

JPJ Group plc
Results for the Year Ended 31 December 2018

*Record revenue and adjusted EBITDA ahead of market consensus
Strong start to 2019 with double digit revenue growth*

LONDON, 19 March 2019 – JPJ Group plc (LSE: JPJ) (the ‘Group’), a leading global online bingo-led operator, today announces the results for the year ended 31 December 2018.

Financial summary¹

	Year ended 31 December 2018 (£m)	Year ended 31 December 2017 (£m)	Reported change (%)
Gaming revenue	319.6	289.3	10
Net income / (loss) from continuing operations (as reported under IFRS)	18.1	(70.7)	-
Adjusted EBITDA ²	112.7	103.4	9
Adjusted net income ²	90.1	70.9	27
Operating cash flows	105.9	100.9	5
Diluted net income / (loss) per share from continuing operations ³	£0.24	£(0.96)	-
Diluted adjusted net income per share from continuing operations ^{2,3}	£1.20	£0.95	26

Financial highlights

- Strong financial performance ahead of market consensus
 - Gaming revenue up 10% year-on-year, reflecting strong organic growth⁴ at Vera&John
 - Adjusted EBITDA² increased 9% year-on-year
 - Adjusted net income² increased 27% year-on-year, assisted by a £10.4 million decrease in interest expense
- Ongoing growth in cash generation
 - Operating cash flow of £105.9 million, an increase of 5% year-on-year, and 142p of operating cash flow per share³ (2017 – 135p)
 - Adjusted EBITDA² to cash conversion of 94%; free cash flow⁵ of £100.6 million (2017 – £97.8 million)
 - Adjusted net debt⁶ reduced by £85.2 million year-on-year; adjusted net leverage ratio⁷ of 2.68x down from 3.57x
- Strong trading in the first two months of 2019 with double digit growth in revenues to the end of February and a positive outlook for the full year; the Group is trading in line with management’s expectations

¹ All figures in the financial summary, except operating cash flows, exclude social gaming results. For more information on the sale of social gaming assets, please refer to Note 7 – ‘Discontinued operations’ of the consolidated financial statements on pages 38 and 39 of this release.

² This release contains non-IFRS financial measures, which are noted where used. For additional details, including with respect to the reconciliations from these non-IFRS financial measures, please refer to the information under the heading ‘Note regarding non-IFRS measures’ on page 10 of this release and Note 5 – ‘Segment Information’ of the consolidated financial statements on pages 34 through 37 of this release.

³ Per share figures are calculated on a diluted weighted average basis using the IFRS treasury method.

⁴ Organic growth is growth achieved without accounting for acquisitions or disposals.

⁵ Operating cash flow net of capital/intangible asset expenditures/disposals.

⁶ Adjusted net debt consists of existing term loan, non-compete clause payout, fair value of swap and contingent consideration liability, less non-restricted cash.

⁷ Adjusted net leverage ratio consists of existing term loans, non-compete clause payout, fair value of swap and contingent consideration liability less non-restricted cash divided by LTM to 31 December 2018 adjusted EBITDA of £112.7 million.

Operational highlights

- Ongoing improvement in core KPIs⁸ year-on-year
 - Average Active Customers per Month⁸ grew to 259,664 in the twelve months to 31 December 2018, an increase of 4% year-on-year
 - Average Real Money Gaming Revenue per Month⁸ grew to £26.0 million, an increase of 10% year-on-year
 - Monthly Real Money Gaming Revenue per Average Active Customer⁸ of £100, an increase of 6% year-on-year

