum level of GBP 255.3 million. The Group's borrowings as at 31 December 2017 were GBP 195.6 million, and if the Group draws down further on the facilities, a currency translation exposure related to this financial liability may arise. The translation gains and losses will be unrealised until the repayment date. The potential translation gains and losses arising on the loan in future would be offset to the extent that the Group generates positive future cash flows in other areas of the business in euros. |

## 4 COMPLIANCE RISKS

| Risk | Mitigation |
|---|---|
| **Tax**<br>Kindred Group operates a complex business in multiple jurisdictions and is subject to a variety of national tax laws and compliance procedures, together with varying approaches taken by different tax authorities towards transfer pricing for cross-border businesses. | Risk is managed through active management of Group operations. While operations are not driven by tax, tax is always considered when making major business decisions or changes to the business model. |
| **Regulatory compliance**<br>Changes to regulatory, legislative and fiscal regimes for betting and gaming in key markets could have an adverse effect on Kindred Group's results and additional costs may be incurred in order to comply with any new laws or regulations. | In managing its taxation affairs, including estimating the amounts of taxation due (both current and deferred) for the purposes of inclusion in the financial statements, Kindred Group relies on the exercise of judgement concerning its understanding of, and compliance with, those laws and is assisted by professional advice. |

## 5 INDUSTRY-SPECIFIC RISKS

| Risk | Mitigation |
|---|---|
| **Odds/Trade**<br>The risk that the Group will lose money on its business due to unfavourable outcomes on the events where the Group offers odds. | The Group has, via its Sportsbook supplier Kambi, adopted specific risk management policies that control the maximum risk exposure for each sport or event on which the Group offers odds. The results of the most popular teams in the major football leagues comprise the predominant market risk. Through diversification, which is a key element of the Group's business, the risk is spread across a large number of events and sports.<br><br>As the live betting product has grown to be a larger part of the total Gross winnings revenue, diversification has increased even further. |

# Financial review

## Record revenues and profitability in the year for the Group, driven by strong growth across our major markets, solid cost control and supported by the acquisition of 32Red.

### Financial statement presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the Maltese Companies Act (Cap 386).

The accounting policies as adopted in the published results for the year ended 31 December 2017 have been consistently applied.

Where relevant, certain additional information has been presented in compliance with the Nasdaq Stockholm requirements.

### Overall Group performance

The Group's performance in the year is summarised in the table below. The overall increase in customer activity, the positive contribution from 32Red following its acquisition in June, and focus on cost control have led to an all-time high in revenues (+38% from 2016), a solid profit performance (+49% EBITDA and +41% Earnings per share from 2016) and a substantial increase in free cash flow (+78% from 2016). This proves the scalability of the business and its ability to absorb the impact of regulatory changes and to continue adding value for shareholders.

During the year the GBP continued to weaken against the Group's main currencies, resulting in a positive overall impact on Gross winnings revenue and EBITDA of GBP 39.0 million and GBP 12.7 million respectively.

### Gross winnings revenue

Total Gross winnings revenue in 2017 increased to GBP 751.4 (2016: GBP 544.1) million. Gross winnings revenue from Sports betting amounted to GBP 346.5 (2016: GBP 245.5) million for the full year 2017. Other products (Casino & Games, Poker and Bingo) saw Gross winnings revenue amounting to GBP 404.9 (2016: GBP 298.6) million for the full year 2017.

### Gross margin on Sports betting and all products

Live betting accounted for 48.9 (2016: 50.6) per cent of Gross winnings revenue on sports betting, before Free Bets, in 2017. The gross margin for pre-game Sports betting before Free Bets in 2017 was 11.5 (2016: 10.5) per cent. The gross margin for total Sports betting in 2017 before Free Bets was 8.9 (2016: 8.1) per cent, and after Free Bets was 7.6 (2016: 6.8) per cent which is just above the long-term average. Sports betting gross margins can vary from one period to the next, depending on the outcome of sporting events. However, over time these margins will even out.

The gross margin for all products in 2017 before free bets was 4.8 per cent (2016: 4.7 per cent). This can be seen in the graph on next page.

### Cost of sales

Cost of sales includes betting duties, marketing revenue share and other cost of sales. Betting duties for the full year 2017 amounted to GBP 113.6 (2016: GBP 67.7) million, an increase of 68 per cent from prior year. The increase in betting duties is driven by a growth in both turnover and Gross winnings revenue in the year, along with the impact of regulatory changes and an increase in the percentage of Gross winnings revenue from locally-regulated markets from 35 per cent in 2016 to 40 per cent in 2017. The Group holds local gambling licences in the UK, France, Belgium, Denmark, Germany (Schleswig-Holstein), Italy, Australia, Ireland, Romania and Estonia, as well as international gambling licences in Malta and Gibraltar, and pays betting duties in all markets in accordance with applicable local laws. The marketing-related revenue share costs within cost of sales amounted to GBP 41.3 (2016: GBP 29.8) million for the full year

| | 31 December 2017 | | | | | 31 December 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **GBP m** | **Nordics** | **Western Europe** | **Central, Eastern and Southern Europe** | **Other** | **Total** | **Nordics** | **Western Europe** | **Central, Eastern and Southern Europe** | **Other** | **Total** |
| Sports betting | 103.0 | 206.3 | 26.0 | 11.2 | **346.5** | 80.3 | 136.5 | 19.3 | 9.4 | **245.5** |
| Other products – Casino, Poker & Other games | 194.0 | 178.7 | 25.1 | 7.1 | **404.9** | 159.6 | 110.0 | 26.4 | 2.6 | **298.6** |
| **Gross winnings revenue** | **297.0** | **385.0** | **51.1** | **18.3** | **751.4** | **239.9** | **246.5** | **45.7** | **12.0** | **544.1** |
| Betting duties | -8.1 | -94.6 | -5.3 | -5.6 | **-113.6** | -7.4 | -53.4 | -3.8 | -3.1 | **-67.7** |
| Marketing revenue share | -17.3 | -16.6 | -4.7 | -2.7 | **-41.3** | -13.6 | -9.8 | -4.9 | -1.5 | **-29.8** |
| Other cost of sales | -56.4 | -51.2 | -10.8 | -6.8 | **-125.2** | -49.7 | -38.9 | -9.1 | -4.1 | **-101.8** |
| **Gross profit** | **215.2** | **222.6** | **30.3** | **3.2** | **471.3** | **169.2** | **144.4** | **27.9** | **3.3** | **344.8** |
| Marketing costs | | | | | **-145.3** | | | | | **-114.7** |
| Administrative expenses | | | | | **-161.5** | | | | | **-121.4** |
| Items affecting comparability | | | | | **-26.8** | | | | | **-11.8** |
| **Profit from operations** | | | | | **137.7** | | | | | **96.9** |
| Profit before tax | | | | | **132.0** | | | | | **92.8** |
| Profit after tax | | | | | **117.4** | | | | | **83.9** |
| Unrestricted cash* | | | | | **101.6** | | | | | **38.6** |
| Earnings per share (GBP) | | | | | **0.516** | | | | | **0.366** |

* Unrestricted cash = Total cash at year end less customer balances.

GBP

**751.4m**

Gross winnings revenue

**2016: GBP 544.1m** (+38%)

GBP

**180.3m**

EBITDA

**2016: GBP 120.7m** (+49%)

GBP

**0.516**

Earnings per share

**2016: GBP 0.366** (+41%)

2017 in line with the growth in Gross winnings revenue. Other cost of sales amounted to GBP 125.2 (2016: GBP 101.8) million for the full year 2017.

### Marketing costs

During 2017, marketing costs were GBP 145.3 (2016: GBP 114.7) million. As a result of strong year-on-year organic growth, the acquisition of 32Red and increased marketing expenditure, active customers during the full year ended 31 December 2017 increased to 2.9 million compared to 2.3 million in 2017.

### Administrative expenses

During 2017, ongoing administrative expenses were GBP 161.5 (2016: GBP 121.4) million. This total includes:

> GBP 22.0 (2016: GBP 15.6) million of depreciation and amortisation charges. These charges have increased from the prior year primarily due to the increased investment in our technology and various office relocations during 2017. There is also an amortisation element included within items affecting year-on-year comparability as explained below.

> GBP 74.3 (2016: GBP 59.3) million of salaries and associated costs. These costs have increased from the prior year as a result of increasing staff numbers both organically and due to the acquisition of 32Red during the year.

> GBP 65.2 (2016: GBP 46.5) million of other administration expenses. This primarily includes research and development expenditure, that is not capitalised, and rental and other facilities' costs across the various Group locations which have increased during the year due to office relocations and increased employee numbers.

Total administrative expenses accounted for 21.5 (2016: 22.3) per cent of Gross winnings revenue in 2017 demonstrating the continued commitment of the Group to cost control. Note 4 in the financial statements on page 70 provides more analysis of operating costs, including items affecting the year-on-year comparison of results.

### Items affecting year-on-year comparison

The Group defines items affecting year-on-year comparison as those items which, by their size or nature in relation to the Group, should be separately disclosed in order to give a full understanding of the Group's underlying financial performance, and aid comparison of the Group's results between years. In 2017, items affecting year-on-year comparison included:

> merger and acquisition costs associated with the acquisition of 32Red of GBP 3.2 (2016: GBP nil) million;

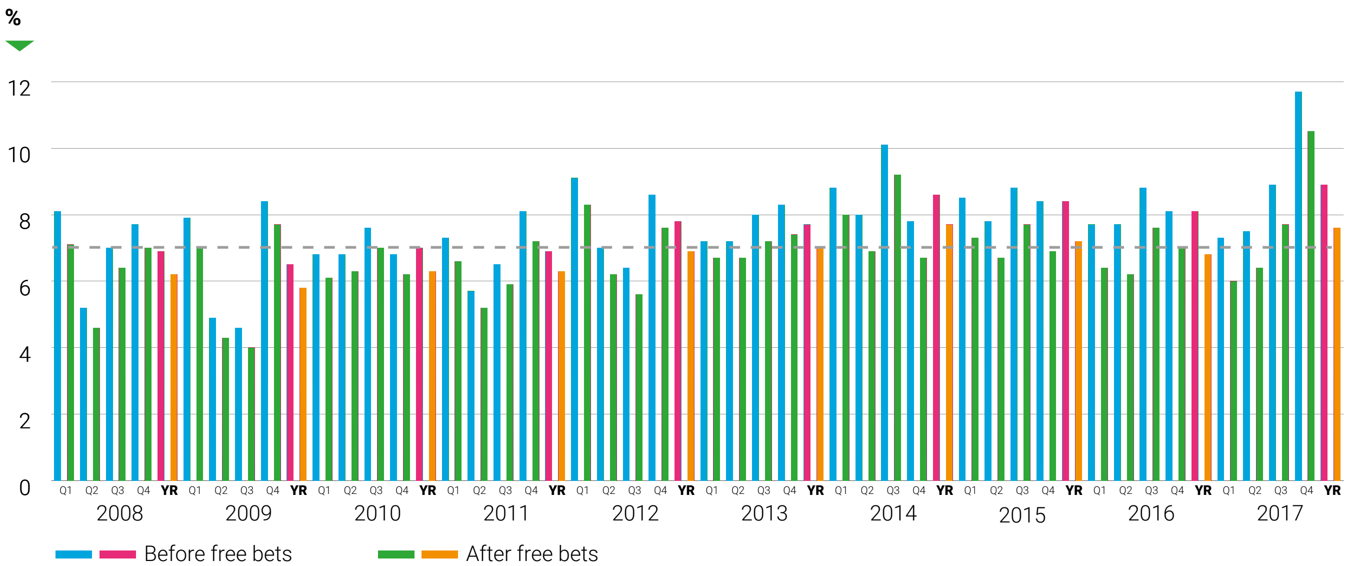
> management incentive costs of GBP 1.5 (2016: GBP 3.0) million relating to acquired businesses;

> foreign currency loss on operating items of GBP 1.5 (2016: GBP 0.6) million;

> amortisation of acquired intangible assets of GBP 11.4 (2016: GBP 8.2) million for the year which relates to assets acquired as part of business combinations; and

### Sports betting gross margin

2008–2017



# Financial review continued

- accelerated amortisation of acquired intangible assets of GBP 9.2 (2016: GBP nil) million being a non-recurring, non-cash amortisation charge taken by the Group as a result of the rationalisation of its brands, the ongoing migration of acquired brands to the Group's platform and reassessment of the fair value of acquired intangibles. These fair value adjustments have no impact on free cash flow or the dividend payment capacity of Kindred Group plc.

Both of the above amortisation charges are included as part of the Group's total amortisation charge shown in Note 11 to the consolidated financial statements.

### EBITDA and profit from operations

Earnings before interest, tax and depreciation and amortisation (EBITDA) for the full year 2017 were GBP 180.3 (2016: GBP 120.7) million, an increase of 49 per cent from the prior year. Profit from operations for the full year 2017 was GBP 137.7 (2016: GBP 96.9) million, an increase of 42 per cent.

### Net finance costs

Net finance costs consisted of finance costs, finance income and foreign currency loss on loan and amounted to GBP 6.2 (2016: GBP 4.3) million for 2017. The increase in the year is mainly due to an increase in loan fees and interest following the agreement and utilisation of the new credit facilities. Foreign exchange losses associated with repayment of the credit facilities also increased during 2017 and amounted to GBP 3.0 (2016: GBP 1.4) million. Net finance costs in 2016 were affected by a one off foreign exchange loss of GBP 2.2 million recognised in relation to the EUR 20 million earn-out payment to the former owners of iGame Group.

### Profit after tax

Profit after tax for the full year 2017 was GBP 117.4 (2016: GBP 83.9) million.

### Development and acquisition costs of intangible assets

In the full year 2017, development expenditure of GBP 18.1 (2016: GBP 14.5) million was capitalised. The key elements of capitalised development costs during 2017 were the migration of acquired brands to the Group's platform, customer experience improvements, data analytics and development of a new horse racing product. Expenditure of GBP 2.3 (2016: GBP 4.7) million was capitalised in the year with regard to other intangible assets which predominantly comprise of computer software. Additionally, in 2017, GBP 78.5 million of intangible assets were added following the acquisition of 32Red.

### Balance sheet

The Group's strong balance sheet reflects both the Group's growth and its ability to manage working capital. A significant asset on the balance sheet is goodwill, which increased substantially during the year predominantly due to an increase of GBP 96.9 million following the acquisition of 32Red.

Goodwill and intangible assets denominated in currencies other than GBP have been translated at the closing exchange rate as required by IAS 21. As a result, the carrying value of goodwill increased by GBP 1.6 million in 2017 (2016: GBP 12.9 million) and the carrying value of other intangible assets increased by GBP 1.7 million (2016: GBP 9.9 million). These translation adjustments were credited to the currency translation reserve.

The remaining non-current assets of the Group mainly relate to capitalised IT development costs as well as computer software, computer hardware, fixtures and fittings, acquired domain names and the convertible bond.

Aside from cash, the current assets on the balance sheet relate to other receivables, prepayments and taxation. Other receivables increased to GBP 24.8 million from GBP 20.4 million in 2016 primarily due to increased regulatory deposits. The movements in the tax balances in the consolidated balance sheet are influenced by the timing of dividend payments within the Group.

Significant liabilities on the balance sheet include trade and other payables of GBP 110.2 (2016: GBP 60.0) million and customer balances (see Notes 16 and 17 on page 78). Trade payables and accruals have increased significantly during the year due to increased activity.

### Financing and cash flow

The Group continues to demonstrate the ability to generate strong operating cash flows and a total of GBP 203.1 (2016: GBP 121.7) million in cash was generated from operating activities during 2017. Operating cash flow before movements in working capital amounted to GBP 184.1 (2016: GBP 122.3) million for the full year.

Significant cash movements during the year were:

- In May, the Group paid out a dividend of GBP 70.6 (2016: GBP 54.0) million to its shareholders.
- In June, following the completion of the acquisition of 32Red, cash consideration of GBP 175.6 million was paid.
- The acquisition noted above was funded in full by the new term and revolving credit facilities entered into during the year, and meanwhile the Group also repaid GBP 95.3 million of its borrowings across the course of the year. At 31 December 2017, GBP 195.6 (2016: GBP 54.6) million of the term and revolving facilities was utilised out of a total of GBP 255.3 million (see Note 18 on page 78 for more information).

The Group's ability to generate strong operating cash flows, together with the option to utilise the term and revolving facilities, gives flexibility for the Group to continue to consider a range of strategic opportunities.

### Total margin all products

| | 2017 Q4 | 2017 Q3 | 2017 Q2 | 2017 Q1 | 2016 Q4 | 2016 Q3 | 2016 Q2 | 2016 Q1 | 2017 FY | 2016 FY | 2015 FY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total margin all products* (before free bets) | 5.4% | 4.7% | 4.6% | 4.5% | 4.7% | 4.7% | 4.6% | 4.6% | 4.8% | 4.7% | 4.7% |

* Includes Sports Betting and Casino & Games, but excludes Poker rakes and Other revenues.

# Introduction to governance

## The Group has three decision-making bodies in a hierarchical relationship to one another: the Shareholders' meeting, the Board of Directors and the Chief Executive Officer.

### Shareholders' meeting and Annual General Meeting

The Shareholders' meeting is the Group's highest decision-making body and a forum for shareholders to exercise influence. The Shareholders' meeting can decide on any Group issue which does not expressly fall within the exclusive competence of another corporate body. In other words, the Shareholders' meeting has a sovereign role over the Board of Directors and the Chief Executive Officer.

According to the Swedish Corporate Governance Code, the control body is the statutory auditor, which is appointed by the Shareholders' meeting.

Each shareholder has the right to participate in the Shareholders' meeting and to vote according to the number of shares owned. Shareholders who are not able to attend in person can exercise their rights by proxy.

For more information about the 2018 AGM, see page 87.

### Nomination Committee

The principal tasks of the Nomination Committee are to propose decisions to the Shareholders' meeting on election and remuneration issues and procedural issues for the appointment of the following year's Nomination Committee.

Regardless of how they are appointed, members of the Nomination Committee are to promote the interests of all shareholders. Members are not to reveal the content and details of nominations discussions.

Regular and systematic evaluation forms the basis for assessment of the performance of the Board and the Chief Executive Officer and for the continuous development of their work.

The Nomination Committee report can be found on page 40. The Nomination Committee's Motivated Opinions can be found on the Group's website www.kindredgroup.com

### Board of Directors

Kindred Group plc is incorporated and registered in Malta but listed on Nasdaq Stockholm and therefore has decided to apply the principles of the Swedish Corporate Governance Code. This Code states that a majority of the members of the Board are to be independent of the Group and its management. The Kindred Group's Board of Directors is composed entirely of Non-executive Directors, of which the majority are independent.

### Audit Committee

The Audit Committee advises and makes recommendations to the Board on matters including financial reporting, internal controls, risk management and the appointment of statutory auditors. The role of the Committee is set out in its written terms of reference.

The Audit Committee report can be found on page 39.

### Remuneration Committee

The Remuneration Committee considers and evaluates remuneration arrangements for senior managers and other key employees and makes recommendations to the Board.

The Remuneration Committee report can be found on page 46.

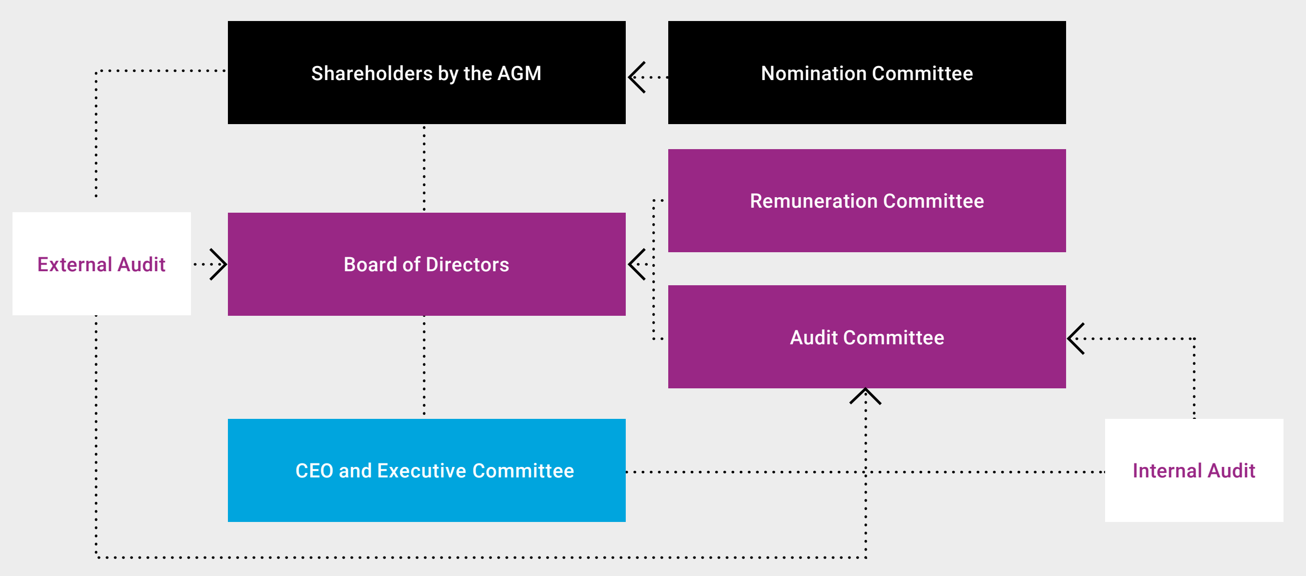
### Chief Executive Officer and Executive Committee

The Chief Executive Officer is responsible for the Group's day-to-day management together with the Executive Committee. The Executive Committee consists of eight senior officers, of which two are women.

### Auditor

The Group's statutory auditor is appointed by the Shareholders' meeting to examine the Group's annual accounts and accounting practices. The statutory auditors present their annual audit report to the Audit Committee, as well as to the owners at the Annual General Meeting.

### Corporate governance model



## Board of Directors

# The Kindred Group's Board is comprised of Swedish, Danish, British and American citizens.

**Anders Ström**
**Chairman of the Board**

Member of the Nomination Committee

Swedish citizen. Born 1970. Founder of Kindred Group in 1997 and Board member since incorporation. Mathematics, Statistics and Economics studies at Karlstad University.

**Current assignments:**
Board member of Veralda AB. Co-founder of Kambi Sports Solutions in 2010. Board member of Kambi.

**Previous assignments:**
1999-2006 Head of Business Development, Kindred Group. 1997-2000 CEO of Kindred Group.

**Holding:**
5,666,200 Kindred Group plc SDRs (through company).

**Kristofer Arwin**
**Board member**

Member of the Audit Committee

Swedish citizen. Born 1970. Board member since 2008. Independent. BSc in Business Administration and Economics from Stockholm University.

**Current assignments:**
Board member of Addnode Group. Board member of Alertsec AB. Co-founder of TestFreaks. Chairman of TestFreaks. Founder of Pricerunner. CEO of Sportlib.

**Previous assignments:**
CEO TestFreaks between 2006-2013. CEO of Pricerunner between 1999–2005.

**Holding:**
10,084 Kindred Group plc SDRs.

**Sophia Bendz**
**Board member**

Member of the Remuneration Committee

Swedish citizen. Born 1980. Board member since 2014. Independent.

**Current assignments:**
Board member of Avanza. Executive in Residence at Atomico. Angel Investor. Co-founder of the AllBright foundation.

**Previous assignments:**
Global Marketing Director at Spotify 2007-2014.

**Holding:**
7,616 Kindred Group plc SDRs.

**Peter Boggs**
**Board member**

Member of the Remuneration Committee

US citizen. Born 1948. Board member since 2002. Independent. BA in American Studies from Washington College, Maryland, USA.

**Current assignments:**
Board member of Ulpian and Cantraybridge Trust.

**Previous assignments:**
President and CEO of NDMS Inc between 1975-1981. Managing Director of Brown Direct Inc between 1981-1985. Director of Ogilvy & Mather Direct Plc between 1985-1991. President and CEO of Grey Direct Worldwide between 1991-2002.

**Holding:**
112,240 Kindred Group plc SDRs.

The Kindred Group Board of Directors is comprised of an experienced team, committed to high standards of corporate governance in its management of the Group and its accountability to shareholders.

The mentioned Swedish Depositary Receipt (SDR) holdings include personal holdings, family holdings and holdings through companies in which Directors have an interest, and are as at 28 February 2018.

## Board diversity by nationality

| | |
|---|---|
| Swedish | 4 |
| British | 1 |
| Danish | 1 |
| American | 1 |

## Nigel Cooper
**Deputy Chairman of the Board**

Chairman of the Audit Committee

British citizen. Born 1949. Board member since 2010. Independent.

**Current assignments:**
Fellow of the Institute of Chartered Accountants in England and Wales.

**Previous assignments:**
Partner at KPMG in Milan and London. Board member of Rightmove Plc between 2005-2009. Board member of Metro International between 2008-2012.

**Holding:**
48,000 Kindred Group plc SDRs.

## Stefan Lundborg
**Board member**

Chairman of the Remuneration Committee

Swedish citizen. Born 1965. Board member since 2010. Independent.

**Current assignments:**
Chairman of the Board: Helsa Vårdutveckling Sverige AB and Note Design Studio. Board member of G5 Entertainment and Lox Container Technology

**Holding:**
432,600 Kindred Group plc SDRs.

## Peter Friis
**Board member**

Danish citizen. Born 1972. Board member since 2014. Independent. BA in Communications from Roskilde University.

**Current assignments:**
VP, Google Northern Europe (Nordics and Benelux).

**Previous assignments:**
Nordic Director at Google.

**Holding:**
2,000 Kindred Group plc SDRs.

# Executive Committee

## Kindred Group's Executive Committee consists of the CEO and eight senior officers six male and two female.

The Chief Executive Officer is responsible for the Group's day-to-day management, together with the Executive Committee.

**Henrik Tjärnström**
**Chief Executive Officer**

Swedish citizen. Born 1970. MSc in Industrial Engineering and Management from the Institute of Technology, Linköping University, Sweden.

Senior Financial Manager at Skanska Infrastructure Development AB 2001–2008. Member of the Kindred Group Board of Directors 2003–2008. CFO of Kindred Group 2008–2010. CEO since 2010.

**Holding:**
1,371,578 Kindred Group plc SDR and 108,784 Performance Share Rights.

**Albin de Beauregard**
**Chief Financial Officer**

French citizen. Born 1978. Master's degree in Finance and Accounting from Ecole Supérieure de Commerce et de Management, a French 'Grande Ecole'.

After various positions in Finance in the Bouygues Group, Albin de Beauregard joined Eurosportbet as CFO in 2009 and, when the Kindred Group acquired Eurosportbet in 2011, he was appointed CFO in France for the Group until 2014 when he moved to London to take the role as Strategic Finance Projects Manager and subsequently Head of Internal Audit. Mr de Beauregard was appointed CFO of the Kindred Group in 2016.

**Other assignment:**
Non-executive Director, Relax Gaming Ltd.

**Holding:**
2,025 Kindred Group plc SDRs.

**Rhodri Darch**
**Chief Strategy Officer**

British citizen. Born 1978. BSc from The University of Birmingham.

Rhodri Darch has worked in the online gambling industry since 2006 and has been a part of the Kindred Group since 2009 when he joined as Head of the Payments department. Mr Darch was appointed Chief Programme Officer in 2010 and CSO in 2014. He holds extensive experience with web and mobile product development, innovation research and delivery, customer experience, customer intelligence, and corporate strategy. Before entering the gambling industry, Mr Darch was a Captain in the British army for six years.

**Other assignment:**
Non-executive Director, Qlk.to Ltd

**Holding:**
8,927 Kindred Group plc SDRs.

**Daniel Eskola**
**Chief Product Officer**

Swedish citizen. Born 1980. BSc in Business and Administration from Uppsala University, Sweden.

Daniel Eskola has over 12 years of experience in the online gambling industry, with five years of experience from the B2B side before joining Kindred Group in the summer of 2010. Since then Mr Eskola has held various roles within the Group such as Head of Poker and Head of Gaming, prior to being appointed Chief Product Officer in June 2015.

Mr Eskola has resigned from the Group, effective 31 March 2018.

**Other assignment:**
Non-executive Director, Relax Gaming Ltd.

**Holding:**
3,000 Kindred Group plc SDRs.

The mentioned holdings include personal holdings, family holdings and holdings through companies in which they have an interest, and are as at 28 February 2018.

**Ebba Ljungerud**
**Chief Commercial Officer**

Swedish citizen. Born 1972. BSc in Economics from Lund University.

Ebba Ljungerud joined the Kindred Group in 2010 when she took the role as CCO of Maria. Ms Ljungerud has experience across various gaming brands and holds more than ten years of experience in the media industry. Ms Ljungerud served as a Marketing Director as well as Executive Vice President for Swedish companies, focusing mainly on print and online media. From 2014 to 2016 Ms Ljungerud was Chief Programme Officer of the Group, and in 2016 she was appointed CCO of the Kindred Group.

Ms Ljungerud has resigned from the Group, effective 30 June 2018.

**Other assignment:**
Non-executive Director of the Board, Paradox Interactive

**Holding:**
10,727 Kindred Group plc SDRs.

**Britt Boeskov**
**Chief Programme Officer**

Danish citizen. Born 1978. Master's degree in Management from Copenhagen Business School.

Britt Boeskov joined the Kindred Group as a Management Trainee in 2005, and joined the Group's executive management team in 2008, first as Head of Marcom Services, then in 2009 as Chief Operations Officer. She has experience in leading complex strategic and transformational C-level projects, and from managing Kindred's online and mobile gambling products.

**Holding:**
8,927 Kindred Group plc SDRs.

**Marcus Smedman**
**Chief Technology Officer**

Swedish citizen. Born 1969. Studied Electronics and Computer Science at Uppsala University.

Marcus Smedman has been a part of the Kindred Group since 2011. Since then he has held various roles as Team Leader, Head of Development Australia and Head of Development Global. In January 2015 Mr Smedman was appointed CTO being responsible for Kindred Tech strategy and operation globally. Mr Smedman has worked in the IT industry since the mid-1990s, working as a java developer, team lead, development manager and more.

**Holding:**
2,491 Kindred Group plc SDRs.

**Tommi Maijala**
**Chief Commercial Officer Malta**

Finnish citizen. Born 1976. LLM from the University of Helsinki and MSc in Economics from Aalto University, Helsinki.

Tommi Maijala has strong experience in the online gambling industry through his roles as Director and CEO of the iGame Group. Mr Maijala became part of the Kindred Group when the Group acquired iGame in 2015 and he was appointed CCO Malta leading the Group's operations in France, UK and Australia in December 2016. Before joining the iGame Group, Mr Maijala worked with large companies such as Wärtsilä Corporations and Nordea.

**Holding:**
20,000 Kindred Group plc SDRs.

**Gavin Hayward**
**Chief HR Officer**

British citizen. Born 1964. Higher National Diploma in Business and Finance, and a Post Graduate Diploma in HR Management from Manchester University.

Gavin Hayward has over 25 years of HR experience gained in a variety of sectors. Mr Hayward was appointed CHRO of the Kindred Group in 2012. Before joining the Kindred Group, Mr Hayward was part of Siemens plc over a period of 10 years. He has worked at board level within multisite and multinational organisations and has worked with HR management at both strategic and operational level. Mr Hayward is a Fellow of the Chartered Institute of Personnel and Development.

**Holding:**
4,459 Kindred Group plc SDRs.

# Corporate governance statement

## Kindred Group plc is the parent company of the Group, incorporated and registered in Malta and listed on Nasdaq Stockholm through Swedish Depositary Receipts, SDRs, issued by Skandinaviska Enskilda Banken AB (publ).

Foreign companies whose shares or depositary receipts are admitted to trading on a regulated market in Sweden are required to apply either the Swedish Code of Corporate Governance or the corporate governance code in force in the country in which the Company has its registered office, or the code of the country in which its shares have their primary listing.

If the Group (including the Company) does not apply the Swedish Code, it must include a statement describing in which important aspects the Group's conduct deviates from the Swedish Code.

The Kindred Group's Board of Directors decided from the first listing date at the Nasdaq Stockholm, as far as practical, to apply the principles of the Swedish Code.

The following statement on pages 36 to 40 has not been audited.

**The Board of Directors**
The Board of Directors and the management of the Kindred Group are structured in accordance with the European two-tier system with a Chief Executive Officer (CEO) who is subordinate to the Board of Directors, who are in turn elected at the Annual General Meeting (AGM).

The following Directors elected at the AGM on 16 May 2017 served during the year and subsequently, unless otherwise stated:

**Anders Ström**
Chairman

**Nigel Cooper**
Non-executive Deputy Chairman

**Kristofer Arwin**
Non-executive

**Sophia Bendz**
Non-executive

**Peter Boggs**
Non-executive

**Peter Friis**
Non-executive

**Stefan Lundborg**
Non-executive

The emoluments and interests of the Directors are shown on page 47.

The Kindred Group's Board of Directors is collectively responsible for the success of the Group and for its corporate governance and aims to provide entrepreneurial leadership of the Group within a framework of prudent and effective financial controls that enable risk to be assessed and managed.

As outlined on pages 32 and 33, the Board comprises the Chairman and six Directors. The Swedish Code identifies the fundamental importance of independent Non-executive Directors in ensuring the objective balance of a Board, and sets out criteria to be considered in determining the independence of Non-executive Directors. In accordance with Provision 4.4 of the Code, the Board considers Kristofer Arwin, Sophia Bendz, Peter Boggs, Nigel Cooper, Peter Friis and Stefan Lundborg to be independent Non-executive Directors. Anders Ström is Chairman of the Board and is also a member of the Board of Kambi Group plc. Anders Ström has also received remuneration for advice and other services to the Kindred Group, which is disclosed in the Remuneration Committee report on page 46.

Brief resumés of the Board can be found on pages 32 and 33.

To ensure effectiveness, the Board's composition brings together a balance of skills and experience appropriate to the requirements of the business. The composition of the Board and recommendations for the appointment of Directors are dealt with by the Nomination Committee and its activities are set out on page 40.

The Board is responsible to the shareholders for the Group's overall strategy and direction.

## The working procedures of the Board of Directors

The Board has written Rules of Procedure for its ways of working. A formal schedule sets out those matters specifically reserved for the Board and its Committees. Those matters include decisions on Group strategy and direction, acquisitions, disposals and joint ventures, capital structure, material contracts, corporate governance and Group policies.

At least once a year, the Board reviews the relevance and appropriateness of the Rules of Procedure and the reporting structure and Instructions.

In view of the contractual relationship between the Group and Kambi Group plc and that some Directors may be sitting on the Board of the Company and on the Board of Kambi Group plc, a Director who is also a Director of Kambi Group plc shall not receive any documents, nor shall he/she attend any discussion or vote in respect of any contract or arrangement or any other proposal whatsoever involving Kambi Group plc or the Group's relationship with it unless all the other Directors request the Director to attend such meeting and to receive such documents.

The Board has a standard agenda, including receiving and considering reports from the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) and from the Audit and Remuneration Committees. Where appropriate, matters are delegated to the Audit and Remuneration Committees and reports on their activities are included within this corporate governance statement.

The Chairman, supported by the Deputy Chairman, is responsible for: the leadership of the Board; setting its agenda and taking full account of the issues and concerns of Board members; ensuring effective communication with shareholders; taking the lead on Director induction and development; encouraging active engagement by all Directors; and ensuring that the performance of individuals and of the Board as a whole, and its Committees, is evaluated regularly – usually once a year.

The Chairman ensures that the Board is supplied with accurate, timely and clear information. Directors are encouraged to update their knowledge and familiarity with the Group through meetings with Senior Management. There is an induction process for new Directors.

The Company Secretary together with the Head of Investor Relations is also responsible for advising the Board, through the Chairman, on all corporate governance matters. Directors are encouraged to seek independent advice or training at the Group's expense where this will add to their understanding of the Group and in the furtherance of their duties.

At least once a year, the Board of Directors will review the strategy and visit some of the Group's office locations. The Board has a short meeting without the CEO or CFO at each Board meeting.

The Board of Directors has adopted written instructions for the CEO. The roles of the Chairman and the CEO have been established in writing to ensure the clear division of responsibilities and this has been agreed by the Board.

At least once a year the Board reviews the relevance and appropriateness of the instructions to the CEO.

## The Board's work during 2017

The Board and its Committees usually meet every second month throughout the year. The number of Board and Committee meetings attended by each of the Directors during the year can be seen in the table below.

At all meetings, the CEO reports on the business developments within the operations. The General Counsel reports on legal trends in the gaming market and the Group Head of Risk reports on the risk aspects of the business. Annually, the Head of Internal Audit reports to the Board concerning key findings and recommendations developed in the year. Members of the Executive Committee and other senior managers attend meetings to update the Board on their areas of responsibility and to discuss future plans.

The key points at the Board meetings in 2017 were matters related to innovation, information technology, product management, strategy and business plan, budgets, forecasts, key policies and the acquisition of 32Red.

| | Board[1] | Audit Committee | Remuneration Committee |
|---|---|---|---|
| **Number of meetings held** | 5 | 5 | 6 |
| **Name** | | | |
| Kristofer Arwin | 5 | 5 | – |
| Sophia Bendz | 3 | – | 5 |
| Peter Boggs | 5 | – | 6 |
| Nigel Cooper, Deputy Chairman | 5 | 5 | – |
| Peter Friis | 3 | – | – |
| Stefan Lundborg | 5 | – | 6 |
| Anders Ström, Chairman | 5 | – | – |

1 In addition to the full Board meetings tabled above, the Board holds short, quarterly meetings to review and approve the results of the Group, including receiving reports from the Audit Committee.

# Corporate governance statement continued

## Sustainability perspective

The Board of Directors has established relevant guidelines for the Group's sustainability, with the aim of ensuring its long-term capacity for value creation. Sustainability for the Kindred Group has a number of different aspects:

- Responsible Gambling
- Maintaining Integrity
- Running a Compliant Business
- Being Kindred
- Contributing to our Communities

Corporate policies in each area have been approved by the Board.

In the Executive Committee, the CFO has executive responsibility for sustainability. Sustainability is a regular agenda item for the Audit Committee, allowing both for potential changes in policy or relevant regulation to be reviewed along with specific projects and initiatives.

The Board receives regular updates through the Audit Committee reports to the Board, together with an annual review of policies.

For more information about how the Kindred Group considers sustainability, please refer to pages 18 to 23 and the separate Sustainability Report for 2017.

## Evaluation of the Board of Directors

In accordance with Provision 8.1 of the Code, the Board has a process to formally evaluate its own performance and that of its Committees. The performance of the Board and its Committees has been the subject of Board discussion, led by the Chairman, supported by the Deputy Chairman, to consider effectiveness against performance criteria and potential risks to performance. The evaluation is conducted in co-operation with the Nomination Committee, which holds individual interviews with Board members. The performance evaluations of the Board have been structured in such a way to ensure a balanced and objective review of Directors' performance. Following this performance review, the Chairman is responsible for ensuring that the appropriate actions such as training are taken.

This evaluation has been reported to the Nomination Committee and also helped them in identifying Board performance, competence, industry and international experience, diversity and expertise.

The Board monitors potential conflicts of interest very closely and has implemented controls and policies to avoid conflicts involving any of the Group's Directors. These controls ensure that any Director with a potential conflict of interest does not participate or vote in key decisions impacting the Group. Read more under the heading 'The working procedures of the Board of Directors' on the previous page.

## Remuneration and Directors' and Officers' Liability insurance

The Annual General Meeting establishes the principles and the maximum amount of the Directors' fees. A Director can, during a short period of time, supply consultancy services, but only if this is more cost-effective and better than any external alternative. Any such consultancy fee is disclosed in the Remuneration Committee report on page 46. None of the Directors hold share awards issued by the Group. The Kindred Group has taken out Directors' and Officers' liability insurance for the full year covering the risk of personal liability for their services to the Group. Cover is in place for an indemnity level of GBP 5 million in aggregate.

## Communication with owners and investors

In the interests of developing a mutual understanding of objectives, the Head of Investor Relations has met regularly with owners and institutional investors to discuss the publicly disclosed performance of the Group and its future strategy. Institutional investors have also been able to meet the CEO, the CFO, line managers and other key persons of the Group. In May 2017, the Group organised a Capital Markets Day in Stockholm.

The Board is kept informed of shareholder views and correspondence. Corporate and financial presentations are regularly made to fund managers, stockbrokers and the media, particularly at the announcement of interim and year end results. Links to webcast presentations are published on the Group's website. All shareholders are invited to attend the AGM, where they have the opportunity to put questions to the Directors, including the Chairmen of Board Committees and to the CEO.

At the AGM, separate resolutions are proposed for each substantially different issue to enable all of them to receive proper and due consideration. Each proposed Director is voted individually and the Kindred Group has a proxy voting system enabling shareholders who are unable to attend the AGM in person to use their voting power. Notice of the AGM and related papers are posted on the Group's website between four and six weeks in advance of the meeting. Further information on the activities of the Group and other shareholder information is available via the Kindred Group's corporate website, www.kindredgroup.com.

## The Board of Directors' report on internal control over financial reporting for the financial year 2017.

### Introduction

According to the Maltese Companies Act (Cap 386) and the Swedish Code of Corporate Governance, the Board is responsible for internal control. This report has been prepared according to the Swedish Code of Corporate Governance Provisions 7.4 and is accordingly limited to internal control over financial reporting. This report, which has not been reviewed by the auditors, is not part of the formal financial statements.

### Description

#### a. Control environment

The Directors have ultimate responsibility for the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable, and not absolute, assurance against material misstatement or loss.

#### b. Risk assessment

The Executive Committee is responsible for reviewing risks, and for identifying, evaluating and managing the significant risks applicable to their respective areas of business. Risks are reviewed and assessed on a regular basis by the CEO, the CFO, the General Counsel, the Group Head of Risk, the Head of Internal Audit, the Audit Committee and the Board. The effectiveness of controls is considered in conjunction with the range of risks and their significance to the operating circumstances of individual areas of the business.

#### c. Control activities

The Board is responsible for all aspects of the Group's control activities.

The Audit Committee assists the Board in its review of the effectiveness of internal controls and is responsible for setting the strategy for the internal control review. In doing so, it takes account of the organisational framework and reporting mechanisms embedded within the Group, and the work of the General Counsel, the Group Head of Risk and the Head of Internal Audit.

Working throughout the Group, the role of the General Counsel, the Group Head of Risk and the Head of Internal Audit is to identify, monitor, and report to the Board on the significant financial and operating risks faced by the Group to provide assurance that it meets the highest standards of corporate governance expected by its stakeholders.

### d. Information and communication

The Board receives regular formal reports from the Executive Committee concerning the performance of the business, including explanations for material variations from expected performance and assessments of changes in the risk profile of the business that have implications for the system of internal control. In particular, the Board receives direct periodic reports from the General Counsel, the Group Head of Risk and the Head of Internal Audit.

The Board also takes account of the advice of the Audit Committee, reports received from the external auditors, and any other related factors that come to its attention.

### e. Monitoring

Further information concerning the activities of the Audit Committee in relation to the monitoring of the Kindred Group's internal controls, including the review of the financial reports published quarterly and reports from the internal audit function, is contained in the Audit Committee report on this page.

On behalf of the Board

Malta, 9 March 2018

**Anders Ström**
Chairman and Director

**Nigel Cooper**
Director

## Statement of Compliance with the Swedish Corporate Governance Code

No separate auditors' report on the corporate governance is required under the Maltese regulations since the Corporate Governance statement is being prepared in line with the principles of the Swedish Code.

With the exception of the matters noted above, the Directors confirm that they are in compliance with the Swedish Code of Corporate Governance.

## Audit Committee report

The Audit Committee advises and makes recommendations to the Board on matters including financial reporting, internal controls, and risk management, and also advises the Nomination Committee on the appointment of auditors. The role of the Committee is set out in its written terms of reference.

The Committee, which met five times during the year, comprises two independent Non-executive Directors: Kristofer Arwin and Nigel Cooper. The Committee is chaired by Nigel Cooper, a senior finance professional who has extensive accounting and financial management expertise. Where appropriate, the Committee consulted with the Chairman of the Board, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) regarding their proposals. The external auditors also attended the majority of the meetings.

Responsibilities include monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance. During the year the Committee has reviewed the Group's financial statements and formal announcements relating to the Group's financial performance before their presentation to the Board. In doing so, it considered accounting policies, areas of judgement or estimation, and reporting requirements, as well as matters brought to its attention by the external auditors. A formal risk management report is presented by the Group Head of Risk to a meeting of the Audit Committee and is reviewed by the Board.

## Accounting and key areas of judgement

The main areas considered by the Committee in relation to 2017 are set out below:

### Impairment assessment of goodwill

As a result of previous acquisitions, the Group has significant goodwill and other intangible assets with indefinite lives which need to be reviewed annually for impairment.

Management's assessment resulted in the decision to impair the carrying value of the goodwill arising on the acquisition of Betchoice by GBP 4.3 million. For the remaining cash generating units no indicators of impairment were identified this year.

The Committee considered the work done and the conclusions reached by the statutory auditor in this area as part of their audit. The Committee is comfortable with the position taken by management and considers the carrying value of the goodwill to be now aligned to its recoverable amount.

### Tax

The Committee received regular updates from management on indirect tax and corporation tax as well as the judgements exercised in arriving at the corporation tax rate, recognition of corporation tax credits and the deferred tax recognised and disclosed. The Group operates in multiple jurisdictions and is subject to different national tax laws and regulations. The Committee discussed the key judgements in relation to the tax position taken and the basis on which deferred and current tax was recognised or disclosed. The Committee also considered the work done and the conclusions reached by PwC in this area as part of their audit and is comfortable with the position taken by management.

### 32Red acquisition accounting

During the year, the Kindred Group acquired 100 per cent of the issued share capital of 32Red Group plc and its subsidiaries ("32Red"). Management has performed a fair value assessment of the acquired net assets of 32Red at the date of acquisition which resulted in the recognition of GBP 96.9 million as goodwill.

The Committee considered the fair value assessment to ensure this was accurate, complete and in line with the IFRS 3 Business Combinations requirements.

The Committee also considered the work done and the conclusions reached by PwC in this area as part of their audit and is comfortable with the position taken by management.

### Compliance with laws and regulations

Compliance with laws and regulations in the online gaming industry has become increasingly complex given that the regulatory, legislative and fiscal regimes are territory specific and continue to evolve.

The Committee evaluated the control environment and risk management processes in place to comply with licencing regulations, responsible gambling and anti-money laundering obligations. The Committee reviewed the Group's reports on litigation matters provided by management and discussed with them the implications for the business and the financial impact. The Committee discussed with PwC its work in respect of this area and is comfortable with the position taken by management and the accounting treatment of these matters in the financial statements.

# Corporate governance statement continued

The Committee is also responsible for reviewing the Group's systems of internal control and risk management, its sustainability practices and determines the scope of work undertaken by the CFO, the General Counsel and the Group Head of Risk. It receives reports from the CFO, with whom the results are discussed on a regular basis. The Group Head of Risk reports to the Audit Committee as required.

The Internal Audit department resides within the Corporate Office but reports to the Audit Committee. The Head of Internal Audit has at all times direct access to the Audit Committee. The Internal Audit function acts as an independent function that intends to evaluate and improve the effectiveness of risk management, control and governance processes. Its work is performed in accordance with International Standards for the Professional Practice of Internal Auditing from the Institute of Internal Auditors. The Audit Committee agrees the scope of work of Internal Audit and receives reports on completed audit reviews. During the year, Internal Audit provided assurance on operational, financial and compliance matters, including the finance system, contracts with third parties and acquisitions.

Senior management are responsible for following up on any recommendations suggested by the Internal Audit department. The Audit Committee also evaluates the performance of the Internal Audit function.

The Committee remains satisfied that the controls in place, and the review process overseen by the CFO, the Group Head of Risk and the Head of Internal Audit, are effective in monitoring the established systems.