Business segments highlights

- Jackpotjoy^{9,10} (68% of Group revenue)
 - Full year gaming revenue was flat year-on-year and adjusted EBITDA² decreased by 4%, mainly due to a decline in the Mandalay and Jackpotjoy UK brands, partially offset by increases in Starspins and Botemania. The lower revenues from Jackpotjoy UK were principally due to the impact of enhanced responsible gambling measures from Q2 and the closure of a small number of high value accounts
 - On 31 August 2018, JPJ Group disposed of its social gaming business for cash consideration of £18.0 million (excluding working capital adjustments and costs of disposal paid by the Group) enabling it to focus exclusively on its core activity of real money gaming and representing another positive step in reducing net leverage
 - On 12 March 2019, JPJ Group completed the sale of Mandalay to a subsidiary of 888 Holdings plc for consideration of £18.0 million. The divestment of Mandalay will enable the Group to concentrate on a more focussed brand strategy in the UK through Jackpotjoy^{9,10}
- Vera&John (32% of Group revenue)
 - Full year gaming revenue grew by 42% reflecting strong organic growth⁴ in the segment which operates on our own proprietary technology platform; on a constant currency basis¹¹, revenue increased by 40% year-on-year
 - Adjusted EBITDA² grew by 71%; on a constant currency basis¹¹, adjusted EBITDA² increased by 69%
 - The rate of revenue growth increased in each quarter during 2018 which highlights the value in our proprietary technology as a cornerstone of future strategy
 - Our technology platform supports product differentiation as well as allowing us more control over market, product and services selection. This has enabled Vera&John to successfully diversify from its traditional Scandinavian base and we have seen significant growth in Germany, Asia and Brazil

⁸ For additional details, please refer to the information under the heading 'Key performance indicators' on page 17 of this release.

⁹ Effective 1 January 2018, the Mandalay segment has been aggregated with the Jackpotjoy segment. Refer to Note 5 – Segment information of the consolidated financial statements on pages 34 through 37 of this release for further discussion.

¹⁰ Excludes results from the Group's social gaming business, which was sold during the year ended 31 December 2018.

¹¹ Constant currency amounts are calculated by applying the same EUR to GBP average exchange rates to both current and prior year comparative periods.

Neil Goulden, Executive Chairman, commented:

“I am pleased with the progress we have made in 2018 as JPJ Group plc continued to deliver on its strategy. We have reported record revenue and adjusted EBITDA², growing 10% and 9%, respectively, demonstrating the benefits of our diversified geographic footprint. Our continued strong organic cashflow generation has also enabled us to deleverage further, with net debt/EBITDA now at 2.68x. The Board is comfortable retaining the current significant cash on the balance sheet given the optionality which this confers.

Returning excess cash to shareholders is a key priority for the Group, once we can do so on a progressive and sustainable basis. Our debt facility allows us to return cash to shareholders once net leverage falls below 2.5x, but for returns to be sustainable, net leverage needs to be comfortably below this level. The Board remains committed to introducing a progressive dividend policy and also sees the value in a sustainable share buyback programme should the Group’s share price remain, in its view, materially undervalued and at a discount to the peer group.

The past 12 months also saw the Group achieve several important corporate milestones. In June 2018, we substantially completed the earn-out payments to Gamesys for the assets we acquired in 2015 and in July 2018, we moved to a premium listing on the Official List in London. We sold our social gaming business in August 2018 and this month, we announced we had completed the sale of Mandalay, allowing us to concentrate on a more focussed brand strategy in the UK.

We have also worked hard to ensure the Group meets the highest industry standards on responsible gambling. Our commitment to providing a safe and enjoyable environment for our customers is unwavering and while the vast majority of players’ game-play represents fun and entertainment, we continue to implement and develop responsible gambling measures to protect all customers, especially those at risk from potential harm.”

Outlook

Trading over the first two months of the financial year has been strong with double digit growth in revenues to the end of February and the Group is trading in line with management’s expectations for FY 2019. Overall, we look forward to continued progress in our international operations and to taking advantage of growth opportunities in the UK market during the second half of 2019, as we pass the anniversary of the introduction of enhanced responsible gambling measures.

Conference call

A conference call for analysts and investors will be held today at 1.00pm GMT / 9.00am ET. To participate, interested parties are asked to dial +44 (0) 20 3003 2666 or 1 800 608-0547 in Canada, or for US shareholders 1 866 966-5335, 10 minutes prior to the scheduled start of the call using the password “JPJ” when prompted.