The Committee is responsible for making recommendations to the Nomination Committee in relation to the appointment of external auditors. It is responsible for monitoring the independence and objectivity of the external auditors, and for agreeing the level of remuneration and the extent of non-audit services.

## Audit and other matters

During the year, PwC Malta and PwC LLP UK, reported to the Committee on their audit strategy and the scope of audit work. The Committee has reviewed the performance of the external auditors and the level of non-audit fees paid to the external auditors during the year. These are disclosed in Note 4 on page 70. The provision of non-audit services must be referred to the Committee for approval. By monitoring and restricting both the nature and quantum of non-audit services provided by the external auditors, the Committee seeks to safeguard auditor objectivity and independence.

The Committee is also responsible for ensuring that an effective whistle blowing procedure is in place.

The Board remains satisfied that the Group's systems of internal control and risk management, together with the work of the CFO, the General Counsel, the Head of Risk and the Head of Internal Audit is effective in monitoring, controlling and reporting the Group's risks.

## Nomination Committee report

The main responsibility for the Nomination Committee is to submit proposals to the AGM on electoral and remuneration issues and, where applicable, procedural issues for the appointment of the following year's Nomination Committee.

The Nomination Committee reviews the structure, size and composition of the Board and is responsible for identifying and nominating candidates to fill Board vacancies as and when they arise. The Nomination Committee is guided by the Swedish Corporate Governance Code to lead the process for Board appointments and make recommendations to the AGM thereon and has written terms of reference to lead the process for Board appointments and make recommendations.

In its evaluation of the Board, the Committee holds individual interviews with the Board members.

In its assessment of the Board's evaluation it has given particular consideration to the requirements regarding breadth and versatility of the Board, as well as the requirement to strive for gender balance. The view of the Nomination Committee is that the composition of the Board should reflect the different backgrounds and areas of expertise that are required for the implementation of the Kindred Group's strategy in an international, highly complex and shifting legal environment with high demands on player safety and responsible gaming. The Nomination Committee is of the opinion that diversity is important in order to achieve a well-functioning composition of the Board of Directors and an extra effort has been put into finding a composition of the Board with more diversity, especially with respect to gender.

The Nomination Committee met three times for the 2017 AGM. At the AGM on 16 May 2017, it was decided that the Nomination Committee for the 2018 AGM shall consist of not less than four and not more than five members, of which one should be the Chairman of the Board.

The Nomination Committee for the 2018 AGM consists of Evert Carlsson, Swedbank Robur Fonder (chairman), Jonas Eixmann, Andra AP-fonden, Olof Jonasson, Första AP-fonden, Caroline Sjösten later replaced by Per Lindgren, Skandia Liv, and Anders Ström, Chairman of the Board of Directors. The Committee met eight times for the 2018 AGM.

## Remuneration Committee report

A report on Directors' remuneration and the activities of the Remuneration Committee is set out on pages 46 to 47.

# General legal environment

## Sustainable re-regulation remains a key focus for the Kindred Group.

2017 was marked by a second wave of regulations in several established markets, often accompanied with increased regulatory scrutiny, as well as various enforcement initiatives throughout several EU/EEA Member States. Established markets are re-evaluating best industry practices to secure and increase consumer protection whilst others have just introduced re-regulation. Sustainable re-regulation remains a key focus for Kindred Group with a substantial part of Kindred's gross winnings revenue coming from locally regulated markets situated within the EU. Kindred Group currently holds local gambling licences in Belgium, Denmark, Estonia, France, Germany (Schleswig-Holstein), Ireland, Italy, Malta, Romania and the United Kingdom. Kindred is also licensed in Gibraltar and holds a licence from the Northern Territory Racing Commission to operate its Australian business.

Despite a clear signal in 2015 from the European Commission regarding increased enforcement against Member States whose legislative framework is not compliant with EU internal market rules, the 2013 infringement package was closed in full on 7 December 2017 following a political priority decision from the Juncker cabinet. The Commission underlined that this decision does not change the legal situation and cannot be read as any form of "greenlighting" the existing inconsistent gambling policies of the Member States. It nevertheless sends a wrong signal to Member States who continue to blatantly contravene primary EU law and Court of Justice of the EU (CJEU) jurisprudence. The decision puts national courts and the CJEU back in the driving seat to rule on gambling cases, at least until the new EU Commission takes over in 2019. Despite this setback, the challenges in respect of non-transparent licence allocation as well as competition and state aid law complaints remain.

With the entry into force of the General Data Protection Regulation on 25 May 2018, Kindred has continued its group-wide compliance exercise, preparing its internal processes and policies for the upcoming changes. Data subject rights, consent and cyber- and information-security are key focus areas considering their impact on customer trust. Kindred's data protection officer maintains constructive working relationships with its lead supervisory authority, the Maltese Office of the Information and Data Protection Commissioner, as well as with national data protection authorities, including the UK Information Commissioner's office (ICO). Kindred is also preparing for the implementation of the e-privacy Regulation (PECR), expected to enter into force at the end of 2019, which aligns online privacy rules and introduces further requirements regarding unsolicited marketing, cookies and confidentiality.

Despite the required national implementation of the 4th EU Anti-Money Laundering Directive by 26 June 2017, 10 Member States, including Belgium, Malta and the Netherlands, missed the implementation deadline. The Commission formally urged them to transpose the directive into national legislation or amend their transposition before referring them to the CJEU. On 26 June 2017, the Commission published the first Supranational Risk Assessment (SNRA) report, finding online gambling to be at high-risk exposure to money laundering risks due to the non-face-to-face reality, the large volumes of transactions and the use of e-money, digital and virtual currencies. The work on the 5th EU Anti-Money Laundering Directive, including a lower threshold for identifying the holders of prepaid cards, continues and a final compromise text will have to be transposed into national legislation by the second quarter of 2019.

Pursuant to the implementation of the point of consumption VAT rules for electronically supplied services, the discussions on scope and exemptions at both national and EU level continue. The announced reform of the EU VAT area, including the revision of the VAT Directive in 2018, the EU Commission communication on taxing the digital economy and the proposal for a Common Consolidated Corporate Tax Base (CCCTB) will further shape digital, cross-border industries.

### UK

The UK Gambling Commission (UKGC) has continuously reiterated the need for a holistic compliance view and culture which must be supported by executive management and throughout the line organisation. With the presentation of its new enforcement strategy in June 2017 introducing higher sanctions for breaches and the various enforcement actions taken against operators for, amongst others, AML breaches and advertising failures, the UKGC has clearly opted for a tough approach, finding that the pace of change from operators to protect consumers and eradicate crime has been too slow. In its most recent enforcement action against a UK licensed operator in February 2018, the UKGC criticised systemic senior management failure to mitigate risks and lack of effective AML and social responsibility processes. On 31 October 2017, the Department for Digital, Culture, Media & Sport announced a gambling review, including changes to the licensing requirements and advertising rules. This ties in to the UKGC's roadmap for 2018-2021 "Making gambling fairer and safer", which will see increased focus on consumer trust, transparency and proactive intervention as well as the use of data analytics and technology to detect and prevent crime and harmful gambling. The preparatory work on the industry-funded National Online Self-Exclusion Scheme (GAMSTOP) continues with an end of March 2018 implementation date.

### The Netherlands

Following the general elections on 15 March 2017, the coalition government was installed on 26 October 2017. As mentioned in the coalition agreement, the new government intends to continue the remote gambling regulation process, maintaining the political commitment of the previous cabinet. The Senate now must decide whether to adopt the Remote Gaming Act, or to send it back to the Lower House. This is expected to take place in the second quarter of 2018. The licensing process, which according to the Gaming Authority will approximately take six months, is not expected to begin before the fourth quarter of 2018/the first quarter of 2019.

In May 2017, the KSA issued a press release announcing the expansion of its enforcement policy to include payment-blocking and geo-blocking as additional measures to tackle remote gambling. On 27 December 2017, the Council of State nevertheless ruled that payment services cannot be qualified as "facilitating" remote gambling and therefore the Gaming Authority does not have any competence to take enforcement measures against payment service providers.

Kindred remains committed to its legal strategy in relation to exclusive incumbent licences that are not allocated transparently in violation of standing CJEU jurisprudence and national case law. The Council of State is expected to rule on this fundamental question in the second quarter of 2018.

# General legal environment continued

### Belgium

Following the entry into force of the VAT levy on online gambling in August 2016, Kindred, jointly with the Walloon Region and other licensed operators, requested the annulment of the levy before the Constitutional Court to challenge the discriminatory treatment in relation to lotteries and land-based operators. The Court is expected to rule in the second quarter of 2018. Simultaneously, two state-aid complaints were submitted in 2017 to the EU Commission.

In June 2017, the Brussels Court of Appeal dismissed the January 2016 Commercial Court ruling, thereby confirming the legality of multi-product websites as well as the possibility to accept bets online. Following a referral by the Council of State, the Constitutional Court nevertheless found in November 2017 that the Gambling Act discriminates between offline and online gambling by allowing the accumulation of various online licences via a single website whilst prohibiting such accumulation in land-based establishments. The Council of State is now to interpret this ruling and the Belgian legislator is to assess whether a change of the law is required to remove the discrimination.

On 26 June 2017, the Court of First Instance of Turnhout dismissed Kindred's claims for reimbursement of EUR 400k as part of the EUR 1 million deposit made to secure a bank guarantee for the 2006 cycling team and granted Cycle Service's claim of EUR 600k based on Kindred's pre-contractual liability. Full payments were made on 4 August 2017 and Kindred is currently preparing its appeal.

The Minister of Justice announced several Royal Decrees in 2017, including on online gambling, introducing additional rules on advertising, responsible gambling and further gaming specifications. The decrees are not expected to enter into force before the fourth quarter of 2018.

### Sweden

Following the completion of the governmental investigation into a Swedish licensing system in March 2017 and the subsequent public consultation held during the summer, a draft legislative proposal was presented to the Judiciary Council in December 2017 and notified to the EU Commission. The proposal aims for 90 per cent channelisation, introduces an 18 per cent gross winnings revenue taxation (incl. bonus), covers all products and includes a modern set of responsible gambling measures and marketing rules. With general elections in September 2018, the Ministry is pushing an ambitious timeline and expects to propose the texts to the Parliament in March 2018 with a vote in June 2018 at the latest. The licensing process is expected to commence on 1 July 2018. If the Bill is not voted before the September elections, the Parliamentary commitment is expected to remain but the window for amendments by the new government will then open and implementation is likely to move beyond 2019.

Simultaneous consultations on secondary legislation are being held which will decide the detailed requirements of the reform. The reform of the Gaming Authority is expected to be addressed next. Serious competition concerns remain regarding the dual role of Svenska Spel as lottery and online operator, with the government supporting a full split, as well as the established ATG monopoly.

### Norway

With the adoption of the White Paper on gambling policy by the Parliament in April 2017 supporting the retention of the state monopoly as most suitable to achieve consumer protection, the Norwegian Gaming Authority (NGA) has increased its efforts to ban marketing by foreign operators, enforce payment blocking and publicly campaign against online gambling operators to deter Norwegian customers from playing online. Since March 2017, the NGA stepped up enforcement efforts against banks and payment service providers, formally instructing them to stop servicing online gambling operators.

The general election in September 2017 did not introduce any drastic political changes. Despite the appointment of a liberal minister in charge of gambling and rumours about additional legislative proposals in 2018, re-regulation is not expected before 2022.

The European Gaming and Betting Association (EGBA) has made formal complaints to the EFTA Surveillance Authority as well as the Norwegian Data Protection Authority to challenge the legality of payment blocking measures from both a fundamental freedom to provide services point of view as well as from a privacy perspective.

### France

In February 2017, a parliamentary report was presented to the National Assembly, recommending the implementation of a GGR-based tax regime. The regulator ARJEL reiterated the call for tax reforms in its annual report to increase the attractiveness of the French market and extinguish the extensive illegal offer. In November 2017, the Senate voted in favour of a change in the tax regime but the General Assembly rejected the proposal in December due to lack of governmental support. Nevertheless, the positive momentum for material changes to the French framework in terms of , amongst others, product scope expansion to include online casinos, remains and Kindred continues to liaise with other licensed operators about the best way forward.

### Denmark

In a case initiated by a Danish customer in December 2015, challenging Kindred's responsible gambling policy and duty of care, the Court of Herning ruled on 6 December 2017 that Kindred had not breached the Danish Gambling Act, nor any Executive Order nor guideline on responsible gambling. The Court also established that no duty of care in addition to the relevant legislation obliged Kindred to close the customer's account earlier than it did. The customer has filed an appeal.

On 22 December 2017, Kindred's online casino and betting licence was extended to 31 December 2022.

### Hungary

On 22 June 2017, the CJEU ruled in a case concerning the blocking of Unibet domains, that Hungary violated the fundamental freedom to provide services by prohibiting Kindred from lawfully providing its services in Hungary whilst failing to organise a transparent licensing process. Moreover, the CJEU manifestly ruled that enforcement actions of any kind against EU licensed operators unlawfully excluded from national licensing processes are prohibited and not in compliance with EU law.

# Shares and share capital

## Kindred Group plc's issued share capital as at 31 December 2017 comprised 230,126,200 ordinary shares each with a par value of GBP 0.000625. All ordinary shares carry equal voting rights and rights to share in the assets and profits of the Group.

### Listing of Swedish Depositary Receipts
Kindred Group plc (the Company) is listed on Nasdaq Stockholm through Swedish Depositary Receipts (SDRs) issued by Skandinaviska Enskilda Banken AB (publ). One SDR represents one ordinary share. On 8 June 2004, the SDRs were listed on the O-list of the Stockholm Stock Exchange (Stockholmsbörsen). From 1 January 2016, the SDRs have been listed on the LargeCap part of the Nordic List at the Nasdaq Stockholm.

The trading symbol is KIND SDB and the ISIN code is SE000 787 1645. The Kindred Group has a liquidity guarantee agreement with Carnegie Bank AB.

### Dividend policy
The dividend policy is to pay a dividend and/or execute share buy-backs of up to 50 per cent of the Group's free cash flow (defined as cash flow from operations, adjusted for movements in working capital, capital investments and tax payments).

In addition to the dividend described above, which would normally be in the form of annual cash dividends, the Board can also decide to distribute one-off dividends or execute share buy-backs, where management and the Board consider that the Group has generated surplus cash that it does not require either to fund its normal operations, acquisitions or other corporate development projects.

When considering both regular and one-off distributions, the Board will take into account the overall cash requirement to ensure that an appropriate capital cash structure is maintained.

### Dividend for 2017
The Board of Directors has recommended a dividend of GBP 0.551 (2016: 0.310) per share/SDR, which is approximately SEK 6.16 (2016: 3.52, paid out 23 May 2017) with the exchange rate 11.176 GBP/SEK at 13 February 2018, to be paid to holders of ordinary shares and SDRs. If approved at the Annual General Meeting (AGM) the dividend will be paid on 22 May 2018 and amounts to a total of GBP 125.5 (2016: 70.6) million, which is approximately 75 per cent of the Group's free cash flow for 2017. The Board has reviewed the projected cash requirements for 2018 and is proposing to increase the dividend for this year above 50 per cent of free cash flow. This is in line with the dividend policy to distribute surplus cash.

No dividend will be paid on the shares/SDRs held by the Company following the share buy-back programme (2016: nil).

### Share buy-back programme
At the AGMs from 2007 to 2017 the shareholders approved a share buy-back programme authorising the Board to acquire GBP 0.000625 ordinary shares/SDRs in the Company. The maximum number of shares/SDRs that can be acquired under the 2017 approval was 23,012,620 in line with the conditions laid out for the share buy-back programme that it must not exceed 10 per cent of the total number of shares issued by the Company at the time of approval. Under these approvals, 297,900 shares/SDRs were acquired by the Company during 2007, 387,717 were acquired during 2011 and 2,400,396 shares/SDRs were acquired during 2016. In 2017, 286,572 of the shares/SDRs held by the Group were used in connection with the Group's performance share plans (2016: 315,538). The number of issued shares at 31 December 2017 was 230,126,200 of which 2,298,694 are held by the Company, representing 1.0 per cent of the total number of shares.

The Board can either cancel the shares (requiring further shareholder approval), use as consideration for acquisitions, or issue them to employees under a share award programme.

### Share price performance
Kindred Group plc's SDRs ended the year at SEK 117.40 having started the year at SEK 85.55. The lowest price during the year was SEK 73.30 and the highest price was SEK 117.80. As at 31 December 2017, Kindred Group plc had a market capitalisation of approximately SEK 27.0 billion equivalent to GBP 2.4 billion (2016: SEK 19.7 billion equivalent to GBP 1.8 billion).

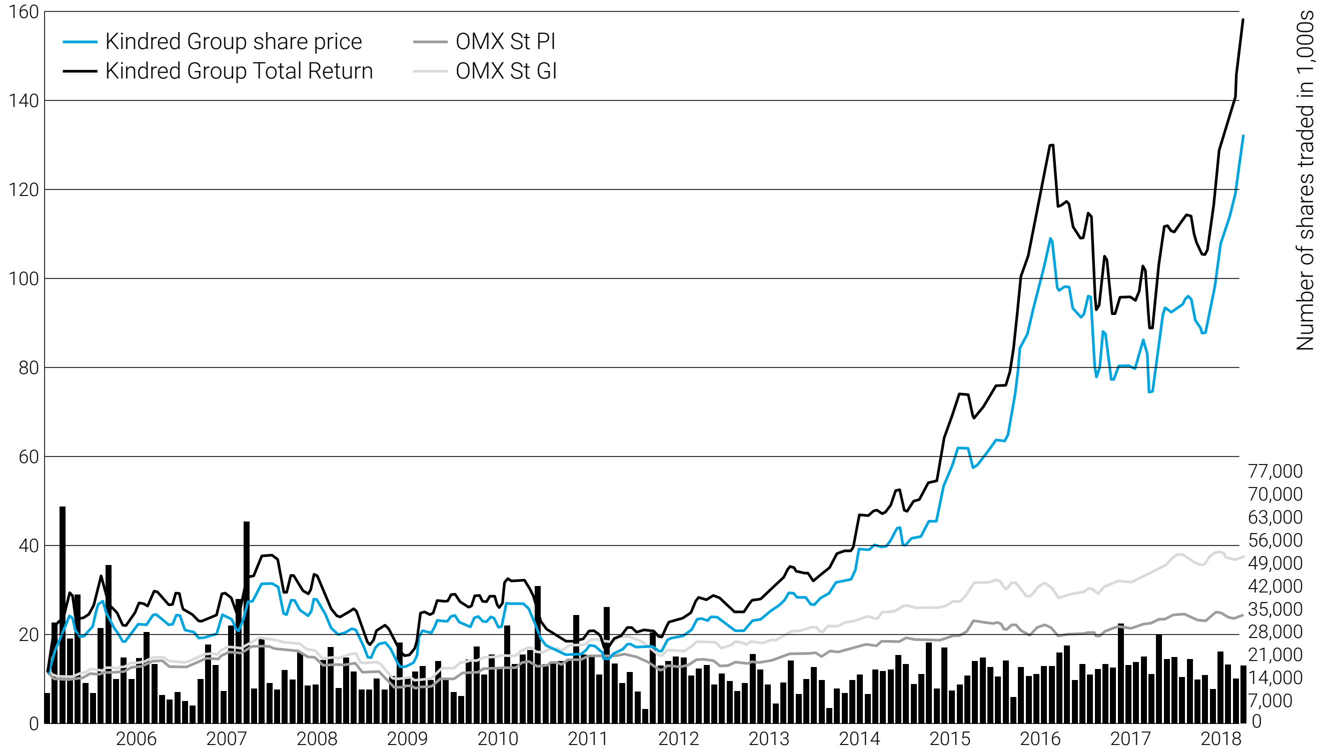
| Ten-year summary[1] | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Equity per share GBP | 1.296 | 1.058 | 0.926 | 0.889 | 0.881 | 0.791 | 0.788 | 0.627 | 0.543 | 0.446 |
| Equity per share after full dilution GBP | 1.291 | 1.056 | 0.924 | 0.874 | 0.863 | 0.785 | 0.703 | 0.627 | 0.542 | 0.446 |
| EBITDA per share GBP | 0.792 | 0.527 | 0.337 | 0.513 | 0.283 | 0.235 | 0.215 | 0.195 | 0.187 | 0.207 |
| Earnings per share GBP | 0.516 | 0.366 | 0.244 | 0.414 | 0.179 | 0.142 | 0.159 | 0.144 | 0.120 | 0.039 |
| Earnings per share after full dilution GBP | 0.513 | 0.365 | 0.239 | 0.405 | 0.177 | 0.141 | 0.159 | 0.144 | 0.120 | 0.039 |
| Unrestricted cash per share GBP | 0.441 | 0.168 | 0.200 | 0.162 | 0.098 | 0.072 | 0.063 | 0.050 | 0.051 | 0.124 |
| Cash flow per share GBP | 0.289 | -0.012 | 0.086 | 0.075 | 0.023 | 0.040 | 0.021 | 0.004 | -0.054 | -0.051 |
| Dividend per share GBP | 0.551[2] | 0.310 | 0.235 | 0.205 | 0.138 | 0.088 | 0.073 | 0.053 | 0.089 | 0.029 |
| Return on average equity % | 51 | 42 | 30 | 49 | 24 | 21 | 26 | 26 | 29 | 37 |
| Equity: assets ratio % | 41 | 54 | 53 | 70 | 68 | 64 | 68 | 65 | 58 | 45 |
| Number of shares at year end | 230,126,200 | 230,126,200 | 230,117,040 | 228,303,600 | 226,264,976 | 226,210,128 | 226,064,304 | 226,064,304 | 226,064,304 | 225,928,736 |
| Fully diluted number of shares at year end | 231,022,348 | 230,520,323 | 230,575,697 | 232,254,904 | 230,924,080 | 227,907,536 | 226,341,096 | 226,150,168 | 226,579,256 | 225,928,736 |
| Average number of shares | 227,652,726 | 229,096,939 | 228,237,047 | 225,668,296 | 223,679,136 | 223,181,208 | 223,365,280 | 224,497,960 | 223,643,712 | 223,569,536 |
| Average number of fully diluted shares | 228,712,559 | 229,737,902 | 232,806,853 | 230,422,080 | 226,646,096 | 224,108,648 | 223,365,280 | 224,707,480 | 223,913,904 | 224,729,648 |

1 All pre-2016 comparatives have been restated according to the 8:1 share split to enhance comparability of per share metrics.
2 Proposed.

# Shares and share capital continued

## Trading volumes

In 2017, there were 510,980 trades in Kindred Group plc's SDRs, representing a total value of SEK 820.7 billion (2016: SEK 570.5 billion).




## Share capital development

The development of the Company's share capital since the Group's reorganisation carried out on 1 November 2006 is shown in the following table. At an EGM on 18 December 2015, shareholders approved to subdivide the shares effective on 30 December in a share split 8:1 to 230,117,040 shares with a nominal value of GBP 0.000625. As at 31 December 2017, the total number of ordinary shares was 230,126,200.

| Transaction | Year | Issue price | Change in number ordinary shares | Total number ordinary shares | Par value per share GBP | Increase in share capital GBP | Share capital GBP |
|---|---|---|---|---|---|---|---|
| Issued in Group reorganisation | 2006 | – | 21,841,092 | 28,241,092 | 0.005 | 109,205.46 | 141,205.46 |
| Exercise of share options | 2009 | 12.16 | 16,946 | 28,258,038 | 0.005 | 84.73 | 141,290.19 |
| Exercise of share options | 2012 | 13.99 | 10,000 | 28,268,038 | 0.005 | 50 | 141,340.19 |
| Exercise of share options | 2012 | 14.59 | 750 | 28,268,788 | 0.005 | 3.75 | 141,343.94 |
| Exercise of share options | 2012 | 14.05 | 478 | 28,269,266 | 0.005 | 2.39 | 141,346.33 |
| Exercise of share options | 2012 | 13.99 | 7,000 | 28,276,266 | 0.005 | 35 | 141,381.33 |
| Exercise of share options | 2013 | 12.72 | 6,856 | 28,283,122 | 0.005 | 34.28 | 141,415.61 |
| Exercise of share options | 2014 | 13.01 | 2,729 | 28,285,851 | 0.005 | 13.65 | 141,429.26 |
| Exercise of share options | 2014 | 13.81 | 15,814 | 28,301,665 | 0.005 | 79.07 | 141,508.33 |
| Exercise of share options | 2014 | 12.7 | 8,186 | 28,309,851 | 0.005 | 40.93 | 141,549.26 |
| Exercise of share options | 2014 | 14.86 | 228,099 | 28,537,950 | 0.005 | 1,140.50 | 142,689.76 |
| Exercise of share options | 2015 | 17.95 | 225,680 | 28,763,630 | 0.005 | 1,128.40 | 143,818.15 |
| Exercise of share options | 2015 | 15.74 | 1,000 | 28,764,630 | 0.005 | 5.00 | 143,823.15 |
| Share split 8:1 | 2015 | – | 201,352,410 | 230,117,040 | 0.000625 | – | 143,823.15 |
| Exercise of share options | 2016 | 17.95 | 9,160 | 230,126,200 | 0.000625 | 5.73 | 143,828.87 |

## Dialogue with capital markets

The Kindred Group's Investor Relations policy focuses on conducting a dialogue with representatives from the capital markets, aimed at increasing interest in Kindred Group plc's shares/SDRs among existing and potential investors by providing relevant, up to-date and timely information.