A replay of the conference call will be available for 30 days by dialling +44 (0) 20 8196 1998 or 1 866 583-1039 in the US and using reference 4145638#. A transcript will also be made available on JPJ Group plc's website at <http://www.jpjgroup.com/investors>.

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Executive Chairman's Review

Overview and summary of results

2018 was another record year in terms of revenues and EBITDA for JPJ Group plc, our new name for the company which became effective from June. We also substantially completed the earn-out payments to Gamesys for the assets we acquired in 2015 leaving only two small 'milestone' payments of a maximum of £5.0 million each should the Jackpotjoy brands attain certain EBIT targets for the 12 months ending March 2019 and March 2020. The second of these £5.0 million milestone payments has now been revalued to £nil, primarily reflecting the impact of increased gaming duty in the UK. The payment for Botemania in June 2018, the Spanish business within the Jackpotjoy division, as well as the first milestone payment, amounted to £63.5 million and was comfortably met by existing cash resources.

The benefits of our strong underlying cash flows should now become even more apparent going forward. In addition, we also completed the disposal of our social gaming business for a cash consideration of £18.0 million which enables the Group to focus exclusively on our core activity of real money gaming. Subsequent to the end of the 2018 financial year, in March 2019 we completed the sale of Mandalay to a subsidiary of 888 Holdings plc for £18.0 million. This will enable the Group to concentrate on a more focussed brand strategy in the UK through Jackpotjoy^{9,10}.

Successful move to the premium list in July 2018

On 26 July 2018, we were pleased to announce the approval by the Financial Conduct Authority (FCA) of the transfer of the listing category of all of our ordinary shares from a standard listing to a premium listing on the Official List of the FCA. This took place after a period of intensive due diligence and it was pleasing to be able to achieve this milestone ahead of plan. Not only does a premium listing confer qualitative benefits in terms of how the Group is perceived by the investment community, it also means that our shares are included in the FTSE All-Share indices thereby creating additional demand from index funds.

Record operational results

2018 results represented a record performance for the Group since its creation in 2014. Gaming revenues grew 10% to £319.6 million, while adjusted EBITDA² increased 9% to £112.7 million. Following a payment of £63.5 million in June (primarily for Botemania), the vast majority of our earn-out payments have now been met. We finished the year with adjusted net debt⁶ of £302.1 million and adjusted net leverage⁷ of 2.68x was therefore considerably lower than the 3.57x at the end of 2017.

Leadership team and Board developments

Andria Vidler joined the Company's Board of Directors as a Non-Executive Director following the Company's AGM on 7 June 2018. She also joined the Group's Remuneration Committee and is the Chair of the Group's Corporate Social Responsibility Committee. Andria has extensive public markets experience and is currently Chief Executive Officer of Centaur Media PLC (CAU:LSE), a leading business information group.

Paul Pathak and David Danziger have stated it is their intention not to seek re-election at the forthcoming AGM. Paul and David have been on the Board since the Intertain Group was admitted to the Toronto Stock Exchange in 2014. They have made a huge contribution to the development of what is now JPJ Group plc, including the listing on the London Stock Exchange in January 2017. On behalf of shareholders I would like to thank them for their contribution and wish them well for the future.

Capital structure

JPJ Group plc continues to generate a significant free cash flow⁵; in 2018 this amounted to £100.6 million. The primary utilisation of the free cash flow⁵ continues to be deleveraging the balance sheet; as at 31 December 2017 the adjusted net leverage ratio⁷ stood at 3.57x and at the end of 2018 this had reduced to 2.68x. The Board is comfortable retaining the current significant cash on the balance sheet given the optionality which this confers. We will review the opportunity to use some or all of this spare cash to pay down debt on a quarterly basis.