Investors are provided with clear information about the Group's activities with the aim of increasing shareholder value. The Group strives to ensure good access to such information for capital markets, notably through presentations in Stockholm and London and through roadshows in other European countries, as well as Australia and the USA. In May 2017, the Group organised a Capital Markets Day in Stockholm for analysts, investors and financial media.

On the Kindred Group's corporate website, **www.kindredgroup.com**, investors can find up-to-date information about the Group's financial performance, stock market data, a financial calendar and other Group information.

### Kindred Group plc arranges the following capital market activities:

- Quarterly meetings, webcasts and teleconferences for analysts, investors and financial media.
- Annual capital market day.
- Participation in industry seminars and conferences.
- Webcasts available after each quarterly presentation.

### Analysis of shareholdings at 28 February 2018

Source: Euroclear Sweden.

| Shareholder | Number of shares/SDRs | Share of share capital/votes % | Accumulated % |
|---|---|---|---|
| Första AP-fonden | 20,647,148 | 9.0 | 9.0 |
| Swedbank Robur Fonder | 19,522,742 | 8.5 | 17.5 |
| Skandia Liv & Skandia Fonder | 12,026,017 | 5.2 | 22.7 |
| Andra AP-fonden | 11,665,001 | 5.1 | 27.8 |
| SEB Investment Management | 11,316,685 | 4.9 | 32.7 |
| Columbia Acorn | 9,263,155 | 4.0 | 36.7 |
| Anders Ström through company | 5,666,200 | 2.5 | 39.2 |
| Lannebo Fonder | 5,383,246 | 2.3 | 41.5 |
| Handelsbanken Fonder | 3,905,000 | 1.7 | 43.2 |
| Nordea Fonder | 3,642,145 | 1.6 | 44.8 |
| Länsförsäkringar fondförvaltning | 3,486,435 | 1.5 | 46.3 |
| Kindred Group plc[1] | 2,298,694 | 1.0 | 47.3 |
| DnB – Carlson Fonder | 2,058,252 | 0.9 | 48.2 |
| Tredje AP-fonden | 1,827,961 | 0.8 | 49.0 |
| Carnegie Fonder | 1,760,671 | 0.8 | 49.7 |
| Others | 115,656,848 | 50.3 | 100.0 |
| Total | 230,126,200 | 100.0 | |

1 As a result of the share buy-back programmes.

### Ownership distribution at 28 February 2018

Source: Euroclear Sweden.

| Holding | Number of shareholders | Number of shares/SDRs | Share capital/ votes % |
|---|---|---|---|
| 1–10,000 | 18,356 | 10,675,266 | 5 |
| 10,001–100,000 | 374 | 11,732,238 | 5 |
| 100,001–500,000 | 101 | 22,116,062 | 10 |
| 500,001–1,000,000 | 34 | 23,768,368 | 10 |
| 1,000,001– | 52 | 161,834,266 | 70 |
| Total | 18,917 | 230,126,200 | 100 |

### Ownership structure at 28 February 2018

Source: Euroclear Sweden.

| Organisation type/name | % |
|---|---|
| Swedish financial institutions | 29 |
| Other Swedish financial entities | 10 |
| Other Swedish legal entities | 2 |
| Non-Swedish owners | 54 |
| Swedish naturalised persons | 5 |
| Total | 100 |

### Share ownership data

On 28 February 2018, Kindred Group plc had 18,917 holders of SDRs.

On 28 February 2018 the Company's 14 largest owners represented 48.7 per cent of the capital and votes, as shown in the table above.

# Remuneration Committee report

## The Remuneration Committee considers and evaluates remuneration arrangements for senior managers and other key employees and makes recommendations to the Board.

The Remuneration Committee's purpose is to support the strategic aims of the business and shareholder interest, by enabling the recruitment, motivation and retention of key employees, while complying with the requirements of regulatory and governance bodies.

The Committee's report, which is unaudited, except where indicated, is set out below.

### The Remuneration Committee

The Committee held six meetings during 2017 all of which were chaired by Stefan Lundborg and also attended by Peter Boggs. Sophia Bendz attended five meetings. The Chief Human Resources Officer (CHRO) acted as secretary to the Committee and the CEO, CFO and CHRO were co-opted on an ad-hoc basis to provide advice and support on remuneration related issues. Where required on specific projects, the Committee was also supported by external advisers.

### Remuneration policy

The policy of the Board is to attract, retain and motivate the best managers by rewarding them with competitive compensation packages linked to the Group's financial and strategic objectives. The compensation packages need to be fair and reasonable in comparison with companies of a similar size, industry and international scope. The components of remuneration for executive managers comprise base salary, benefits, performance-related salary and long-term incentives.

The members of the Committee have no personal interest in the outcome of their decisions and give due regard to the interests of shareholders and to the continuing financial and commercial health of the business.

### The remuneration packages of senior managers

Senior managers receive base salaries based on position, responsibilities, performance and skills. The base salary is a fixed amount, payable monthly, which is usually reviewed annually in January.

Benefits are based on the requirements of the country where the manager is employed.

The performance-related salary is designed to support key business strategies and financial objectives and create a strong, performance-orientated environment. The performance targets are reviewed annually and are based on both quantitative and qualitative goals. The pay-out is conditional upon the Group achieving set financial targets. Thereafter, individual targets are mainly linked to financial objectives such as Gross winnings revenue and EBITDA. There is also a part which is based on delivery of specific projects and business critical processes. Achievement of targets is assessed on an annual basis. The amount of potential variable pay compared to basic salary varies depending on position and situation but is in general less than half the amount of the basic salary. All variable elements have a limit, which means that they cannot exceed a predetermined amount.

Under the standard annual cycle of bonuses for the CEO and other executive management, formal approval and payment of bonuses is typically completed after the publication of the results for the fourth quarter. Remuneration reported in the table on the page opposite is the remuneration paid during 2017. Participation in long-term incentive schemes is based on position in the Group, performance and country of residence.

Equity awards are made through the Performance Share Plan which was introduced in 2013. They are granted under the terms of the Kindred Performance Share Plan (PSP), and are linked to the performance of the Group to further align senior management's interests with those of the shareholders. The 1,049,041 PSP share awards outstanding at 31 December 2017 may generally only vest if the holder is employed by the Kindred Group at the date of vesting. Exceptions are made in special circumstances.

### Developments in 2017

A new PSP grant was made in July 2017 to Kindred Group employees totalling 423,197 share awards. The PSP performance measures are non-market based providing participants with a high degree of alignment to Group performance. PSP awards will depend on the Group achieving financial performance targets over three financial years establishing a clearer link between how the Group performs and the value that the PSP can deliver. These targets are Gross Contribution (Gross Winnings Revenue less Cost of Sales less Marketing Costs), Free Cash Flow per Share and EBITDA and will be measured on an aggregate basis between the full year 2017 and the full year 2019 so that performance in each financial year will be important. Aggregated performance against the targets and the resulting allocation of PSP awards will be disclosed after the full year 2019.

Last year, the Board approved the new 20+20 All Employee Share Plan (2020 AESP) which gives all employees the opportunity to receive shares/SDRs in the Company at the end of 2020 subject to achievement of set financial targets. The 2020 AESP has continued to operate in 2017 with share awards being granted quarterly to new employees. The total number of share awards outstanding at 31 December 2017 is 1,576,878.

The Remuneration Committee has reviewed all other components of Executive Management, namely base salary and performance-related salary, in line with external market benchmark data.

### Vesting of 2014 Kindred Performance Share Plan (PSP)

In respect of the PSP grant made in September 2014 all targets were achieved at greater than 100 per cent so the full value of the PSP grant vested. Details of the targets achieved were as follows:

| Performance Target | Target achieved |
|---|---|
| EBITDA | 109% |
| Gross Contribution | 111% |
| Free Cash Flow | 111% |

### Remuneration of the Board of Directors

All Directors are elected at the AGM and their remuneration is recommended by the Nomination Committee, conditional upon approval at the AGM.

The Group does not operate any form of Directors' retirement benefits or pension scheme, and thus no contributions are made in respect of any Director. All Directors have rolling service contracts without notice periods. The auditors are required to report on the information contained in the following two sections of this report on Directors' Remuneration.

### Total emoluments (audited)

All information concerning emoluments and interests of the Directors is presented on the basis of continuity from the date of their appointment to the Board of Directors of the Kindred Group. Total emoluments of the Board of Directors and Executive Committee who served during the year are set out on next page.

| Directors | Fees/salary GBP 000 | Other[1] GBP 000 | 2017 Total GBP 000 | 2016 Total GBP 000 |
|---|---|---|---|---|
| Anders Ström, Chairman | 221.7 | 46.7 | **268.4** | 300.0 |
| Kristofer Arwin | 77.0 | – | **77.0** | 83.3 |
| Sophia Bendz | 67.0 | – | **67.0** | 66.3 |
| Peter Boggs | 67.0 | 3.0 | **70.0** | 68.3 |
| Nigel Cooper | 108.0 | 11.0 | **119.0** | 125.3 |
| Peter Friis | 55.0 | – | **55.0** | 53.3 |
| Therese Hillman[2] | – | – | **–** | 67.3 |
| Stefan Lundborg | 71.0 | – | **71.0** | 88.9 |
| | **666.7** | **60.7** | **727.4** | **852.7** |
| **Executive committee** | | | | |
| Henrik Tjärnström, CEO | 1,343.9 | – | 1,343.9 | 798.0 |
| Other Executive management | 2,328.6 | – | 2,328.6 | 1,324.4 |
| **Total** | **4,339.2** | **60.7** | **4,399.9** | **2,975.1** |

1 Other emoluments comprise additional amounts payable for consultancy.
2 Therese Hillman resigned from the Board on 4 October 2016.

## Directors' interests (audited)

The Directors' and Executive managements' beneficial interests in the shares/SDRs of Kindred Group plc as at 31 December 2017 are set out below:

| Directors | Ordinary shares/ SDRs at 31 December 2017 | Ordinary shares/ SDRs at 31 December 2016 | Performance Share Rights at 31 December 2017 | Performance Share Rights at 31 December 2016 |
|---|---|---|---|---|
| Kristofer Arwin | 10,084 | 5,640 | – | – |
| Sophia Bendz | 7,616 | 7,616 | – | – |
| Peter Boggs | 112,240 | 112,240 | – | – |
| Nigel Cooper | 48,000 | 49,900 | – | – |
| Peter Friis | 2,000 | 2,000 | – | – |
| Stefan Lundborg | 432,600 | 403,600 | – | – |
| Anders Ström | 5,666,200 | 10,266,200 | – | – |
| **Total Directors** | **6,278,740** | **10,847,196** | **–** | **–** |

| Executive committee | Ordinary shares/ SDRs at 31 December 2017 | Ordinary shares/ SDRs at 31 December 2016 | All Employee Long Term Incentive Plan LTIP Performance Rights at 31 December 2017 | Performance Share Rights at 31 December 2017 | All Employee Long Term Incentive Plan LTIP Performance Rights at 31 December 2016 | Performance Share Rights at 31 December 2016 |
|---|---|---|---|---|---|---|
| Henrik Tjärnström | 1,343,578 | 1,325,867 | 40,616 | 105,115 | 40,616 | 110,544 |
| Albin de Beauregard | 2,025 | 603 | 40,616 | 26,254 | 40,616 | 18,253 |
| Britt Boeskov | 8,927 | 4,856 | 40,616 | 35,038 | 40,616 | 31,741 |
| Rhodri Darch | 8,927 | 4,856 | 40,616 | 35,038 | 40,616 | 31,741 |
| Daniel Eskola | 3,000 | 14,332 | 40,616 | 25,371 | 40,616 | 25,371 |
| Gavin Hayward | 4,459 | 2,426 | 40,616 | 32,110 | 40,616 | 25,133 |
| Ebba Ljungerud | 10,727 | 6,656 | 40,616 | 35,038 | 40,616 | 31,741 |
| Tommi Maijala | 18,000 | 18,000 | 40,616 | 44,632 | 40,616 | 12,685 |
| Marcus Smedman | 2,491 | 922 | 40,616 | 32,110 | 40,616 | 25,133 |
| **Total Executive committee** | **1,402,134** | **1,378,518** | **365,544** | **370,706** | **365,544** | **312,342** |
| **Total** | **7,682,774** | **12,225,714** | **365,544** | **370,706** | **365,544** | **312,342** |

## Performance graph (unaudited)

Shown on page 44 is a performance graph that compares the Total Shareholder Return (TSR) of Kindred Group plc SDRs with the OMX Stockholm Price Index, this being the index where Kindred Group plc is listed and therefore the most appropriate comparison. TSR is defined as the return shareholders would receive if they held a notional number of shares and received dividends on those shares over a period of time.

The closing price of the Company's SDRs at 31 December 2017 was SEK 117.40, and it ranged from SEK 73.30 to SEK 117.80 during 2017.

**Stefan Lundborg**
Chairman, Remuneration Committee

# Directors' report

## The Directors present their Annual report on the affairs of the Group, together with the audited consolidated financial statements and auditors' report, for the year ended 31 December 2017.

### Principal activities
The Kindred Group is an online gaming business, with over 21 million registered customers worldwide as at 31 December 2017, and is one of the largest independent publicly-quoted online gaming operators in Europe.

Kindred Group plc is registered and headquartered in Malta. Registration number is C 39017.

The Kindred Group is one of Europe's leading providers in moneytainment®, operating in 20 different languages in more than 100 countries. The Kindred Group offers pre-game and live Sports betting, Racing, Poker, Casino & Games and Bingo through several subsidiaries and brands. The internet, accessed via mobile, tablet or desktop, is the main distribution channel for the Group's products.

While the Group's core markets are in Europe and Australia, it addresses global markets excluding only territories that the Group has consistently blocked for legal reasons such as the USA, Turkey and similar markets. The Kindred Group is a founding member of the European Gaming and Betting Association, and member of the Remote Gambling Association in the UK and is audited and certified by eCOGRA in relation to the pan-European CEN standard on consumer protection and responsible gaming.

On average, the Kindred Group handles over 22 million transactions every day (including Sports betting and Casino & Games) and has around 30,000 betting opportunities on major international and local sporting events every day.

The principal subsidiaries and associated undertakings which affect the results and net assets of the Group in the year are listed in Note 13 to the consolidated financial statements.

### Results and dividends
The consolidated income statement is set out on page 56 and shows the result for the year. The profit for the year was GBP 117.4 million (2016: GBP 83.9 million).

The Kindred Group's Board of Directors' dividend policy is to pay a dividend and/or execute share buy-backs of up to 50 per cent of the Group's free cash flow (defined as cash flow from operations, adjusted for movements in working capital, capital investments and tax payments).

In addition to the dividend described above, which would normally be in the form of annual cash dividends, the Board can also decide to distribute one-off dividends or execute share buy-backs, where management and the Board consider that the Group has generated surplus cash that it does not require either to fund its normal operations, acquisitions or other corporate development projects.

When considering both regular and one-off distributions, the Board will take into account the overall cash requirement to ensure that an appropriate capital cash structure is maintained.

### Dividend for 2017
The Board of Directors proposes a dividend of GBP 0.551 (2016: 0.310) per share/SDR, which is approximately SEK 6.16 (2016: SEK 3.52 paid out 23 May 2017) using the exchange rate 11.176 GBP/SEK at 13 February 2018.

More detail on the dividend for 2017 can be found on page 43.

### Business review
A detailed Financial Review is set out on pages 28 to 30.

Details of Key Performance Indicators are set out on pages 16 and 17. For further information on risk management, refer to pages 24 to 27 and Notes 2C and 2D on pages 66 and 67.

### Significant events during 2017
On 16 January 2017, the Kindred Group became the first operator to successfully complete an external audit against the official 2014 EU Recommendation on Consumer Protection and Responsible Gambling (2014/478/EU). The independent audit was conducted by eCOGRA, a leading audit body accredited in several countries.

On 18 January 2017, the Kindred Group launched a new online casino brand directed towards high rollers in the Norwegian and Swedish market: storspiller.com and storspelare.com.

On 26 January 2017, the Group decided to suspend its application for a licence in the Czech Republic and, as a result, also suspended its operations.

On 23 February 2017, the Boards of Kindred Group and 32Red reached an agreement on the terms of a recommended cash offer pursuant to which Kindred Group would acquire the entire issued and to be issued share capital of 32Red. The offer valued 32Red at GBP 175.6m to be funded by new credit facilities of GBP 178.0 million. On 6 June 2017, the UK Gambling Commission approved the acquisition and with effect from that date, Kindred Group acquired full control of 32Red and consolidated it in its financial statements. From 7 July 2017 32Red was delisted from the AIM Market of the London Stock Exchange.

### Significant events after the year end
In January 2018, the Group received the results of an audit conducted by sports betting integrity audit company Ethisport. The audit gave Kindred a global rating of 70 per cent, classified as a 'very good' result, and also provided suggestions for further improvement. Moreover, as founding partner of ESSA, Kindred are proud to be working alongside the IOC in preventing match-fixing during the 2018 Winter Olympics. This is further evidence of the Group's commitment to tackling this issue in cooperation with all relevant stakeholders.

### Future developments
Although conscious of the potential impact of the macroeconomic situation in the Group's core markets, the Directors are confident in the Group's trading and financial prospects for the forthcoming financial year.

### Directors and their interests
The following Directors elected at the AGM on 16 May 2017 served during the year and subsequently, unless otherwise stated:

| | |
|---|---|
| **Anders Ström** | Chairman |
| **Kristofer Arwin** | Non-executive |
| **Sophia Bendz** | Non-executive |
| **Peter Boggs** | Non-executive |
| **Nigel Cooper** | Non-executive |
| **Peter Friis** | Non-executive |
| **Stefan Lundborg** | Non-executive |

The interests of the Directors are shown on pages 32 to 33.

## Research and development
The Group capitalises significant costs in relation to the development of its core IT platform amongst many other projects. During the year the Group capitalised GBP 18.1 (2016: GBP 14.5) million of development expenditure, and expensed research costs of GBP 25.3 (2016: GBP 19.9) million to the income statement.

## Employees
The Group is committed to equality of opportunity in all aspects of employment regardless of the gender, marital status, gender reassignment status, disability, race, national origin, ethnic origin, colour, nationality, sexual orientation, religion, belief or age of an employee.

The Group also complies with all applicable national and international laws within human and labour rights in the locations in which it operates. These include but are not limited to minimum age, minimum salary, union rights and forced labour as well as the United Nation's Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption and the Universal Declaration of Human Rights.

The Group recognises the importance of ensuring employees are kept informed of the Group's performance, activities and future plans.

A review of the Group's environmental and community activities is included in the Sustainability section on pages 18 to 23.

## Statement of Directors' responsibilities for the financial statements
The Directors are required by the Malta Companies Act (Cap 386) to prepare financial statements which give a true and fair view of the state of affairs of the Group as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Directors are responsible for:

> ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
> selecting and applying appropriate accounting policies;
> making accounting estimates that are reasonable in the circumstances; and
> ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal controls as they determine it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Companies Act (Cap 386). They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The consolidated financial statements of Kindred Group plc for the year ended 31 December 2017 are included in this Annual Report and Accounts, which is published in hard-copy printed form and is made available on the Group's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

## Disclosure of information to the auditors
So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware, and the Directors have taken all the steps that they should take as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

## Independent auditors
The auditors, PwC Malta and PwC LLP UK, have indicated their willingness to continue in office, and a proposal to re-appoint them has been sent to the Nomination Committee.

On behalf of the Board

Malta, 9 March 2018

**Anders Ström**
Chairman and Director

**Nigel Cooper**
Director

# Independent auditors' report
# To the Shareholders of Kindred Group plc

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion:

- Kindred Group plc's consolidated financial statements (the "financial statements") of the company and its subsidiaries (the "Group") give a true and fair view of the Group's financial position as at 31 December 2017, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our report to the Audit Committee.

#### What we have audited

Kindred Group plc's financial statements, set out on pages 56 to 86, comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement and the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

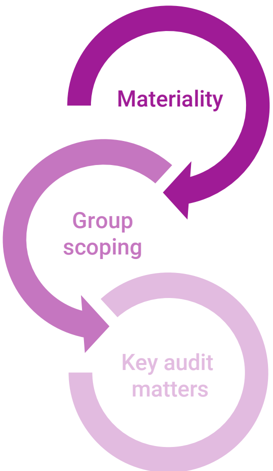
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Group, in the year from 1 January 2017 to 31 December 2017 are disclosed in note 4 to the financial statements.

### Our audit approach

#### Overview




- Overall group materiality: GBP 5.6 million, which represents 5% of profit before tax (excluding items affecting comparability as defined in note 4).

- PwC Malta and PwC UK are the joint group auditors with responsibility for the oversight of planning, execution and completion of the audit, and are supported by a number of other component network audit teams who perform procedures in accordance with the instructions provided by the joint group auditors.
- Our work performed has provided coverage over 89% of Gross Winnings Revenue and 81% of Profit before Tax.

- Impairment assessments for goodwill;
- Consideration of liabilities arising from non-compliance with laws and regulations;
- Recognition and disclosure of tax charges and provision; and
- Accuracy and completeness of 32Red plc ("32 Red") acquisition accounting.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| Overall group materiality | GBP 5.6 million for 2017 (GBP 4.8 million for 2016). |
| How we determined it | 5% of profit before tax excluding items affecting comparability as defined in note 4. |
| Rationale for the materiality benchmark applied | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above GBP 280k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, help us to determine the scope of our audit and the nature, timing, location and extent of our audit procedures.