The Board remains committed to returning excess cash to shareholders, when it can do so on a progressive and sustainable basis. Our debt facility allows us to return cash to shareholders once the adjusted net leverage ratio⁷ falls below 2.5x, but for this to be sustainable, the adjusted net leverage ratio⁷ needs to be comfortably below this level. The Board remains committed to introducing a progressive dividend policy and also sees the value in a sustainable share buyback programme should the Group's share price remain, in its view, materially undervalued and at a discount to the peer group.

We remain focused on the delivery of operational progress and revenue growth and also an appropriate balance sheet to support these ambitions.

Our people, customers and outlook

2018 was another record year in terms of financial results. This robust performance reflects the hard work of our employees throughout the entire organisation and is once again testament to their diligence and dedication. As part of our commitment to meeting the highest industry standards on responsible gambling, revenues at Jackpotjoy UK were impacted in 2018 by the associated and enhanced measures we have implemented and the closure of a small number of high value accounts but, provided there are no further regulatory challenges, we expect the Jackpotjoy^{9,10} division to return to revenue growth during the latter part of 2019.

Our commitment to providing a safe and enjoyable environment for our customers is unwavering. While for the vast majority of players game-play represents fun and entertainment, the Group will continue to implement and develop responsible gambling measures to protect all customers, especially those at risk from potential harm. The Group has a strong track record in responsible gambling and is dedicated to safe game-play and positive gambling behaviour. It offers a variety of tools to help educate and protect customers in real time, while maintaining secure data and ensuring that activities are marketed in a fair and transparent way. Finally, we are confident of our prospects for revenue growth against a positive market backdrop in global online gambling and we aim to continue to provide an entertaining, fun and responsible environment for all our customers to enjoy.

Neil Goulden
Executive Chairman
19 March 2019

Chief Executive Officer, Jackpotjoy Operations Ltd.'s Review

2018 has proven to be a very successful year for JPJ Group plc and one where we have delivered both revenue and profit growth. In June 2018, the final earn-out payment to Gamesys was made in relation to Botemania and at the same time there has been further significant progress in deleveraging the business. This has all been achieved despite a challenging regulatory backdrop in our core UK market. Our strategy is underpinned by three key tenets: putting the customer at the heart of everything we do, geographic diversification, and adding capability across the Group.

Putting the customer first

Our long-term, sustainable business model is based around putting the customer at the heart of our business and 'knowing our customer' remains an organisational imperative.

We have invested significantly in building a data architecture during 2018 so that we can better understand our customers and their behaviour. The benefits of this investment will be realised fully in 2019 as they enable us to build long-term, sustainable relationships with our customers to support revenue growth into the future.

This has been combined with a thorough review of how we best manage customers, particularly with regard to any signs of problem gambling. For us this is not just morally the right thing to do, but makes clear commercial sense as problem gamblers do not suit a high retention business model.

We have made the business accountable for responsible gambling rather than delegating it to a separate function and a responsible gaming or corporate social responsibility objective is part of the bonus scheme of employees who report directly to me.

Geographic diversification; adapting to a new regulatory environment in the UK

The Group has historically been very reliant on our core UK operations and these faced significant fiscal and regulatory challenges in 2018. To mitigate risk and open up new opportunities for growth, a focus of strategy has been geographic diversification. In 2018 43% of our revenues were generated outside of the UK compared to 36% in 2017.

Across our international markets, we have been particularly pleased with the significant growth being delivered in Germany, Japan, Spain and Brazil through our Vera&John, Botemania and InterCasino brands, and also in our B2B offering which is largely focused on Asia.

The UK on the other hand has proved to be a very challenging market due to four significant fiscal and regulatory changes each of which impacted the traditional JPJ Group plc business model, namely:

1. The move to calculate Remote Gaming Duty (RGD) on Gross Gaming Revenue (GGR) rather than Net Gaming Revenue (NGR) represented a significant increase in our taxation costs which we have successfully mitigated through geographical diversification and business model adjustments.
2. The Competition and Markets Authority (CMA) requirements announced in February 2018 dictate a fundamental change in the way we both acquire and retain customers. We introduced the changes promptly, particularly around our use of bonus offers. We believe that our product-led solutions can offer us a competitive advantage going forward.