On the basis of these considerations and together with our knowledge of the Group's business, the Group joint auditors, PwC UK and PwC Malta, engaged a number of component audit teams who have performed procedures as per the instructions from PwC UK and PwC Malta.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditors' report
# To the Shareholders of Kindred Group plc continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Impairment assessments for goodwill<br>This key audit matter specifically relates to the goodwill associated with the acquisitions of Betchoice and 32Red.<br><br>Refer to page 39 (Audit Committee Report), note 2A (Summary of significant accounting policies), note 11 (Intangible assets).<br><br>IAS 36 'Impairment of Assets' requires that Goodwill and other indefinite lived intangible assets are subject to an impairment review at least annually, or more frequently when there is evidence of a trigger event. IAS 36 also requires a number of specific disclosures in respect of the impairment assessment.<br><br>The Group has goodwill of GBP 279.1 million including amounts relating to the acquisitions of Betchoice (GBP 6.7 million) and 32Red (GBP 96.9 million). Betchoice now trades as Unibet Australia and was acquired in 2012. 32Red was acquired during 2017. When performing the annual impairment review of goodwill as at 31 December 2017, management decided that the goodwill on Betchoice was not fully recoverable and estimated that an impairment of GBP 4.3 million was necessary to reduce the carrying amount of the goodwill down to the recoverable amount. For 32Red, management determined the goodwill to be fully recoverable.<br><br>In performing our audit, we have focused on this area as the preparation of these assessments involves a significant degree of judgment. Management's impairment is an estimate and therefore we have formed our independent view of the recoverable amount based on our assessment of the assumptions used in management's cash flow forecasts and the fair value of the business. | In respect of each impairment assessment over goodwill, a key component of our work was to consider the budgets and cash flow forecasts prepared by management, as outlined below. This was then supplemented by specific procedures in relation to the various assumptions used. Where applicable, we reviewed external valuations of the cash generating units as further evidence of their recoverable amounts.<br><br>We reviewed and concur with management's assessment of the cash generating units (CGU's) for this year.<br><br>We obtained the annual impairment assessments performed by management in respect of goodwill and compared the carrying value of each CGU (as defined in note 11) as at 31 December 2017 with the higher of fair value less costs to dispose and value in use. We agreed the cash flow forecasts therein to the latest Board approved budgets. We evaluated the assumptions in the forecasts and considered the evidence in support of them, principally in relation to historical trends and actual performance in 2017. This included considering trends in gross win and margins as well as the reasonableness of growth rates and costs in light of the market environment. Our results did not diverge materially from management's assessment.<br><br>As part of the work, we assessed the accuracy of management's historic forecasting ability when considering the assumptions used within the value in use models.<br><br>We also considered the risk adjusted discount rates used in the goodwill impairment assessments by comparing them with the cost of capital of the Group and that of competitors. We found these to be within the reasonable range of our expectations.<br><br>We performed sensitivity analysis on the level of cash flows, the risk adjusted discount rates and growth rates used in the impairment assessments and concur with management's conclusion that for 32Red a material change in these assumptions would be required to trigger an impairment charge to goodwill.<br><br>For Betchoice, if the forecast growth rate in revenue is not achieved or becomes unrealistic in future years and is not compensated by savings in planned marketing and operating costs then a further impairment charge may arise.<br><br>Given the above, in order to assess the recoverable amount of the Betchoice business, we considered the external valuation of the business that management had commissioned previously. Having already considered the objectivity and competence of management's expert and the key assumptions, we evaluated the effect of the changing market environment on the multiple used in this valuation. When comparing the carrying value of this CGU with the fair value less costs to dispose, we did not identify any further material impairment over and above the impairment charge of £4.3m identified by management. |
| Consideration of liabilities arising from non-compliance with laws and regulations<br>Refer to pages 31 and 39 (Governance Section), pages 41 and 42 (Legal Section) and note 2B (Critical accounting estimates and assumptions).<br><br>The international legal and licencing framework for digital gaming is territory specific, and in some territories this remains uncertain. Regulations are developing and this evolving environment makes compliance an increasingly complex area with territory specific regulations, responsible gambling and anti-money laundering obligations.<br><br>Given the potential for litigation and licence withdrawal, the risk of non-compliance with digital gaming laws and licence regulations could give rise to material fines, penalties, legal claims or market exclusion.<br><br>There is also a reputational and financial risk together with a going concern risk should any future changes or interpretation of the law mean that the business cannot continue in certain territories. | We assessed how management monitor legal and regulatory developments and their assessment of the potential impact on the business. This includes compliance with digital licencing regulations, responsible gambling and anti-money laundering obligations covering player registration controls, customer deposits and withdrawals.<br><br>We also read, where required, external legal and regulatory advice sought by the Group. Further, we inquired of management and the Group's legal advisers about any known instances of material breaches in regulatory or licence compliance that needed to be disclosed or required accruals or provisions to be recorded.<br><br>Whilst acknowledging that there are instances where this becomes a judgmental area, we found that the Group had an appropriate basis of accounting for these matters in the financial statements and the resultant disclosures in the financial statements were appropriate. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| Recognition and disclosure of tax charges and provisions<br>Refer to pages 31 and 39 (Governance Section) and note 2B (Critical accounting estimates and assumptions).<br><br>The Group operates across borders and is subject to different tax authorities and regulations.<br><br>We focussed on this matter as the taxation environment (including corporation taxes and indirect taxes) is complex and can change quickly and could result in material exposure to liabilities. | We discussed with management and their tax experts how the Group manages and controls each individual company across the various territories and jurisdictions in which it operates and how the local tax obligations are assessed.<br><br>We also obtained and read relevant tax correspondence with the respective tax authorities, together with any external tax advice obtained by the Group to assist them in supporting their tax position.<br><br>With considerable input from our tax experts across the various key jurisdictions in which the Group operates, including UK and Malta, we assessed the key judgments with respect to the tax positions taken. We obtained evidence to support the provisions and consider these to reflect management's best estimate.<br><br>We found that the overall position adopted in the financial statements and the related disclosures in respect of tax was reasonable. |
| Accuracy and completeness of 32 Red acquisition accounting<br>Refer to page 31 and 39 (Governance Section), note 2B (Critical accounting estimates and assumptions) of the financial statements and note 22 for the directors' disclosures of the related accounting policies, judgements and estimates for further information.<br><br>On 7 June 2017 the Group acquired 32Red for a consideration of GBP 175.6 million. Accounting for the acquisition required a fair value exercise to assess the assets and liabilities acquired including valuing any separately identifiable intangible assets and the resulting goodwill.<br><br>Management identified GBP 78.5 million of intangible assets, in respect of trade names, customer database and the software platform.<br><br>The valuation of these intangible assets involves significant judgement as it required management's use of assumptions including the pre-tax royalty rate, Gross Winnings Revenue ("GWR") growth rate and discount rate for each brand name and the customer acquisition costs for the customer database.<br><br>We focused on this matter due to the significance of management assumptions and judgements exercised. The identification and valuation of intangible assets can be a particularly subjective process. Any difference to these assumptions could cause a material misstatement.<br><br>The residual goodwill arising from this acquisition amounted to GBP 96.9 million. | *Net assets (excluding acquired intangible assets) and consideration*<br>We analysed management's assessment of the fair value of the assets and liabilities and audited the adjustments that were made as a result of this assessment to record assets and liabilities at fair value. We concluded that appropriate adjustments had been made to reflect fair value or to align accounting policies. We also carried out audit procedures in relation to the tangible assets and liabilities on completion.<br><br>*Recognition and measurement of intangible assets*<br>We assessed the completeness and quantum of intangible assets identified by management against our own expectations formed from our knowledge and experience of the industry and 32Red, and from the disclosures surrounding the rationale for the transaction. We determined that the analysis prepared by management was appropriate based on our understanding of 32Red's particular circumstances and our knowledge and experience of the industry.<br><br>In this process we performed the following:<br>> We challenged management on the completeness of the identified intangible assets, including comparisons to previous acquisitions made by the Group;<br>> We audited the methodology, underlying assumptions and mechanical accuracy of valuation models for each of the significant acquired intangible assets and consideration paid;<br>> We considered alternative valuation methodologies to challenge the methods used by management;<br>> We carried out an independent assessment of key assumptions such as the pre-tax royalty rate, GWR growth rate and discount rate for each brand name and the customer acquisition costs for the customer database, and agreed the customer churn rates used in the valuation of customer relationships to management's historical experience;<br>> We evaluated the useful economic lives assigned to the intangible assets by reference to those applied in the Group's previous acquisitions and our own expectations.<br><br>We then considered the amount of residual goodwill in proportion to the total consideration and the fair value of the other assets acquired.<br><br>From the performed procedures set out above, we did not find any significant differences in the identified intangibles and the arising values recognised in the financial statements.<br><br>As a result of our work, we determined that the acquisition of 32Red has been appropriately disclosed in note 22 to the financial statements. |

# Independent auditors' report To the Shareholders of Kindred Group plc continued

**Other information**
The Directors are responsible for the other information. The other information comprises the Strategic report section on pages 1 to 30, the Governance report section on pages 31 to 49 as well as Other Information relating to the Annual General Meeting and Definitions (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

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

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

> The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
> the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

**Responsibilities of the directors and those charged with governance for the financial statements**
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

> Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
> Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
> Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
> Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
> Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

**Other matters on which we are required to report by exception**

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

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

We have nothing to report to you in respect of these responsibilities.

## Other matters

This report, including the opinions, has been prepared for and only for the Group's members as a body in accordance with Section 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report separately on the parent company financial statements of Kindred Group plc for the year ended 31 December 2017.

## Appointment

We were first appointed as auditors of the Group on 5 October 2005 by the Directors of the Group. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 13 years.

**Simon Flynn**
Partner
9 March 2018

**For and on behalf of PricewaterhouseCoopers**
78, Mill Street
Qormi QRM3101
Malta

**John Waters**
Partner
9 March 2018

**For and on behalf of PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
1 Embankment Place
London WC2N 6RH
United Kingdom

# Consolidated income statement

| GBP m | Note | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|---|
| **Gross winnings revenue** | 3 | **751.4** | **544.1** |
| Betting duties | 3 | -113.6 | -67.7 |
| Marketing revenue share | 3 | -41.3 | -29.8 |
| Other cost of sales | 3 | -125.2 | -101.8 |
| **Cost of sales** | | **-280.1** | **-199.3** |
| **Gross profit** | | **471.3** | **344.8** |
| Marketing costs | 4 | -145.3 | -114.7 |
| Administrative expenses | 4 | -161.5 | -121.4 |
| **Underlying profit before items affecting comparability** | | **164.5** | **108.7** |
| M&A costs | 4 | -3.2 | – |
| Management incentive costs relating to acquisitions | 4 | -1.5 | -3.0 |
| Accelerated amortisation of acquired intangible assets | 4 | -9.2 | – |
| Amortisation of acquired intangible assets | 4 | -11.4 | -8.2 |
| Foreign currency losses on operating items | 4 | -1.5 | -0.6 |
| **Profit from operations** | 3 | **137.7** | **96.9** |
| Finance costs | 6 | -3.5 | -3.1 |
| Finance income | 7 | 0.3 | 0.2 |
| Foreign currency loss on loan | 2A, 6 | -3.0 | -1.4 |
| Share of profit from associate | 13 | 0.5 | 0.2 |
| **Profit before tax** | | **132.0** | **92.8** |
| Income tax expense | 8 | -14.6 | -8.9 |
| **Profit for the year** | | **117.4** | **83.9** |

All the above amounts relate to continuing operations and are wholly attributable to owners of the parent.

# Key ratios

| | Note | 2017 | 2016 |
|---|---|---|---|
| Operating margin (Profit from operations/Gross winnings revenue for the year) | | 18% | 18% |
| Return on total assets (Profit for the year/average of opening and closing assets for the year) | | 20% | 20% |
| Return on average equity (EBIT/average of opening and closing equity for the year) | | 51% | 42% |
| Equity:asset ratio | | 41% | 54% |
| EBITDA margin | | 24% | 22% |
| Unrestricted cash/EBITDA (rolling 12-month basis) | | 0.564 | 0.320 |
| Net debt/EBITDA (rolling 12-month basis) | | 0.521 | 0.133 |
| Employees at year end | | 1,357 | 1,162 |
| Earnings per share, GBP | 10 | 0.516 | 0.366 |
| Fully diluted earnings per share, GBP | 10 | 0.513 | 0.365 |
| Number of shares at year end | 21 | 230,126,200 | 230,126,200 |
| Fully diluted number of shares at year end | | 231,022,348 | 230,520,323 |
| Weighted average number of outstanding shares | 10 | 227,652,726 | 229,096,939 |
| Weighted average number of fully diluted outstanding shares | 10 | 228,712,559 | 229,737,902 |

More detailed definitions can be found on page 88. The notes on pages 61 to 86 are an integral part of these financial statements.

# Consolidated statement of comprehensive income

| GBP m | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|
| Profit for the year | 117.4 | 83.9 |
| | | |
| **Other comprehensive income** | | |
| Currency translation adjustments taken to equity | 3.9 | 16.1 |
| **Total comprehensive income for the year** | **121.3** | **100.0** |

Profit and total comprehensive income relate to continuing operations and are wholly attributable to owners of the parent.
The translation adjustment relates primarily to foreign currency retranslation of goodwill and acquired intangibles and the net investment in the subsidiaries, to the closing exchange rate for each year.

# Consolidated balance sheet

| GBP m | Note | As at 31 December 2017 | As at 31 December 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 11 | 279.1 | 184.9 |
| Other intangible assets | 11 | 162.8 | 93.9 |
| Investment in associate | 13 | 2.1 | 1.6 |
| Property, plant and equipment | 12 | 24.7 | 12.7 |
| Deferred tax assets | 19 | 13.4 | 8.8 |
| Convertible bond | 23 | 6.8 | 6.6 |
| Other non-current assets | 2A | 1.6 | 2.2 |
| | | **490.5** | **310.7** |
| **Current assets** | | | |
| Trade and other receivables | 15 | 38.5 | 30.6 |
| Taxation recoverable | | 37.9 | 20.5 |
| Cash and cash equivalents | 28 | 159.1 | 89.4 |
| | | **235.5** | **140.5** |
| **Total assets** | | **726.0** | **451.2** |
| | | | |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | 0.1 | 0.1 |
| Share premium | 21 | 81.5 | 81.5 |
| Currency translation reserve | 21 | 18.6 | 14.7 |
| Reorganisation reserve | 21 | -42.9 | -42.9 |
| Retained earnings | | 240.9 | 190.1 |
| **Total equity attributable to the owners** | | **298.2** | **243.5** |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 18 | 133.0 | – |
| Deferred tax liabilities | 19 | 5.7 | 4.2 |
| | | **138.7** | **4.2** |
| **Current liabilities** | | | |
| Borrowings | 18 | 62.6 | 54.6 |
| Trade and other payables | 16 | 110.2 | 60.0 |
| Customer balances | 17 | 57.5 | 50.8 |
| Deferred income | 14 | 4.4 | 4.2 |
| Tax liabilities | | 54.4 | 33.9 |
| | | **289.1** | **203.5** |
| **Total liabilities** | | **427.8** | **207.7** |
| **Total equity and liabilities** | | **726.0** | **451.2** |

The official closing middle rate of exchange applicable between the presentation currency and the euro issued by the European Central Bank as at 31 December 2017 was 1.127 (2016: 1.168).

The notes on pages 61 to 86 are an integral part of these financial statements.

The financial statements on pages 56 to 86 were authorised for issue by the Board of Directors on 9 March 2018 and were signed on its behalf by:

**Anders Ström**
Chairman and Director

**Nigel Cooper**
Director

# Consolidated statement of changes in equity

| GBP m | Note | Share capital | Share premium | Currency translation reserve | Reorganisation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2016 | | 0.1 | 81.5 | -1.4 | -42.9 | 175.8 | 213.1 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | – | – | – | – | 83.9 | 83.9 |
| **Other comprehensive income** | | | | | | | |
| Translation adjustment | | – | – | 16.1 | – | – | 16.1 |
| **Total comprehensive income** | | **–** | **–** | **16.1** | **–** | **83.9** | **100.0** |
| **Transactions with owners** | | | | | | | |
| Share awards – value of employee services | 20 | – | – | – | – | 0.1 | 0.1 |
| Equity settled employee benefit plan | 20 | – | – | – | – | 0.7 | 0.7 |
| Treasury share buy-back | 21 | – | – | – | – | -17.1 | -17.1 |
| Disposal of treasury shares | 21 | – | – | – | – | 0.7 | 0.7 |
| Dividend paid | 9 | – | – | – | – | -54.0 | -54.0 |
| **Total transactions with owners** | | **–** | **–** | **–** | **–** | **-69.6** | **-69.6** |
| **At 31 December 2016** | | **0.1** | **81.5** | **14.7** | **-42.9** | **190.1** | **243.5** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | – | – | – | – | 117.4 | 117.4 |
| **Other comprehensive income** | | | | | | | |
| Translation adjustment | | – | – | 3.9 | – | – | 3.9 |
| **Total comprehensive income** | | **–** | **–** | **3.9** | **–** | **117.4** | **121.3** |
| **Transactions with owners** | | | | | | | |
| Share awards – value of employee services | 20 | – | – | – | – | 0.6 | 0.6 |
| Equity settled employee benefit plan | 20 | – | – | – | – | 1.9 | 1.9 |
| Deferred tax credit relating to share award schemes | | – | – | – | – | 0.5 | 0.5 |
| Disposal of treasury shares | 21 | – | – | – | – | 1.0 | 1.0 |
| Dividend paid | 9 | – | – | – | – | -70.6 | -70.6 |
| **Total transactions with owners** | | **–** | **–** | **–** | **–** | **-66.6** | **-66.6** |
| **At 31 December 2017** | | **0.1** | **81.5** | **18.6** | **-42.9** | **240.9** | **298.2** |

The notes on pages 61 to 86 are an integral part of these financial statements.

# Consolidated cash flow statement

| GBP m | Note | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit from operations | | 137.7 | 96.9 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 12 | 7.2 | 5.1 |
| Amortisation of intangible assets | 11 | 31.1 | 18.7 |
| Impairment losses recognised in the year | 11 | 4.3 | – |
| Loss on disposal of property, plant and equipment | 4 | 0.1 | 0.2 |
| Loss on disposal of intangible assets | 4 | 0.2 | 0.1 |
| Share-based payments | 20 | 1.6 | 0.6 |
| Equity settled employee benefit plan | 20 | 1.9 | 0.7 |
| Increase in trade and other receivables[1] | | -4.2 | -7.8 |
| Increase in trade and other payables, including customer balances | | 39.1 | 13.7 |
| **Cash flows from operating activities** | | **219.0** | **128.2** |
| Net income taxes paid | | -15.9 | -6.5 |
| **Net cash generated from operating activities** | | **203.1** | **121.7** |
| | | | |
| **Investing activities** | | | |
| Acquisition of subsidiary, net of cash acquired | | -155.6 | – |
| Settlement of contingent consideration | 22 | – | -16.7 |
| Interest received | | 0.2 | 0.2 |
| Interest paid | | -3.8 | -0.8 |
| Purchases of other non-current assets[1] | | -6.6 | – |
| Purchases of property, plant and equipment | 12 | -18.3 | -10.4 |
| Proceeds from sale of property, plant and equipment | | – | 0.5 |
| Development and acquisition costs of intangible assets | 11 | -20.4 | -19.2 |
| **Net cash used in investing activities** | | **-204.5** | **-46.4** |
| | | | |
| **Financing activities** | | | |
| Dividend paid | 9 | -70.6 | -54.0 |
| Disposal of treasury shares | 21 | – | 0.2 |
| Treasury share buy-back | 21 | – | -17.1 |
| Proceeds from borrowings | | 233.7 | 51.7 |
| Repayment of borrowings | | -95.3 | -58.8 |
| **Net cash generated from/(used in) financing activities** | | **67.8** | **-78.0** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **66.4** | **-2.7** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | | **89.4** | **83.4** |
| | | | |
| Effect of foreign exchange rate changes | | 3.3 | 8.7 |
| **Cash and cash equivalents at the end of the year** | 28 | **159.1** | **89.4** |

The notes on pages 61 to 86 are an integral part of these financial statements.

1 Payments and refunds of long-term deposits (such as rental deposits) recognised in 2017 have been reclassified from investing activities to operating activities to better represent the nature of the transactions.

# Notes to the consolidated financial statements

## 1: Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs EU), applicable interpretations issued by the IFRS Interpretations Committee (IFRS IC) and the Maltese Companies Act (Cap 386).

The consolidated financial statements have been prepared under the historical cost convention, subject to modification where appropriate by the revaluation of financial assets and liabilities at fair value through profit or loss. The individual parent financial statements have been prepared separately.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a minimum of twelve months following the signing of these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The preparation of financial statements in conformity with IFRSs EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2B.

**(a) New and amended standards and interpretations effective from 1 January 2017 and adopted by the Group**

The Group has applied the following standards and amendments for the first time for the financial year commencing 1 January 2017:

> Amendments to IAS 7, Statement of cash flows on disclosure initiative
> Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses
> Annual improvements 2014–2016 – IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard

As these amendments merely clarify the existing requirements, they do not affect the Group's accounting policies or any of the disclosures within the consolidated financial statements.

**(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted**

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 15 is effective from 1 January 2018. The Group has made an initial assessment of the impact of IFRS 9 on its financial statements and does not expect any material changes in relation to the classification, measurement and recognition of financial assets and financial liabilities other than additional disclosure requirements.

IFRS 15 'Revenue from contracts with customers', replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application i.e. without restating the comparative period. IFRS 15 is effective from 1 January 2018. The Group has assessed the impact of IFRS 15 on its financial statements and identified that any impact will be limited to Poker Gross winnings revenue as all other Gross winnings revenue is measured under IAS 39. From this assessment, the Group believe there will be no significant changes to the method by which Poker Gross winnings revenue is currently recognised as a result of adopting IFRS 15.

IFRS 16, "Leases", sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from contracts with customers. IFRS 16 completes the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. The Group is yet to assess IFRS 16's full impact and intends to adopt IFRS 16 from 1 January 2019.

The following amendments have also been issued but are not yet effective, and have not been early adopted:

> Annual improvements 2014–2016
> IFRIC 22, 'Foreign currency transactions and advance consideration'
> IFRIC 23, 'Uncertainty over income tax treatments'
> Amendments to IFRS 2, 'Share-based payments', on clarifying how to account for certain types of share-based payment transactions
> Amendments to IAS 28

There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

# Notes to the consolidated financial statements continued

## 2A: Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Kindred Group plc “the Company” and enterprises controlled by the Company “its subsidiaries” made up to 31 December each year. Control is achieved where the Company has the ability to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group. All intercompany transactions and balances between Group companies are eliminated on consolidation.

Subsidiaries are consolidated, using the purchase method of accounting, from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 3 through the income statements. Acquisition-related costs are expensed as incurred.

All associate entities and joint ventures are accounted for by applying the equity accounting method. The Group’s policy surrounding associates and joint ventures is outlined on page 64 and they are discussed further on page 77.

**Items affecting comparability**

The Group defines items affecting comparability as those items which, by their size or nature in relation to both the Group and individual segments, should be separately disclosed in order to give a full understanding of the Group’s underlying financial performance, and aid comparability of the Group’s results between periods.

Items affecting comparability include, to the extent they are material, merger and acquisition transaction costs, management incentive costs relating to acquisitions, amortisation of acquired assets and foreign currency gains and losses on operating items.

**Revenue recognition**

The Group provides online gaming services across the following: Sports betting, Casino and Games, Poker and other products.

Gross winnings revenue on Sports betting is defined as the net gain or loss from bets placed after the cost of promotional bonuses within the financial period. Where it is not probable that open sports bets at the end of the financial period will be settled, the associated Gross winnings revenue is deferred and presented at fair value as deferred income on the balance sheet.

Within Casino & Games the Group defines Gross winnings revenue as the net gain from bets placed after the cost of promotional bonuses in the financial period.

The Group considers Gross winnings revenues on Sports betting and Casino and Games to be derivative financial instruments.

Poker Gross winnings revenue reflects the net income (“rake”) earned from poker games completed after the cost of promotional bonuses within the financial period.

Other Gross winnings revenues include those from Bingo and other products. Bingo Gross winnings revenues are recognised as the net gain from bets placed after the cost of promotional bonuses in the financial period. Other product revenues represent gaming services provided within the financial period.

**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-makers, who are responsible for allocating resources and assessing the performance of the operating segments, have been identified as the Chief Executive Officer and the Executive Committee who, subject to authorisation by the Board, make strategic decisions.

**Leases**

The Group’s leases are currently all operating leases (leases in which a significant portion of the risks and rewards of ownership are retained by the lessor). Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease (net of any incentive received from the lessor).

**Foreign currencies**

The Group operates in Malta and in a number of international territories. The presentation currency of the consolidated financial statements is GBP since that is the currency in which the shares of the Company are denominated.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates, being the functional currency.

Transactions in currencies other than the presentation currency of the Company are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the net profit or loss for the year. Gains and losses arising on operations are recognised within items affecting comparability.

Gains and losses related to financing, including unrealised gains and losses arising on the retranslation of borrowings, are recognised within finance costs or finance income where the financing has not been matched to the currency of a specific acquisition. Where financing has been required in a specific currency to complete an acquisition, the Group considers the borrowing to be a hedging instrument and any gains and losses arising on the retranslation are transferred to the Group’s currency translation reserve.

The Group does not enter into forward contracts nor options to hedge its exposure to foreign exchange risks.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the exchange rate on the date of the transaction. Exchange differences arising on the translation of subsidiary reserves are classified as equity and transferred to the Group's currency translation reserve.

Translation differences relating to long term non-trading inter-company balances are also included within the Group's currency translation reserve.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised within the Group's currency translation reserve.

**Retirement benefit costs and pensions**
The Group does not operate any defined benefit pension schemes for employees or Directors. Certain Group companies make contributions to defined contribution pension schemes for employees on a mandatory or contractual basis. The Group has no further payment obligations once the contributions have been paid. The Group does not provide any other post-retirement benefits.

**Taxation**
The tax expense represents the sum of the tax currently payable, and movements in the deferred tax provision.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax may be offset where appropriate.

**Goodwill**
Goodwill arising on an acquisition of a subsidiary undertaking is deemed to be the excess of the:
- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired.

Goodwill is carried at cost, less accumulated impairment losses.

Any contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**Other intangible assets**
Other intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss.

An internally-generated development intangible asset is recognised at cost only if all of the following criteria are met:
(i) An asset is created that can be identified (such as a database or software);
(ii) There is an intention, the ability and the internal resource to use the asset;
(iii) It is probable that the asset created will generate future economic benefits;
(iv) The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over three to five years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities is recognised at cost as an expense in the period in which it is incurred.

Intangible assets identified as a result of a business combination are dealt with at fair value in line with IAS 38, and are brought on to the consolidated balance sheet at the date of acquisition. Where they arise as a result of the acquisition of a foreign entity they are treated as assets of the acquired entity and are translated at the closing rate.

Acquired intangibles include brands, customer databases, development costs and trade names. The Maria, 32Red, Roxy Palace and some of the iGame collection of brands together with the Bingo.com and iGame domains are considered to have indefinite economic lives as allowed by the standard and are therefore not subject to amortisation. Instead they are subject to annual impairment tests, allocated to cash-generating units alongside goodwill. All other acquired intangible assets are being amortised on a straight-line basis over three to five years, as the Directors believe this to be their useful economic life.

# Notes to the consolidated financial statements continued

## 2A: Summary of significant accounting policies continued

### Computer software
Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring in to use the specific software. These costs are amortised on a straight-line basis over their estimated useful life of three years. Computer software is carried at cost less accumulated amortisation and any recognised impairment losses. Costs associated with maintaining computer software are expensed as incurred.

### Impairment of non-financial assets
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows: i.e. cash-generating units. Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### Associated companies and joint ventures
Associated companies are all companies over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Joint ventures are all companies over which the Group has joint control, generally accompanying a shareholding of approximately 50 per cent of the voting rights.

Investments in associated companies and joint ventures have been reported according to the equity method. This means that the Group's share of income after taxes in an associated company or a joint venture is reported as part of the Group's income. Investments in such a company are reported initially at cost, increased, or decreased to recognise the Group's share of the profit or loss of the associated company after the date of acquisition.

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company or joint venture.

Gains or losses on transactions with associated companies and joint ventures, if any, have been recognised to the extent of unrelated investors' interests in the associate or joint ventures.

Accounting policies of associate companies and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bring the asset to working condition for its intended use.

Depreciation is charged so as to write off the cost, less the estimated residual value, of the assets over their estimated useful lives, using the straight-line method, on the following bases:

- Office equipment, fixtures and fittings, 3-5 years
- Computer hardware, 3 years
- Buildings, 40 years or length of leasehold
- Land, not depreciated

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised within administrative expenses in the consolidated income statement.

The residual values of assets and their useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

If any impairment is identified in the carrying value of an asset, it is written down to its recoverable amount.

### Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### Financial assets
The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets at initial recognition.

#### (a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include options on convertible loan instruments. If such a financial asset is acquired principally for the purpose of selling in the short term they are classified as current assets. If a financial asset is acquired with expected future cash flows or benefits over periods greater than 12 months they are classified as non-current assets.

#### (b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets and comprise trade and other receivables, cash equivalents, and loan instruments of convertible loans in the balance sheet.

Those loans and receivables with maturities greater than 12 months after the balance sheet date are classified as other non-current assets. These comprise gaming and rental deposits.

Regular purchases and sales of financial assets are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

**Trade and other receivables**
Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment that is required when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivables. Other receivables also include financial assets at fair value through profit or loss. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the assets' carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate.

**Financial liabilities**
Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortised cost, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The measurement of financial liabilities depends on their classification (i) financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement; and (ii) financial liabilities measured at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other revenues and finance costs.

The Group derecognises a financial liability from its balance sheet when the obligation specified in the contract or arrangement is discharged, cancelled or expires.

**Trade, other payables and customer balances**
Trade and other payables and customer balances are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Deferred income**
Deferred income, representing revenue which can be measured reliably but where transactions have not closed at the balance sheet date, is recognised at fair value with gains or losses recognised in the income statement.

**Offsetting**
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**Borrowings and finance costs**
Borrowings are initially recognised at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Interest paid in the consolidated cash flow statement is presented within investing activities as opposed to financing activities, as the principal use of the borrowings to which they relate are to fund expansion of the business, such as via acquisition.

**Share-based employee remuneration**
The Group operates several equity-settled share-based compensation plans, under which Group companies receive services from employees as consideration for equity instruments (performance shares) in Kindred Group plc. The fair value of the employee services received in exchange for the grant of performance shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the performance shares granted, including market performance conditions and the impact of any non-vesting conditions, and excluding the impact of any service or vesting conditions. Non-market performance and service conditions are included in assumptions about the number of share-based payments that are expected to vest. The total amount expensed is recognised over the vesting period of the share-based payments, which is between three and four years.

The grant by the Company of performance share awards to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the Company's financial statements.

At the end of each reporting period, the Group revises the estimates of the number of share-based payments that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When share-based payments are exercised, the Company may issue new shares. Proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

With respect of cash settled share-based payments, the Group measures goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognised in profit or loss for the period.

# Notes to the consolidated financial statements continued

## 2A: Summary of significant accounting policies continued

**Cash and cash equivalents, and finance income**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, payment solution providers and other short-term highly liquid investments with original maturities of three months or less.

Finance income is recognised on bank balances using the effective interest method as and when it accrues.

**Dividend distribution**

Dividends are recognised as a liability in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

## 2B: Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Impairment of goodwill and other intangible assets**

The Group tests annually whether goodwill and other intangible assets have suffered any impairment, in accordance with the accounting policy stated on page 63. The recoverable amount of cash-generating units has been determined based on value-in-use calculations which require the use of estimates (see Note 11).

**Income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business.

**Legal environment**

The Group operates in a number of markets in which its operations may be subject to litigation risks, as highlighted on pages 41 and 42. The Group routinely makes estimates concerning the potential outcome of such risks.

**Valuation of intangible assets on acquisition**

The Group exercises judgement in determining the fair value of acquired intangibles on business combinations. Such assets include brands, customer databases, domains and capitalised research and development. The judgements made are based on recognised valuation techniques such as the Relief from Royalty Method for brands, recognised industry comparative data and the Group's industry experience and specialist knowledge. See Note 11 for additional information.

## 2C: Financial risk management

**Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the Group's markets and seeks to minimise potential adverse effects on the Group's financial performance. Financial risk management is managed by the finance team reporting through the Chief Financial Officer to the Board of Directors. The Board of Directors supervises strategic decisions, including the management of the Group's capital structure.

**Market risk**

Market risk is the risk that the Group will lose money on its business due to unfavourable outcomes on the events where the Group offers odds. The Group has adopted specific risk management policies that control the maximum risk level for each sport or event where the Group offers odds. The results of the most popular teams in major football leagues comprise the predominant market risk. Through diversification, which is a key element of the Group's business, the risk is spread across a large number of events and sports.

In respect of betting on other products, the Group does not usually incur any significant financial risk, except for the risk of fraudulent transactions considered within credit risk overleaf.

**Foreign currency exchange risk**

The Group operates internationally and in addition to GBP sterling, is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, Swedish krona, Norwegian kroner, Danish krone and Australian dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's operating cash flows provide a natural hedge of operating currency risks, since deposits and pay-outs to customers in different territories are matched in the same currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. In addition, the Group reports in GBP sterling, which is the currency in which its own share capital is denominated, although it is incorporated and trading in Malta.

The spread of the Group's operations, including material revenue and expenses denominated in many different currencies, and taking into account the fact that customers can trade with the Group in currencies other than the currency of their territory of residence, makes it impractical to isolate the impact of single currency movements on the results from operations. During 2017 the rate of exchange of the euro strengthened against GBP by 3.5 per cent (from a rate of EUR 1.168 per GBP to a rate of EUR 1.127 per GBP). The rate of exchange of the Swedish krona strengthened by 0.6 per cent (from a rate of SEK 11.157 per GBP to a rate of SEK 11.095 per GBP). These movements in some of the Group's principal trading currencies contributed to the overall foreign exchange loss on operations as shown in Note 4 on page 70.

Additional foreign exchange disclosures are contained in Note 17 on page 78.

As an element of the Group's borrowings at the end of the financial year are denominated in EUR and SEK, there is a currency translation exposure related to that financial liability. Based on the exchange rate between these currencies and GBP at 31 December 2017, a 2 per cent fall in the value of GBP against both EUR and SEK would give rise to an exchange loss of approximately GBP 0.7 million. Until such time as the loan becomes repayable such translation gains and losses are unrealised. On repayment these gains and losses are recognised in the income statement. Where the borrowings have been matched to the currency of an acquisition any such translation gains and losses are reflected in the Group's currency translation reserve.

However at the year end, the Group does have access to multicurrency revolving loan facilities of EUR 112 million and GBP 68 million with a leading international bank and at such time that the Group draws down further on the facility a currency translation exposure related to that financial liability may arise. Any potential future translation gains and losses arising on the loan would be offset to the extent that the Group generates positive future cash flows in the corresponding currency.

**Interest rate risk**

The Group's interest rate risk is managed through the negotiation of fixed rates above EURIBOR (or the relevant equivalent inter-banking lending rate) on the individual tranches of the bank borrowings.

The substantial majority of the Group's liquid resources are held in short-term accounts in order to provide the necessary liquidity to fund the Group's operations, so there is no significant exposure to interest rate risk in respect of the Group's interest-bearing assets and liabilities.

**Credit risk**

The Group manages credit risk on a Group-wide basis. The Group does not offer credit to any customers, with the exception of a select group of Australian customers in accordance with accepted commercial practice in the Australian market. Therefore the only exposure to credit risk in respect of its sports betting business arises in respect of the limited trading activities that it occasionally conducts with other parties in order to lay off its exposure. In respect of betting on other products, the Group works with a small number of partners and at any time may have a small degree of credit exposure.

The principal credit risk that the Group faces in its gaming operations comes from the risk of fraudulent transactions and the resulting chargebacks from banks and other payment providers. The Group has a fraud department that is independent of its finance function that investigates each case that is reported and also monitors the overall level of such transactions in connection with changes in the business of the Group, whether in terms of new markets, new products or new payment providers.

The Group also manages credit risk by using a large number of banking and payment solution providers. See Note 2F on page 68.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding for the business. As at 31 December 2017, the current liabilities of the Group exceeded the current assets by GBP 53.6 (2016: GBP 63.0) million. The Group ensures adequate liquidity through the management of rolling cash flow forecasts, the approval of investment decisions by the Board and the negotiation of appropriate financing facilities. These forecasts show that the Group is in a positive cash flow position. As at 31 December 2017, the unused revolving loan facility available to be drawn on was GBP 59.7 million (see Note 18 on page 79). The Group also monitored adherence to debt covenants that related to the Revolving Credit Facility in accordance with the conditions of those instruments, and has been fully compliant with such conditions.

Of the Group's total financial liabilities of GBP 364.5 (2016: GBP 167.2) million, GBP 231.5 (2016: GBP 167.2) million mature in less than one year and GBP 133.0 (2016: GBP nil) million mature in more than one year. The Group always maintains cash balances in excess of customer balances.

The table below analyses the Group's financial liabilities based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. See also Notes 14 and 16 for further information on the Group's financial liabilities.

| | At December 2017 | | | At 31 December 2016 | | |
|---|---|---|---|---|---|---|
| **GBP m** | **Less than 1 year** | **Between 1–2 years** | **Between 2–5 years** | **Less than 1 year** | **Between 1–2 years** | **Between 2–5 years** |
| Deferred income | 4.4 | – | – | 4.2 | – | – |
| Trade and other payables[1] | 107.0 | – | – | 57.6 | – | – |
| Customer balances | 57.5 | – | – | 50.8 | – | – |
| Borrowings | 62.6 | 133.0 | – | 54.6 | – | – |
| **Total** | **231.5** | **133.0** | **–** | **167.2** | **–** | **–** |

1 Excluding non-financial liabilities.

### 2D: Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure both to reduce the cost of capital and to provide appropriate funding for expansion of the business. The Group has a consistent record of positive operating cash flows as well as significant ability to manage the timing and extent of discretionary expenditure in the business.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

# Notes to the consolidated financial statements continued

## 2E: Fair value estimation

The carrying value less impairment provision of trade and other receivables and trade and other payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

For further information on fair value estimates see Note 14 on page 78.

## 2F: Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Since the Group does not have significant trade receivables other than payment solution providers, the credit risk associated with its normal operations is principally in relation to fraudulent transactions as described in Note 2C on page 66.

The Group uses a large number of banks and payment solution providers both in order to provide maximum access to markets and convenience for customers and also to ensure that credit risk in banking relationships is spread.

The credit ratings of the Group's principal banking partners at 31 December 2017 and 2016, based on publicly reported Fitch ratings, are as follows:

| GBP m | 2017 | 2016 |
|---|---|---|
| AA- | 48.4 | 26.2 |
| A+ | 23.5 | 6.8 |
| A | 10.2 | 0.1 |
| A- | 0.6 | 0.2 |
| BBB+ | – | 1.2 |
| BBB | 15.6 | 14.2 |
| BBB- | 1.9 | – |
| BB+ | 1.9 | – |
| Not rated | 56.9 | 40.6 |
| Other | 0.1 | 0.1 |
| **Total cash and cash equivalents** | **159.1** | **89.4** |

The Group continually monitors its credit risk with banking partners and did not incur any losses during 2017 as a result of bank failures.

"Not rated" consists of payment solution providers where credit risk is managed by maintaining a spread of the Group's funds across a number of industry established providers.

The maximum exposure to credit risk for cash and cash equivalents, and trade and other receivables, is represented by their carrying amount.

## 3: Operating segments

Management has determined the operating segments based on the reports reviewed by the CEO and Executive Committee and provided to the Board, which are used to make strategic decisions.

Management considers the business primarily from a geographic perspective, emphasising the primary role of territory management in driving the business forward. Products and brands are also an important part of the Group's operational matrix. However, the product teams are considered as suppliers of products and services to the territory managers. This reflects the fact that products may be sourced both internally and externally from independent suppliers. Brands are also managed from a geographic perspective by the territory managers.

The reportable operating segments derive their revenues from online Sports Betting, Casino & Games, Poker and other betting operations.

The primary measure used by the CEO and Executive Committee to assess the performance of operating segments is gross profit, which is defined as Gross winnings revenue (net of bonuses), less cost of sales. This measurement basis excludes central overheads incurred in support of the integrated operating model applied by the Group in order to derive maximum operational efficiency.

The Group does not allocate such central operating and administrative expenses by segment since any allocation would be arbitrary. The measure also excludes the effects of equity-settled share-based payments, depreciation and amortisation, and finance costs and income.

The Group operates an integrated business model and does not allocate either assets or liabilities of the operating segments in its internal reporting.

The segment information provided to the CEO and the Executive Committee for the reportable segments during the year ended 31 December 2017 is as follows:

| 31 December 2017<br>GBP m | Nordic Region | Western Europe | Central, Eastern and Southern Europe | Other | Total |
|---|---|---|---|---|---|
| Gross winnings revenue | 297.0 | 385.0 | 51.1 | 18.3 | **751.4** |
| Betting duties | -8.1 | -94.6 | -5.3 | -5.6 | **-113.6** |
| Marketing revenue share | -17.3 | -16.6 | -4.7 | -2.7 | **-41.3** |
| Other cost of sales | -56.4 | -51.2 | -10.8 | -6.8 | **-125.2** |
| **Gross profit** | **215.2** | **222.6** | **30.3** | **3.2** | **471.3** |
| | | | | | |
| Marketing costs | | | | | **-145.3** |
| Administrative expenses | | | | | **-161.5** |
| **Items affecting comparability** | | | | | **-26.8** |
| **Profit from operations** | | | | | **137.7** |

The segment information provided to the CEO and the Executive Committee for the reportable segments during the year ended 31 December 2016 is as follows:

| 31 December 2016<br>GBP m | Nordic Region | Western Europe | Central, Eastern and Southern Europe | Other | Total |
|---|---|---|---|---|---|
| Gross winnings revenue | 239.9 | 246.5 | 45.7 | 12.0 | **544.1** |
| Betting duties | -7.4 | -53.4 | -3.8 | -3.1 | **-67.7** |
| Marketing revenue share | -13.6 | -9.8 | -4.9 | -1.5 | **-29.8** |
| Other cost of sales | -49.7 | -38.9 | -9.1 | -4.1 | **-101.8** |
| **Gross profit** | **169.2** | **144.4** | **27.9** | **3.3** | **344.8** |
| | | | | | |
| Marketing costs | | | | | **-114.7** |
| Administrative expenses | | | | | **-121.4** |
| **Items affecting comparability** | | | | | **-11.8** |
| **Profit from operations** | | | | | **96.9** |

**Product revenues**
Gross winnings revenue by principal product groups:

| GBP m | 2017 | 2016 |
|---|---|---|
| Sports betting | 346.5 | 245.5 |
| Casino & Games | 367.3 | 269.4 |
| Poker | 15.2 | 12.5 |
| Other | 22.4 | 16.7 |
| | **751.4** | **544.1** |

# Notes to the consolidated financial statements continued

## 4: Expenses by nature

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Betting duties | 113.6 | 67.7 |
| Marketing revenue share | 41.3 | 29.8 |
| Other cost of sales | 125.2 | 101.8 |
| Marketing costs | 145.3 | 114.7 |
| **Administrative expenses** | | |
| Fees payable to statutory auditor | 0.8 | 0.7 |
| Operating lease rentals | 8.9 | 3.0 |
| Depreciation of property, plant and equipment | 7.2 | 5.1 |
| Amortisation of intangible assets | 14.8 | 10.5 |
| Loss on disposal of property, plant and equipment | 0.1 | 0.2 |
| Loss on disposal of intangible assets | 0.2 | 0.1 |
| Employee costs | 74.3 | 59.3 |
| Research and development expenditure | 25.3 | 19.9 |
| Other | 29.9 | 22.6 |
| **Total administrative expenses** | **161.5** | **121.4** |
| **Items affecting comparability** | | |
| Merger and acquisition transaction costs | 3.2 | – |
| Management incentive costs relating to acquisitions | 1.5 | 3.0 |
| Accelerated amortisation of acquired intangible assets | 9.2 | – |
| Amortisation of acquired intangible assets | 11.4 | 8.2 |
| Foreign exchange losses on operating items | 1.5 | 0.6 |
| **Total items affecting comparability** | **26.8** | **11.8** |

As explained within the accounting policy note on page 62, the Group defines items affecting comparability as those items which, by their size or nature in relation to both the Group and individual segments, should be separately disclosed in order to give a full understanding of the Group's underlying financial performance, and aid comparability of the Group's results between years.

In 2017, items affecting year-on-year comparison included:

> Merger and acquisition costs associated with the acquisition of 32Red amounting to GBP 3.2 million.

> Management incentive costs of GBP 1.5 (2016: GBP 3.0) million relating to the acquisition of 32Red in June 2017 and the acquisitions of iGame and Stan James Online in 2015.

> As a result of the rationalisation of its brands, the ongoing migration of acquired brands to the Group's platform and reassessment of the fair value of acquired intangibles, the Group has taken a non-recurring, non-cash amortisation charge of GBP 9.2 million. Of this, GBP 4.3 million relates to the impairment of Betchoice goodwill, GBP 2.0 million relates to the discontinuing of the Stan James brand, and GBP 2.0 million relates to the Bohemia brand following the Group's decision to no longer operate in the Czech Republic. The remaining GBP 0.9 million is in relation to technology which will no longer be used following the migration of acquired businesses onto the Group's platform. For more information, please refer to Note 11.

> Amortisation of acquired intangible assets within items affecting comparability is the charge on IFRS 3 Business combination acquired assets over the useful economic life of the asset, and is included as part of the Group's total amortisation charge shown in Note 11 on page 74.

Fees payable to the statutory auditors, PricewaterhouseCoopers, can be broken down as follows:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Annual statutory audit | 0.7 | 0.6 |
| Other assurance services | 0.1 | 0.1 |
| | **0.8** | **0.7** |

The annual statutory audit fee in 2017 includes fees for the local statutory audits of some recently acquired businesses.

Other assurance services relate to sustainability reporting and permissible tax compliance work conducted outside the EU.

## 5: Employee costs

Employee costs can be broken down as follows:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Wages and salaries | 58.6 | 48.3 |
| Share award charge – value of employee services (see Note 20) | 1.6 | 0.8 |
| Equity settled employee benefit plan (see Note 20) | 1.9 | 0.7 |
| Social security costs | 9.4 | 7.4 |
| Pension costs | 2.8 | 2.1 |
| | **74.3** | **59.3** |

The remuneration of the Directors and Executive Committee is disclosed on page 47.

Average employee numbers are provided as below:

| Average number of employees for the year | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Finance, administration and management | 322 | 282 |
| Marketing (including trading) | 475 | 443 |
| Customer services | 249 | 191 |
| Research and development | 271 | 223 |
| | **1,317** | **1,139** |

## 6: Finance costs

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Interest and fees payable on bank borrowings | 3.5 | 0.9 |
| Foreign exchange loss on iGame earnout payment | – | 2.2 |
| | **3.5** | **3.1** |

Foreign exchange gains or losses on operating activities are included within items affecting comparability.

## 7: Finance income

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Interest receivable on convertible bond and bank deposits | 0.3 | 0.2 |
| | **0.3** | **0.2** |

## 8: Income tax expense

| GBP m | Note | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| **Current tax:** | | | |
| Income tax expense | | 19.2 | 9.6 |
| **Deferred tax:** | | | |
| Deferred tax credit | 19 | -4.6 | -0.7 |
| **Total tax expense** | | **14.6** | **8.9** |

Income tax in Malta is calculated at a basic rate of 35 per cent (2016: 35 per cent) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Regarding the UK jurisdiction, as a result of the changes in the UK corporation tax rate to 19 per cent which was substantively enacted on 26 October 2015 and effective from 1 April 2017 and to 18 per cent which was substantively enacted on 26 October 2015 and effective from 1 April 2020, the relevant deferred tax balances have been remeasured.

The tax expense for the year can be reconciled to the profit per the income statement as follows:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Profit before tax | 132.0 | 92.8 |
| Taxation at the basic income tax rate of 35% (2016: 35%) | 46.2 | 32.5 |
| Effects of: | | |
| Tax recoverable[1] | -38.4 | -20.6 |
| Overseas tax rates | -6.5 | -4.5 |
| Items of income/expenditure not taxable/deductible | 3.9 | 1.1 |
| Other | 9.4 | 0.4 |
| **Tax expense** | **14.6** | **8.9** |

1 The tax recoverable of GBP 38,365,000 (2016: 20,549,000) represents Malta tax refundable in accordance with applicable fiscal legislation on intra-Group dividends distributed during the year and the Malta tax that shall be recoverable upon distribution of unremitted earnings.