3. The implementation of General Data Protection Regulation (GDPR) in May 2018 also required changes to the way we have traditionally retained and reactivated customers.
4. Increased responsible gambling and anti-money laundering (AML) measures proved to be challenging as a number of our highest value customers were not prepared to share the level of detail we now require to ascertain their sources of wealth.

The implementation of the above measures all initially had a negative impact on profitability but as the organisation has learnt through the process we have been able to change our business model for the better in a number of areas. We believe that these measures in the longer term will make the strong stronger and the weak weaker. In fact, we have seen evidence of that in our own results in 2018.

Despite all of the challenges, there was a robust performance from our flagship Jackpotjoy brand in the UK; both the number of First Time Depositors (FTDs) and the revenue they generate increased significantly. We also grew both customers and revenue within every segment of our business, with the exception of our top tier VIPs. The small decline in year-on-year revenue is solely due to a decline in our top tier VIP customers following the implementation of the enhanced responsible gambling and AML measures during the year.

While it is always disappointing to experience a decline in revenue, we consider a lower reliance on VIPs to be healthy in the long term. The growth in every metric and the stabilisation of our top tier VIPs in the latter part of the trading period fills us with confidence about our future success.

In our smaller brands, particularly those in Mandalay, this proved far more challenging and we struggled to acquire, retain and reactivate customers. Following a strategic review, we therefore took the decision to dispose of Mandalay; in March 2019 we completed the sale of the business to a subsidiary of 888 Holdings plc for £18.0 million.

Adding capability

2018 has also been a year of adding capability into our business, particularly in terms of people, product, platform and marketing.

Organisationally, we have started taking a more holistic view of the business and have added a number of high-quality individuals who have significantly improved the capability of our organisation.

We have invested in above the line (ATL) marketing during 2018 for Jackpotjoy in the UK, Botemania in Spain and for Vera&John and InterCasino in Germany and Sweden. We have also established a marketing services company specialising in digital marketing.

Significant investment has been made in technology during the year. The investment in our proprietary enJoy platform has enabled us to now generate a significant proportion of our revenue on our proprietary technology. This has largely been focused around compliance, reducing technical debt, creating a modular architecture and integrating payment providers. The outcome of this investment means that the enJoy platform is now suitable for delivering our global ambitions of serving both regulated and unregulated markets with one platform. Meanwhile, we have maintained good relationships with our third party platform providers who have supported both our core and growing brands.

A product function was established over the course of the year to build our product roadmap and ensure that the quality of the customers' experience is enhanced. We have a simple philosophy that customers play online for the fun and entertainment of game-play. We will work hard to reduce the amount of time customers are involved in non-play activities. The 2018 investment has again provided the infrastructure to deliver this vision in 2019.

A content studio has also been launched to build our own in-house content which should both enable us to differentiate our offer and increase our operating margins. We have been involved with the development of a number of games over the course of 2018, but we are particularly proud of 'Hawaiian Dreams' which has become our No.1 game in Asia.

We have also built a content aggregation business which has enabled us to serve content to operators worldwide. While it is early days, the business is beginning to generate some momentum with revenue more than doubling from H1 to H2.

Outlook for 2019

Once more the business faces significant cost headwinds with an increase in RGD in the UK from 15% to 21% in April and the regulation and subsequent tax introduction in Sweden. However, we remain confident that we will continue to deliver healthy revenue growth and fully expect to continue to pursue our international ambitions in high-growth markets and to solidify our market-leading position in the UK.