# Notes to the consolidated financial statements continued

## 8: Income tax expense continued

The income tax (credited)/expensed directly to equity during the year is as follows:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Current tax credit in relation to:** | | |
| Share-based payments | -0.1 | – |
| **Deferred tax (credit)/charge in relation to:** | | |
| Share-based payments | -0.3 | 0.2 |
| **Total income tax recognised directly in equity** | **-0.4** | **0.2** |

## 9: Dividend

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Dividend paid GBP 0.310 per share (2016: GBP 0.235 per share) | **70.6** | 54.0 |

The Board of Directors is proposing a final dividend in respect of the financial year ending 31 December 2017 of GBP 0.551 per ordinary share/SDR, which will absorb an estimated GBP 125.5 million of shareholders' funds. If approved at the AGM on 15 May 2018, the dividend will be paid on 22 May 2018 to shareholders who are on the Euroclear Sweden register on 17 May 2018.

The Board has reviewed the projected cash requirements for 2018 and is proposing a dividend of approximately 75 per cent of the Group's free cash flow for 2017. This is in line with the dividend policy to distribute surplus cash.

## 10: Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share | **117.4** | 83.9 |
| Earnings for the purposes of diluted earnings per share | **117.4** | 83.9 |
| **Number of shares** | | |
| Weighted average number of outstanding shares for the purposes of basic earnings per share | **227,652,726** | 229,096,939 |
| Effect of dilutive potential ordinary shares – share awards | **1,059,833** | 640,963 |
| Weighted average number of outstanding shares for the purposes of diluted earnings per share | **228,712,559** | 229,737,902 |
| **Earnings per share GBP** | | |
| Basic earnings per share | **0.516** | 0.366 |
| Fully diluted earnings per share | **0.513** | 0.365 |

The nominal value per share is GBP 0.000625.

## 11: Intangible assets

| GBP m | Note | Goodwill | Other intangible assets: Development costs | Computer software | Customer database | Brands and other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2016 | | 172.0 | 70.6 | 10.5 | 26.8 | 54.4 | **162.3** |
| Additions | | – | 14.5 | 4.7 | – | – | **19.2** |
| Disposals | | – | -0.2 | -2.8 | – | – | **-3.0** |
| Currency translation adjustment | | 12.9 | 1.0 | 0.5 | 1.9 | 6.5 | **9.9** |
| **At 31 December 2016** | | **184.9** | **85.9** | **12.9** | **28.7** | **60.9** | **188.4** |
| Additions | | – | 18.1 | 2.3 | – | – | **20.4** |
| Additions – through business combinations | 22 | 96.9 | – | 0.3 | 15.3 | 62.9 | **78.5** |
| Disposals | | – | -0.5 | – | – | – | **-0.5** |
| Currency translation adjustment | | 1.6 | – | 0.1 | 0.4 | 1.3 | **1.8** |
| **At 31 December 2017** | | **283.4** | **103.5** | **15.6** | **44.4** | **125.1** | **288.6** |
| **Accumulated amortisation** | | | | | | | |
| At 1 January 2016 | | – | 52.9 | 7.6 | 12.7 | 3.2 | **76.4** |
| Charge for the year | | – | 11.1 | 2.1 | 5.4 | 0.1 | **18.7** |
| Disposals | | – | -0.2 | -2.7 | – | – | **-2.9** |
| Currency translation adjustment | | – | 0.5 | 0.4 | 1.0 | 0.4 | **2.3** |
| **At 31 December 2016** | | **–** | **64.3** | **7.4** | **19.1** | **3.7** | **94.5** |
| Charge for the year | | – | 15.3 | 3.0 | 8.1 | 4.7 | **31.1** |
| Impairment losses recognised in the year | | 4.3 | – | – | – | – | – |
| Disposals | | – | -0.3 | – | – | – | **-0.3** |
| Currency translation adjustment | | – | 0.1 | – | 0.3 | 0.1 | **0.5** |
| **At 31 December 2017** | | **4.3** | **79.4** | **10.4** | **27.5** | **8.5** | **125.8** |
| **Net book value** | | | | | | | |
| **At 31 December 2017** | | **279.1** | **24.1** | **5.2** | **16.9** | **116.6** | **162.8** |
| At 31 December 2016 | | 184.9 | 21.6 | 5.5 | 9.6 | 57.2 | 93.9 |

Goodwill balances related to acquisitions and other intangible assets were subject to foreign currency adjustments as shown in the above table and explained within the Group's accounting policies outlined in Note 2A on page 63.

Goodwill, some brands and domains arising on business combinations, together with any material separately acquired brands or domains are not subject to amortisation, but are reviewed annually or more frequently if events require for impairment, as described on the next page. The amortisation periods for all other classes of intangible assets are outlined in Note 2A on page 63.

Customer databases recognised as a result of previous acquisitions are amortised over three years. The increased charge this year is due to the acquisition of 32Red.

# Notes to the consolidated financial statements continued

## 11: Intangible assets continued

### Impairment review

#### Goodwill

Goodwill is allocated by management to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units to which goodwill is monitored are reviewed for appropriateness each year and are outlined below:

| CGU | GBP m | Description |
|---|---|---|
| Group operations | 169.8 | Following the acquisitions of the MrBookmaker Group in 2005, the Maria Group in 2007, Guildhall Media Invest in 2008, Bet24 in 2012 and iGame and Stan James Online in 2015, the activities and customers of the acquired businesses have been integrated into the existing businesses of the Kindred Group and the combined businesses are now managed on a unified basis. Management considers the combined business to be one cash-generating unit, as the originally purchased businesses are no longer separately identifiable. |
| Solfive | 5.7 | The acquisition of Solfive (acquired 12 December 2011) has continued to operate on a substantially separate basis at 31 December 2017 as a result of regulatory requirements. It is therefore considered to be a separate cash-generating unit at the year end. |
| Betchoice | 6.7 | The acquisition of Betchoice (acquired 29 February 2012) has continued to operate on a substantially separate basis at 31 December 2017 as a result of regulatory requirements. It is therefore considered to be a separate cash-generating unit at the year end. |
| 32Red | 96.9 | The acquisition of 32Red (acquired 9 June 2017) has continued to operate on a substantially separate basis at 31 December 2017. It is therefore considered to be a separate cash-generating unit. |
| **Total** | **279.1** | |

The total goodwill of GBP 279.1 million was tested for impairment on a value-in-use basis, based on the plans approved by the Board and extrapolated pre-tax projections allocated to the above cash-generating units using growth rates and assumptions consistent with the Group's experience and industry comparatives. Based on the Group's impairment review no indication of impairment has been identified on the separate cash-generating units, with the exception of Betchoice where the carrying amount of its goodwill has been reduced by GBP 4.3 million to its recoverable amount. This reduction represents the impairment loss and has been recognised within accelerated amortisation of intangible assets in the consolidated income statement. Events and circumstances that led to the recognition of the impairment include the recent regulatory changes and the anticipated implementation of further point of consumption taxes that are expected to impact the profitability of Betchoice in the near future.

In carrying out their assessment of the goodwill, the Board believe there are no other cash-generating units, other than Betchoice, where reasonably possible changes to the underlying assumptions exist that would give rise to impairment. The recoverable amount of these other cash-generating units exceed their carrying amount by 8 to 9 times.

The key assumptions used by management in the value-in-use calculations to support the overall impairment assessment as approved by the Board were as follows:

| | Group operations | Solfive | Betchoice | 32Red |
|---|---|---|---|---|
| EBITDA margin/per cent | 24.0 – 26.8 | 9.7 – 19.3 | 0.0 – 13.5 | 20.0 – 22.6 |
| Risk adjusted discount rate/per cent | 10.0 | 10.0 | 13.0 | 10.0 |
| Long-term growth rate/per cent | 2.0 | 2.0 | 2.0 | 2.0 |

### Brands and other intangible assets

Other intangible assets that have indefinite useful lives and are subject to annual impairment reviews include significant brands acquired through business combinations and key trading domains either acquired through business combinations or separately purchased.

As with goodwill, the brands and other intangible assets with indefinite useful lives are allocated by management to cash-generating units for the purpose of impairment testing. The cash-generating units to which other intangibles are monitored are reviewed for appropriateness each year and are outlined below:

| Intangible asset | CGU | GBP m | Description |
|---|---|---|---|
| Maria brand and Bingo.com domain | Group operations | 19.9 | The Maria business, the brand and the Bingo.com domain are an integrated part of the wider business and have therefore been allocated to the same Group operations cash-generating unit. |
| iGame brands and domains | Group operations | 27.7 | The iGame brands and domains are part of the iGame acquisition and have been allocated to the Group operations cash-generating unit. |
| 32Red and Roxy Palace brands | 32Red | 62.7 | The 32Red and Roxy Palace brands are part of the 32Red acquisition and have therefore been allocated to the 32Red cash-generating unit. |
| **Total** | | **110.3** | |

The total other intangible assets of GBP 110.3 million were tested for impairment on a value-in-use basis, based on the plans approved by the Board and pre-tax extrapolated projections allocated to the above cash-generating units using growth rates and assumptions consistent with the Group's experience and industry comparatives. These calculations used pre-tax cash flow projections based on actual 2017 trading performance, extrapolated forward using growth rates and assumptions consistent with the Group's experience and industry comparatives.

In January 2017, management decided to suspend its application for a license in the Czech Republic, thus suspending all of its operations in this territory. As a result GBP 2.0 million of the Bohemia brand was reclassified to intangible assets with definite lives and fully amortised. This is shown within accelerated amortisation of intangible assets in the consolidated income statement.

During the year management also took the decision to discontinue the Stan James brand and will migrate these customers to some of the Group's main brands in 2018. As a result the total brand value of GBP 6.2 million was reclassified to intangible assets with definite lives and is being amortised over the eighteen month period to 31 December 2018. GBP 2.0 million of amortisation has been recognised in 2017 within accelerated amortisation of intangible assets in the consolidated income statement.

Based on management's review, there is no indication of impairment on any of the separate cash-generating units, with the exception of Betchoice as described previously. In carrying out their assessment of the goodwill, the Directors believe there are no other cash-generating units where reasonably possible changes to their assumptions exist that would give rise to impairment.

The key assumptions used by management in the value-in-use calculations to support the overall impairment assessment as approved by the Board were as follows:

| | Maria brand and Bingo.com domain | iGame brands and domains | 32Red and Roxy Palace brands |
|---|---|---|---|
| EBITDA margin/per cent | 24.0 – 26.8 | 24.0 – 26.8 | 20.0 – 22.6 |
| Risk adjusted discount rate/per cent | 10.0 | 10.0 | 10.0 |
| Long-term growth rate/per cent | 2.0 | 2.0 | 2.0 |

# Notes to the consolidated financial statements continued

## 12: Property, plant and equipment

| GBP m | Note | Land and buildings | Computer hardware | Office equipment, fixtures and fittings | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2016 | | 0.4 | 12.6 | 4.7 | **17.7** |
| Additions | | – | 9.0 | 1.4 | **10.4** |
| Disposals | | -0.4 | -3.0 | -0.8 | **-4.2** |
| Reclassifications | | – | 0.1 | -0.1 | **–** |
| Foreign exchange translation difference | | – | 1.0 | 0.3 | **1.3** |
| **At 31 December 2016** | | **–** | **19.7** | **5.5** | **25.2** |
| Additions | | – | 5.4 | 12.9 | **18.3** |
| Additions – through business combinations | 22 | – | 0.7 | 0.1 | **0.8** |
| Disposals | | – | -0.2 | -2.1 | **-2.3** |
| Foreign exchange translation difference | | – | 0.2 | 0.1 | **0.3** |
| **At 31 December 2017** | | **–** | **25.8** | **16.5** | **42.3** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2016 | | 0.1 | 6.9 | 3.1 | **10.1** |
| Charge for the year | 4 | – | 4.2 | 0.9 | **5.1** |
| Disposals | | -0.1 | -3.0 | -0.5 | **-3.6** |
| Reclassifications | | – | 0.1 | -0.1 | **–** |
| Foreign exchange translation difference | | – | 0.6 | 0.3 | **0.9** |
| **At 31 December 2016** | | **–** | **8.8** | **3.7** | **12.5** |
| Charge for the year | 4 | – | 6.1 | 1.1 | **7.2** |
| Disposals | | – | -0.2 | -2.0 | **-2.2** |
| Foreign exchange translation difference | | – | 0.1 | – | **0.1** |
| **At 31 December 2017** | | **–** | **14.8** | **2.8** | **17.6** |
| **Net book value** | | | | | |
| **At 31 December 2017** | | **–** | **11.0** | **13.7** | **24.7** |
| At 31 December 2016 | | – | 10.9 | 1.8 | 12.7 |

## 13: Subsidiaries and associated companies

Details of the Group's principal subsidiaries at 31 December 2017 are as follows:

| Name of subsidiary | Place of incorporation | Proportion of ownership and voting power % |
|---|---|---|
| Unibet Alderney Limited | Alderney | 100% |
| Betchoice Corporation Pty Limited | Australia | 100% |
| Kindred South Development Pty Ltd | Australia | 100% |
| Unibet Australia Pty Ltd | Australia | 100% |
| Unifoot NV | Belgium | 100% |
| Global IP and Support Services LP | British Virgin Islands | 100% |
| iG Entertainment Limited | British Virgin Islands | 100% |
| Stan James IP Limited | British Virgin Islands | 100% |
| iGame Estonia OU | Estonia | 100% |
| Kindred France SAS | France | 100% |
| Solfive SAS | France | 100% |
| 32 Red Limited | Gibraltar | 100% |
| Platinum Gaming Limited | Gibraltar | 100% |
| SJU Limited | Gibraltar | 100% |
| 32Red London Limited | Great Britain | 100% |
| Firstclear Limited | Great Britain | 100% |
| Kindred (London) Limited | Great Britain | 100% |
| Kindred Services Limited | Great Britain | 100% |
| Global Services (Channel Islands) Limited | Guernsey | 100% |
| Kindred Italy SRL | Italy | 100% |
| Global Leisure Partners Limited | Malta | 100% |
| iGame Holding plc | Malta | 100% |
| iGame Malta Limited | Malta | 100% |
| Lexbyte Digital Limited | Malta | 100% |
| Maria Holdings Limited | Malta | 100% |
| Moneytainment Media Limited | Malta | 100% |
| SPS Betting France Limited | Malta | 100% |
| Trannel International Limited | Malta | 100% |
| Unibet (Belgium) Limited | Malta | 100% |
| Unibet (Denmark) Limited | Malta | 100% |
| Unibet (Germany) Limited | Malta | 100% |
| Unibet (Holding) Limited | Malta | 100% |
| Unibet (Italia) Limited | Malta | 100% |
| Unibet Services Limited | Malta | 100% |
| Wild Card Consulting Limited | Malta | 100% |
| Kindred People AB | Sweden | 100% |
| PR Entertainment AB | Sweden | 100% |

The movements in the Group's interest in its associate, relating to its 35% interest in Relax Gaming Ltd, is shown below:

| GBP m | 2017 | 2016 |
|---|---|---|
| Carrying value at 1 January | 1.6 | 1.4 |
| Share of profit from associate | 0.5 | 0.2 |
| **Carrying value at 31 December** | **2.1** | **1.6** |

# Notes to the consolidated financial statements continued

## 14: Financial instruments

The carrying value of the Group's financial assets and financial liabilities approximated to their fair values at the year end. At 31 December 2017, other receivables of GBP 24.8 (2016: GBP 20.4) million were considered to be fully performing. Because of the nature of the Group's business, the Group does not carry any provision for impairment of receivables, with the exception of betting on credit which is strictly limited to a select group of Australian customers in accordance with accepted commercial practice in the Australian market. The Group does not hold any collateral as security for its receivables.

The Group's financial assets consist of loans and receivables, except for assets at fair value through profit and loss of GBP 0.1 (2016: GBP 0.2) million. Financial assets at fair value through profit and loss consist of the embedded option on the convertible bond of GBP 0.1 (2016: GBP 0.2) million.

The Group's financial liabilities consist of other financial liabilities, except for liabilities at fair value through profit and loss of GBP 4.4 (2016: GBP 4.2) million. Financial liabilities at fair value through profit and loss consist of deferred income relating to unsettled bets at the balance sheet date of GBP 4.4 (2016: GBP 4.2) million.

IFRS 13 requires management to identify a three-level hierarchy of financial assets and liabilities at fair value. As noted above, the financial assets at fair value are immaterial and the financial liabilities at fair value have been measured using inputs based on unobservable market data (defined as level three by IFRS 13). A reasonable change in assumptions would not give rise to a material change in value.

## 15: Trade and other receivables

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Due within one year:** | | |
| Other receivables | 24.8 | 20.4 |
| Prepayments and accrued income | 13.7 | 10.2 |
| | **38.5** | **30.6** |

Trade and other receivables do not include material items that are past due or impaired.

## 16: Trade and other payables

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Due within one year:** | | |
| Trade payables | 21.9 | 12.5 |
| Other taxation and social security | 3.2 | 2.4 |
| Other payables | 0.6 | 0.6 |
| Accruals | 84.5 | 44.5 |
| | **110.2** | **60.0** |

## 17: Customer balances

Customer balances of GBP 57.5 (2016: GBP 50.8) million are repayable on demand, subject to the terms and conditions as described on the Group's websites.

The following table shows the split by currency of customer balances:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| EUR | 49% | 45% |
| SEK | 9% | 14% |
| NOK | 8% | 9% |
| DKK | 5% | 6% |
| USD | 3% | 4% |
| GBP | 17% | 13% |
| AUD | 4% | 4% |
| Other | 5% | 5% |
| | **100%** | **100%** |

Certain third-party suppliers used by the Group in its non-sports betting operations use either EUR or USD as their standard currency and therefore the above analysis does not represent the spread of customer balances by territory.

The Group's operating cash flows provide a natural hedge of operating currency risks, since deposits and pay-outs to customers in different territories are matched in the same currency.

## 18: Borrowings

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings – due in 1 – 2 years | 30.0 | – |
| Bank borrowings – due after more than 2 years | 103.0 | – |
| **Current** | | |
| Bank borrowings – due within 1 year | 62.6 | 54.6 |
| **Total borrowings** | **195.6** | **54.6** |

The carrying amounts of the Group borrowings are denominated in the following currencies:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| GBP | 163.0 | 20.0 |
| EUR | 18.6 | 10.3 |
| SEK | 14.0 | 24.3 |
| **Total borrowings** | **195.6** | **54.6** |

On 23 February 2017, following the offer to acquire 32Red, Kindred Group plc agreed new term and revolving facilities (“the facilities”) held with a leading international bank. The facilities comprise of:

(i) a GBP 110,000,000 term loan (“the Term Loan”) to be applied towards, amongst other things, financing the offer;

(ii) a EUR 112,000,000 revolving facility “A” (“Revolving Facility A”) to be applied towards, amongst other things, financing the offer, refinancing Kindred’s existing revolving facility dated 31 August 2015 and towards any market purchases of 32Red Shares. On 31 August 2017, in line with the facilities agreement, Revolving Facility A was subsequently reduced to EUR 104.0 million;

(iii) a GBP 68,000,000 revolving facility “B” (“Revolving Facility B”) to be applied towards, amongst other things, financing the offer and any market purchases of 32Red shares.

The borrowings are unsecured. As at 31 December 2017, the balance of the facilities utilised was GBP 195.6 (2016: GBP 54.6) million out of a total of GBP 255.3 million. The fair value of the borrowings equals the carrying amount, as the impact of discounting is not material.

**Repayments**
The Term Loan is repayable in equal bi-annual instalments of GBP 15,000,000, which started on 31 December 2017 and end on 31 December 2019. The Term Loan needs to be repaid in full by the date that is three years from the date of the facilities Agreement (23 February 2020). Both Revolving Facility A and Revolving Facility B are to be repaid in full on the last day of each respective Interest Period. Revolving Facility A is required to be repaid in full by 31 August 2018 and Revolving Facility B needs to be repaid in full by the date that is three years from the date of the Facilities Agreement (23 February 2020).

**Interest**
Interest shall accrue on each advance under the facilities agreement at the rate per annum which is the sum of the applicable IBOR (which, for the avoidance of doubt, includes, LIBOR for Loans in GBP, EURIBOR for Loans in EUR and STIBOR for loans in SEK) (and if the applicable IBOR is below zero, IBOR will be deemed to be zero) plus the Applicable Margin. The Applicable Margin for: (i) the Term Loan (drawn in GBP) is 2.00 per cent per annum; (ii) any Revolving Facility A Loan is 0.75 per cent per annum; and (iii) any Revolving Facility B Loan (drawn in GBP) is 1.75 per cent per annum and (drawn in an Optional Currency) is 1.35 per cent per annum.

**Covenants**
The Facilities Agreement is also subject to financial undertakings, principally in relation to debt service ratio and other certain customary covenants which will regulate Kindred and its subsidiaries’ ability to, amongst other things, incur additional debt, grant security interests, give guarantees and enter into any mergers. At 31 December 2017 the Kindred Group was in compliance with these undertakings. The Group anticipates continued full compliance and that if the facility is further utilised in future, it will be repaid in accordance with contracted terms at any such time.

# Notes to the consolidated financial statements continued

## 19: Deferred tax

The following are the deferred tax liabilities and assets (prior to offset) recognised by the Group and movements thereon during the current and prior reporting year:

| GBP m | Note | Unremitted earnings | Property, plant and equipment | Unrealised exchange differences | Tax losses | Intangible assets | Other | Total |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | | | | | | | |
| Deferred tax liability | | – | – | -0.4 | – | -2.2 | -1.4 | **-4.0** |
| Deferred tax asset | | 2.7 | 0.2 | 0.1 | 3.6 | – | 1.1 | **7.7** |
| (Charge)/credit to income for the year | 8 | -0.1 | 0.3 | 0.3 | 0.4 | – | -0.2 | **0.7** |
| Charge directly to equity | | – | – | – | – | – | -0.2 | **-0.2** |
| Transfer to currency translation reserve | | – | – | – | 0.7 | -0.3 | 0.1 | **0.5** |
| At 31 December 2016 | | | | | | | | |
| Deferred tax liability | | – | – | – | – | -2.4 | -1.8 | **-4.2** |
| Deferred tax asset | | 2.6 | 0.5 | – | 4.7 | – | 1.1 | **8.9** |
| Credit/(charge) to income for the year | 8 | 2.9 | -0.1 | – | -0.2 | 0.5 | 1.5 | **4.6** |
| Movement for the year in relation to acquisitions | | – | – | – | – | -1.8 | – | **-1.8** |
| Credit directly to equity | | – | – | – | – | – | 0.3 | **0.3** |
| Transfer to currency translation reserve | | – | – | – | -0.1 | – | – | **-0.1** |
| **At 31 December 2017** | | | | | | | | |
| **Deferred tax liability** | | – | **-0.1** | – | – | **-3.8** | **-1.8** | **-5.7** |
| **Deferred tax asset** | | **5.5** | **0.5** | **–** | **4.4** | **0.1** | **2.9** | **13.4** |

Certain deferred tax assets and liabilities may have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Deferred tax liabilities | -5.7 | -4.2 |
| Deferred tax assets | 13.4 | 8.8 |
| **Net assets** | **7.7** | **4.6** |

The deferred tax balances include deferred tax assets of GBP 5.5 million that are expected to be recovered within 12 months.

At 31 December 2017 the Group had unutilised trading tax losses of GBP 49,833,000 (2016: GBP 45,596,000) and other unutilised tax losses of GBP 1,094,000 (2016: GBP 1,469,000) available for offset against future profits. The amount of unutilised trading tax losses as at 31 December 2017 for which a deferred tax asset has been recognised is GBP 14,755,000 (2016: GBP 15,437,000). No deferred tax asset has been recognised in respect of the remaining unutilised trading tax losses and in respect of the other remaining unutilised tax losses due to insufficient evidence of their reversal in future periods.

The major component of trading tax losses for which no deferred tax asset has been recognised arose from unutilised trading tax losses of Kindred France SAS, for which there is insufficient evidence of reversal. These losses represent GBP 31,264,000 (2016: GBP 30,159,000) of the total unutilised trading tax losses disclosed above. There is no specific expiry date of the total remaining unutilised tax losses for which no deferred tax asset has been recognised.

The aggregate amount of other deductible temporary differences at 31 December 2017 for which deferred tax assets have been recognised is GBP 21,324,000 (2016: GBP 10,388,000). This includes a deductible temporary difference in respect of unexercised share options for the amount of GBP 3,414,000 (2016: GBP 1,530,000), of which GBP 1,483,000 (2016: GBP 35,000) has been credited directly to equity.

## 20: Share-based payments

The Group operates a number of share-based payment schemes as set out within this note. During 2017, 286,572 share awards vested within the 2014 All-employee long-term incentive plan and 2014 Group Performance Share Plan. The total charge for the year relating to employee share-based payment plans was GBP 3.5 (2016: GBP 1.5) million.

### All-employee long-term incentive plan

In 2015 the Kindred Group Board approved a change to the all-employee 100 per cent cash-settled incentive plan. The change enabled all Group employees at 26 May 2015 to elect to receive a fixed long-term incentive bonus in shares instead of cash, in order to meet demand for wider employee share ownership.

In accordance with the change of a 100 per cent cash-settled incentive plan under IAS 19, the Group recognised a share-based payment charge from June 2015 in relation to those who elected to receive shares and reclassified the provision for the 100 per cent cash-settled scheme before June 2015 to equity. On 22 March 2017, the equity-settled employee benefit plan vested and 107,004 share awards were distributed to employees as SDRs.

### 20+20 long-term incentive plans (“2020 AESP”)

Last year, the Kindred Group Board approved a long-term incentive plan for all employees and the executive management team (“20+20 All Employee Share Plan” and “20+20 Executive Management Incentive Scheme”). As a result, 1,481,866 share awards were granted on 3 October 2016 and will vest after December 2020. These are subject to achieving business performance targets in the 2020 financial year and continued employment. The targets were set and approved by the Remuneration Committee and the Board of Directors in December 2016. The total amount expensed is recognised over the vesting period of the plan, which is four years.

The total charge recognised in 2017 in relation to the 20+20 long-term incentive plans was GBP 1.9 million.

### Performance Share Plan (“PSP”)

The introduction of the Group Performance Share Plan was approved at the 2013 AGM under which future share-based payments to senior management and key employees will be made. The PSP performance measures are non-market based conditions providing participants with a high degree of alignment to Company performance.

Grants of performance share rights are subject to achieving business performance targets over three financial years and continued employment. These targets are: Gross Contribution (Gross winnings revenue, less Cost of sales, less marketing costs), Free Cash Flow per Share and EBITDA. Grants made in each year will have targets measured on an aggregate basis between the full year of grant and the two successive years so that performance in each financial year will be important. Aggregated performance against the targets and the resulting allocation of PSP awards are disclosed after the full year of vesting.

In November 2017, the full value of the 2014 PSP grant vested. The assessment of the actual business performance against the target conditions demonstrated that all targets over the three financial years 2014-2016 have been achieved at greater than 100 per cent. The number of share awards vested was 179,568.

| Performance targets | Target achieved |
|---|---:|
| EBITDA | 109% |
| Gross Contribution | 111% |
| Free Cash Flow | 111% |

On 3 July 2017, the Kindred Group granted 423,197 new PSP awards to senior management and key employees (“2017 PSP”). These grants will vest after July 2020 and are subject to achieving business performance targets over the three financial years 2017-2019 and continued employment. The targets for these plans were set and approved by the Remuneration Committee and the Board of Directors in July 2017. The total amount expensed is recognised over the vesting period of the plan, which is three years.

The total charge recognised in 2017 in relation to the Group’s PSPs was GBP 1.6 million; of this amount GBP 0.6 million was recognised in relation to the new 2017 PSP.

# Notes to the consolidated financial statements continued

## 20: Share-based payments continued

Grants made under both the PSP and 2020 AESP share-based payment arrangements are valued using the Black-Scholes option-pricing model. The fair value of grants and the assumptions used in the calculation are as follows:

| | PSP awards[1] (post share split) | | | | | | 2020 AESP awards (post share split) |
|---|---|---|---|---|---|---|---|
| **Grant date** | **30 Sep 2013** | **30 Sep 2014** | **30 Jun 2015** | **5 Nov 2015** | **30 Sep 2016** | **3 Jul 2017** | **3 Oct 2016** |
| Average share price prior to grant GBP | – | – | – | – | – | – | – |
| Exercise price GBP | – | – | – | – | – | – | – |
| Number of employees | 75 | 91 | 100 | 14 | 123 | 149 | 1,125 |
| Shares under award | 31,100 | 31,848 | 38,464 | 2,430 | 411,713 | 423,197 | 1,481,866 |
| Vesting period (years) | 3.50 | 3.50 | 3.50 | 3.50 | 3 | 3 | 4 |
| Expected volatility % | 16 | 23 | 18 | 25 | 32 | 29 | 32 |
| Award life (years) | 3.50 | 3.50 | 3.50 | 3.50 | 3 | 3 | 4 |
| Expected life (years) | 3.50 | 3.50 | 3.50 | 3.50 | 3 | 3 | 4 |
| Risk-free rate % | – | – | – | – | – | – | – |
| Expected dividends expressed as dividend yield % | 2.81 | 3.57 | 4.15 | 2.71 | 3.29 | 3.61 | 3.28 |
| Fair value per award GBP | 22.58 | 27.18 | 34.17 | 55.07 | 6.46 | 7.70 | 6.28 |

1 Award is a legally enforceable conditional right to receive a number of the Company's ordinary shares during a period in the future.

The expected volatility is based on the standard deviation of the Group's share price over a year, prior to the grant date. The risk-free rates of return applied to the grants is the approximate implicit risk-free interest rate for the awards' term to maturity, based on the three-year maturity rate offered by Riksbanken at the respective dates of each grant.

In 2017 no share-based payments existed under the ESOS. The exercise of the options under the rules of the Group Executive Option Scheme ended in June 2016. The reconciliation of options movement over the year to 31 December 2016 is shown in the 2016 Annual Report.

The reconciliation of awards movement over the year to 31 December 2017 is shown below:

| **PSP** | **2017 Number** | **2016 Number** |
|---|---|---|
| Outstanding at 1 January | 861,321 | 782,552 |
| Vested | -179,568 | -196,274 |
| Granted | 423,197 | 411,713 |
| Lapsed | -55,909 | -136,670 |
| **Outstanding at 31 December** | **1,049,041** | **861,321** |

| **2020 All-employee long-term incentive plan** | **2017 Number** | **2016 Number** |
|---|---|---|
| Outstanding at 1 January | 1,474,761 | – |
| Granted | 336,109 | 1,481,866 |
| Lapsed | -233,992 | -7,105 |
| **Outstanding at 31 December** | **1,576,878** | **1,474,761** |

The grants under the PSP and long-term plan are at nil cost therefore the weighted average exercise price for rights outstanding at the beginning and end of the year, exercised granted and lapsed during the year is GBP Nil.

The weighted average remaining contractual life of share awards outstanding at the year-end is estimated to be 2.6 years.

### Dilution effects

289,901 shares awards lapsed or were cancelled during 2017. If all share-based programmes are fully exercised, the nominal share capital of the Company will increase by a total maximum of GBP 1,641.20 (2016: GBP 1,460.05) by the issue of a total maximum of 2,625,919 ordinary shares (2016: 2,336,082 ordinary shares), corresponding to 1 per cent (2016: 1 per cent) of the capital and votes in the Company.

The principal terms of the PSP schemes are set out below.

## 20: Share-based payments continued

### Performance Share Plan ("PSP")

Under the Performance Share Plan, shares awards are granted to employees of the Company and any subsidiary companies. These awards vest based on the successful completion of performance targets set by the Board. The awards are shares or SDRs and not options, therefore there is no exercise price associated with the awards. All other principal terms of the scheme including responsibility, exercise periods, changes of control, scheme and individual limits are set out below:

#### Responsibility for operation

The PSP scheme is operated by the Directors of the Company, through the Remuneration Committee appointed by the Board, which consists mainly of Non-executive Directors of the Company.

#### Eligibility

An individual is eligible to be granted an Award only if they are an employee (including an executive director) of a Participating Company.

#### Grant of awards

Awards may be granted at the discretion of the Directors, or the Remuneration Committee, to selected employees at a senior level. Awards are not pensionable or transferable.

#### Individual limits

The Board of Directors will decide the maximum number of ordinary shares or SDRs, which may be granted under the PSP plan to individual participants.

#### Scheme limit

At any time, not more than 5 per cent of the issued ordinary share capital of the Company may be issued or be issuable under the PSP scheme and all other employees' share schemes operated by the Company. This limit does not include awards which have lapsed or been surrendered.

The rules of the PSP scheme allow the Directors to grant awards on the basis that they will vest only to the extent that certain performance conditions have been satisfied. Awards may, however, vest in certain circumstances. These include, for example, an employee leaving because of ill health, retirement, redundancy or death. On cessation of employment for other reasons, awards will normally lapse.

#### Change of control, merger or other reorganisations

Awards may generally vest early on a takeover, scheme of arrangement, merger or other corporate reorganisation. Alternatively, participants may be allowed or, in certain cases, required to exchange their awards for awards over shares in the acquiring company.

#### Issue of shares

Any ordinary shares issued on the vesting of awards will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

### 2020 AESP

The principal terms of the PSP are applicable for the 2020 AESP.

## 21: Share capital and reserves

### a) Share capital

| GBP | 2017 | 2016 |
|---|---|---|
| **Authorised:** | | |
| 1,600,000,000 (2016: 1,600,000,000) ordinary shares of GBP 0.000625 each | 1,000,000 | 1,000,000 |
| At 31 December | 1,000,000 | 1,000,000 |
| **Issued and fully paid up:** | | |
| At 1 January – 230,126,200 (2016: 230,117,040) ordinary shares of GBP 0.000625 each | **143,829** | 143,823 |
| Issue of share capital – nil (2016: 9,160) shares of GBP 0.000625 each | **–** | 6 |
| **At 31 December – 230,126,200 (2016: 230,126,200) ordinary shares of GBP 0.000625 each** | **143,829** | **143,829** |

As at 31 December 2017 the total amount of issued shares in Kindred Group plc was 230,126,200 with a par value of GBP 0.000625. Of these, 2,298,694 shares are held by the Group as a result of previous repurchase programmes. When these shares are repurchased or subsequently sold, the impact is reflected within retained earnings.

During 2017, the total amount of shares repurchased that were used in connection with the vesting of Group share plans was 286,572:

> In March 2017, 107,004 shares were used in connection with the vesting of the all-employee long-term incentive plan.
> In November 2017, 179,568 shares were used in connection with the vesting of the 2014 performance share plan.

During 2016, 16,053 employee share options were exercised. Of these 1,145 options were exercised by issuing 9,160 ordinary shares with a par value of GBP 0.000625 at prices of SEK 189 per option. The total proceeds of this issue of new shares was GBP 17,869 (SEK 216,405) of which GBP 6 was an increase in issued share capital and GBP 17,863 was an increase in share premium.

The remaining 14,908 options were exercised using SDRs from the Group share buy-back programme. These were sold at the option price of SEK 188.99 for net proceeds of GBP 235,070 (SEK 2,817,518) which has been taken to equity.

In November 2016, 196,274 shares from the Group share buy-back programme were also used in connection with the vesting of the 2013 PSP.

### b) Share premium

Apart from the premium arising on the issue of new shares related to the share option scheme as described above, there was no movement in share premium in 2017 nor in the previous year.

### c) Reorganisation reserve

This reserve of GBP -42.9 (2016: GBP -42.9) million arises in the consolidated financial statements , as a result of the application of the principles of predecessor accounting to the Group reorganisation in 2006. The reorganisation reserve represents the differences between the share capital and non-distributable reserves of Kindred Group plc and the share capital and non-distributable reserves of the former Parent Company, Kindred Services Limited (formerly UGP Limited). This reserve does not arise in the separate financial statements of the Parent Company and therefore has no impact on distributable reserves.

### d) Currency translation reserve

This reserve of GBP 18.6 (2016: GBP 14.7) million is a non-distributable reserve.

# Notes to the consolidated financial statements continued

## 22: Business combinations

### 32Red

On 6 June 2017, the Kindred Group acquired 100 per cent of the issued share capital of 32Red Group plc and its subsidiaries ("32Red"), a specialist online gambling operator incorporated in Gibraltar, for a cash consideration of GBP 175.6 million. The results of 32Red have been consolidated since this date.

The transaction is consistent with the Kindred Group's multi-brand strategy and will further enhance the Group's position in the fast-growing online casino market in the UK.

In line with relevant accounting standards, the figures outlined below are considered provisional.

The net assets of 32Red at the date of acquisition were GBP 78.1 million and, accordingly, goodwill of GBP 97.5 million was recognised on the Kindred Group's balance sheet.

Since the acquisition date 32Red has contributed GBP 42.2 million of Gross winnings revenue and GBP 8.2 million of underlying EBITDA.

Had the 32Red Group been consolidated from 1 January 2017, the consolidated income statement of the Group for the year ended 31 December 2017 would have included Gross winnings revenue of GBP 73.2 million relating to 32Red.

The balance sheet of 32Red at the date of acquisition and the reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period are set out below:

| GBP m | Carrying values pre-acquisition | Provisional fair value on acquisition | Measurement period adjustments | Provisional fair value as at 31 December 2017 |
|---|---|---|---|---|
| Intangible assets | 7.5 | 78.5 | – | 78.5 |
| Property, plant and equipment | 1.0 | 0.8 | – | 0.8 |
| Trade and other receivables | 4.0 | 2.5 | – | 2.5 |
| Cash | 12.7 | 12.7 | – | 12.7 |
| Trade and other payables | -6.6 | -11.7 | 0.6 | -11.1 |
| Customer balances | -2.9 | -2.9 | – | -2.9 |
| Deferred tax liabilities | – | -1.8 | – | -1.8 |
| **Net assets acquired** | **NA** | **78.1** | **0.6** | **78.7** |
| Goodwill | NA | 97.5 | -0.6 | 96.9 |
| **Consideration** | **NA** | **175.6** | **–** | **175.6** |

Goodwill represents the result of expected synergies from combining operations of the acquiree and the acquirer.

Intangible assets represent immediate access to the 32Red brands and customers within the Western and Southern European markets, which represents one of the key differences between the pre-acquisition carrying values and the subsequent provisional fair values in the table above.

The intangible assets acquired as part of the acquisition of 32Red can be analysed as follows:

| GBP m | Provisional fair value |
|---|---|
| Software platform | 0.5 |
| Brands | 62.7 |
| Customer database | 15.3 |
| | **78.5** |

Acquisition related costs of GBP 3.2 million have been charged to the income statement and disclosed as items affecting comparability.

### iGame

As a result of the acquisition of iGame in September 2015, the Group paid the maximum earn-out payment of EUR 20 million to the former owners of the iGame Group in 2016. The cost of paying the maximum earn-out of EUR 20 million was fully provided for in the financial statements of Kindred Group plc at 31 December 2015. However, an accounting foreign exchange impact of GBP 2.2 million was recognised in the Group's reported results for 2016. There have been no such equivalent transactions recognised in relation to this in the year ended 31 December 2017.

## 23: Convertible bond

In connection with the disposal of Kambi, the Group subscribed to a EUR 8.0 (GBP 6.0) million convertible bond issued by Kambi. The bond is due to expire on 31 December 2018. The bond has an embedded contingent option to provide change of control protection to the Group. The option can only be exercised on the occurrence of limited trigger events. The fair value of the option at 31 December 2017 was GBP 0.1 (2016: GBP 0.2) million.

## 24: Capital and other commitments

The Group has not entered into any contracted non-current asset expenditure as at 31 December 2017.

## 25: Operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, including provision for rent reviews and for early termination.

The total of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| GBP m | 31 December 2017 | 31 December 2016 |
|---|---|---|
| No later than one year | 6.6 | 3.1 |
| Later than one year and no later than five years | 47.3 | 19.7 |
| Later than five years | 35.9 | 24.1 |
| | **89.8** | **46.9** |

Operating lease payments represent rent payable by the Group on properties in Malta and other territories.

Included within the 2017 numbers above are the new lease commitments in relation to the new offices in Malta, Sweden and France.

## 26: Related party transactions

For details of Directors' and Executive Committee remuneration please refer to the Remuneration Committee Report on pages 46 and 47.

Other related party transactions during the year ended 31 December 2017 totalled GBP 22,246 (2016: GBP 140,770).

> GBP 13,816 (GBP 140,770) relates to marketing services provided by Football United International Limited, a company of which some of the Kindred Group's Board members are Non-executive Board members. The balance due to Football United International Limited was GBP nil (GBP nil) as at 31 December 2017.

> GBP 8,430 (2016: GBP nil) relates to legal services provided from Hodgson Bilton to 32Red. A former Non-executive Director in 32Red plc is also a partner in Hodgson Bilton. All amounts due to Hodgson Bilton were settled as at 31 December 2017.

> In 2015, 32Red provided an interest-free loan of GBP 84,000 to a member of its senior management team, to assist with a property purchase in Gibraltar. At 31 December 2017, the remaining balance owed to the Group was GBP 60,000 (GBP nil).

## 27: Contingent liabilities

Currently the Group has not provided for potential claims arising from the promotion of gaming activities in certain jurisdictions. Based on current legal advice the Directors do not anticipate that the outcome of proceedings and potential claims, if any, will have a material adverse effect upon the Group's financial position. Further details on the legal environment can be found in the General legal environment section on pages 41 and 42.

## 28: Cash and cash equivalents

Included within the total cash and cash equivalents balance at 31 December 2017 of GBP 159.1 (2016: GBP 89.4) million is GBP 17.2 (2016: GBP 17.0) million of funds that are not available for use by the Group. These funds are designated by the Group to cover certain customer balances, as required by local laws and regulations.

## 29: Reconciliation of EBITDA to profit from operations

| GBP m | 2017 | 2016 |
|---|---|---|
| EBITDA | 180.3 | 120.7 |
| Depreciation | -7.2 | -5.1 |
| Amortisation | -35.4 | -18.7 |
| **Profit from operations** | **137.7** | **96.9** |

The table above shows how EBITDA, which is a non-GAAP measure, is derived from the profit from operations reported in the consolidated income statement.

# Notes to the consolidated financial statements continued

## 30: Reconciliation of adjusted operating cash flow and free cash flow to profit from operations

| GBP m | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|
| Profit from operations | 137.7 | 96.9 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 7.2 | 5.1 |
| Amortisation of intangible assets | 35.4 | 18.7 |
| Loss on disposal of property, plant and equipment | 0.1 | 0.2 |
| Loss on disposal of intangible assets | 0.2 | 0.1 |
| Share-based payments | 1.6 | 0.6 |
| Equity settled employee benefit plan | 1.9 | 0.7 |
| **Operating cash flow before movements in working capital** | **184.1** | **122.3** |
| Movements in receivables | -4.2 | -7.8 |
| Movements in payables | 39.1 | 13.7 |
| Income taxes paid | -15.9 | -6.5 |
| Purchases of property, plant and equipment | -18.3 | -10.4 |
| Purchases of intangible assets | -20.4 | -19.2 |
| Items affecting comparability[1] | 4.7 | 3.0 |
| **Free cash flow** | **169.1** | **95.1** |

1 Items affecting comparability excludes amortisation of acquired intangible assets and foreign currency loss on operating items.

The table above shows how adjusted operating cash flow, and free cash flow which are non-GAAP measures, are derived from the adjusted profit from operations reported in the consolidated income statement.

## 31: Subsequent events

On 15 February 2018, the Kindred Group repaid EUR 21 million and SEK 155 million of its borrowings.

# Annual General Meeting

The Annual General Meeting (AGM) of Kindred Group plc will be held at 10.00 CEST on 15 May 2018, at Moderna Museet, Skeppsholmen, Stockholm in Sweden.

### Right to participate

Holders of Swedish Depositary Receipts (SDRs) who wish to attend the AGM must be registered at Euroclear Sweden AB on 4 May 2018 and notify Skandinaviska Enskilda Banken AB (publ) of their intention to attend the AGM no later than 12.00 CEST on 9 May 2018, by filling in the enrolment form provided at www.kindredgroup.com/AGM, "Registration form for AGM 2018". The form must be completed in full and delivered electronically.

Please note that conversions to and from SDRs and ordinary shares will not be permitted between 4 May and 15 May 2018.

### Dividend

The Board of Directors proposes a dividend of GBP 0.551 (2016: 0.310) per share/SDR, which is approximately SEK 6.16 (2016: 3.52 paid out 23 May 2017) with the exchange rate 11.176 GBP/SEK at 13 February 2018 per ordinary share, to be paid to holders of ordinary shares and SDRs. If decided by the AGM, the dividend is expected to be distributed on 22 May 2018 and amounts to a total of GBP 125.5 (2016: 71.4) million, which is approximately 75 per cent of the Group's free cash flow for 2017. The Board has reviewed the projected cash requirements for 2018 and is proposing for this year to maintain the dividend above 50 per cent of free cash flow. This is in line with the dividend policy to distribute surplus cash.

### Financial information

Kindred Group plc's financial information is available in Swedish and English. Reports can be obtained from the Kindred Group's website, **www.kindredgroup.com** or ordered by email at info@kindredgroup.com. Distribution will be via email.

Annual reports can be ordered through the website, **www.kindredgroup.com** or ordered by email at info@kindredgroup.com.

The Kindred Group will publish financial reports for the financial year 2018 on the following dates:

| |
|---|
| Interim Report January – March, on 25 April 2018 |
| Interim Report January – June, on 25 July 2018 |
| Interim Report January – September, on 26 October 2018 |
| Full Year Report 2018, on 13 February 2019 |

# Definitions

**Average number of employees:** Average number of employees for the year based on headcount at each month end.

**Cash flow per share:** Net increase/(decrease) in cash and cash equivalents, divided by the number of ordinary shares at the balance sheet date.

**Dividend per share:** Dividend paid divided by the number of ordinary shares at the payment date.

**Earnings per share, fully diluted:** Profit after tax adjusted for any effects of dilutive potential ordinary shares divided by the fully diluted weighted average number of ordinary shares for the year.

**EBIT:** Earnings before interest and taxation, equates to profit from operations.

**EBIT margin:** EBIT as a percentage of Gross winnings revenue.

**EBITDA:** Profit from operations before depreciation and amortisation charges.

**EBITDA margin:** EBITDA as a percentage of Gross winnings revenue.

**Equity:assets ratio:** Shareholders' equity as a percentage of total assets.

**Equity per share:** Total assets less total liabilities, divided by the number of ordinary shares at the balance sheet date.

**Free cash flow per share:** Cash flow from operations, adjusted for movements in working capital, capital investments, tax payments and certain items affecting comparability divided by the number of ordinary shares at the balance sheet date.

**Gross profit:** Gross winnings revenue less cost of sales.

**Gross winnings revenue:** Gross winnings revenue (GWR) on Sports betting is defined as the net gain or loss from bets placed. Within Casino & Games, the Group defines GWR as the net gain from bets placed and Poker GWR reflects the net income ("rake") earned from poker games completed. GWR across all products is reported net of the cost of promotional bonuses.

**Net debt:** Total cash at the balance sheet date less customer balances and borrowings.

**Number of active customers:** Number of active customers is defined as the total registered customers who have placed a bet with the Kindred Group either during the last three months or at any time during the year, depending on the reference.

**Number of registered customers:** Number of registered customers means the total number of customers on the Kindred Group's customer database.

**Operating margin:** Profit from operations as a percentage of Gross winnings revenue.

**Profit margin:** Profit after tax as a percentage of Gross winnings revenue.

**Return on average equity:** EBIT as a percentage of average equity.

**Return on total assets:** Profit after tax as a percentage of average total assets.

**Turnover:** Amount of bets placed on sporting events and games.

**Underlying EBITDA:** Profit from operations before depreciation and amortisation charges and items affecting comparability (excluding amortisation of acquired intangible assets and foreign currency differences on operating items).

**Unrestricted cash:** Total cash at the balance sheet date less customer balances.

**Weighted average number of shares:** Calculated as the weighted average number of ordinary shares outstanding during the year.

**Weighted average number of shares, fully diluted:** Calculated as the weighted average number of ordinary shares outstanding and potentially outstanding (i.e. including the effects of exercising all share awards) during the year.

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