Simon Wykes
Chief Executive Officer
Jackpotjoy Operations Ltd
19 March 2019

Note regarding non-IFRS financial measures

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

Adjusted EBITDA, as defined by the Group, is income from continuing operations before interest expense including accelerated debt costs and other accretion (net of interest income), income taxes, amortisation and depreciation, share-based compensation, severance costs, realised loss on cross currency swap, fair value adjustments on contingent consideration, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets. Management believes that Adjusted EBITDA is an important indicator of the issuer's ability to generate liquidity to service outstanding debt and fund the remaining acquisition milestone payment and uses this metric for such purpose. The exclusion of share-based compensation eliminates non-cash items and the exclusion of realised loss on cross currency swap, fair value adjustments on contingent consideration, severance costs, transaction related costs, foreign exchange (gain)/loss, and gain on sale of intangible assets eliminates items which management believes are either non-operational and/or non-routine.

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

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

Cautionary Note Regarding Forward-Looking Information

This release contains certain information and statements that may constitute 'forward-looking information' (including future-oriented financial information and financial outlooks) within the meaning of applicable laws, including Canadian securities laws. Often, but not always, forward-looking information can be identified by the use of words such as 'plans', 'expects', 'estimates', 'projects', 'predicts', 'targets', 'seeks', 'intends', 'anticipates', 'believes', or 'is confident of' or the negative of such words or other variations of or synonyms for such words, or state that certain actions, events or results 'may', 'could', 'would', 'should', 'might' or 'will' be taken, occur or be achieved. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance, achievements or developments to be materially different from those anticipated by the Group and expressed or implied by the forward-looking statements. Forward-looking information contained in this release includes, but is not limited to, statements with respect to the Group's future financial performance, the future prospects of the Group's business and operations, the Group's growth opportunities and the execution of its growth strategies, the Group's milestone payment obligations, the future performance of the Jackpotjoy segment, the possibility of the Group drawing on the RCF, and the statements made under the heading 'Outlook' of this release. Certain of these statements may constitute a financial outlook within the meaning of Canadian securities laws. These statements reflect the Group's current expectations related to future events or its future results, performance, achievements or developments, and future trends affecting the Group. All such statements, other than statements of historical fact, are forward-looking information. Such forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, the ability of the Group to secure, maintain and comply with all required licences, permits and certifications to carry out business in the jurisdictions in which it currently operates or intends to operate; governmental and regulatory actions, including the introduction of new laws or changes in laws (or the interpretation thereof) related to online gaming; general business, economic and market conditions (including market growth rates and the withdrawal of the UK from the European Union); the Group operating in foreign jurisdictions; the competitive environment; the expected growth of the online gaming market and potential new market opportunities; anticipated and unanticipated costs; the protection of the Group's intellectual property rights; the Group's ability to successfully integrate and realise the benefits of its completed acquisitions, the amount of expected milestone payments required to be made; the Group's continued relationship with the Gamesys group and other third parties; the ability of the Group to service its debt obligations; and the ability of the Group to obtain additional financing, if, as and when required. Such statements could also be materially affected by risks relating to the lack of available and qualified personnel or management; stock market volatility; taxation policies; competition; foreign operations; the Group's limited operating history and the Group's ability to access sufficient capital from internal or external sources. However, whether actual results and developments will conform with the expectations and predictions contained in the forward-looking information is subject to a number of risks and uncertainties, many of which are beyond the Group's control, and the effects of which can be difficult to predict, including that the assumptions outlined above may not be accurate. For a description of additional risk factors, see Schedule 'A' attached to JPJ Group plc's most recently filed annual information form. Although the Group has attempted to identify important factors that could cause actual results, performance, achievements or developments to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements or developments not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance, achievement or developments are likely to differ, and may differ materially, from those expressed in or implied by the forward-looking information contained in this release. Accordingly, readers should not place undue reliance on forward-looking information. While subsequent events and developments may cause the Group's expectations, estimates and views to change, the Group does not undertake or assume any obligation to update or revise any forward-looking information, except as required by applicable securities laws. The forward-looking information contained in this release should not be relied upon as representing the Group's expectations, estimates and views as of any date subsequent to the date of this release. The forward-looking information contained in this release is expressly qualified by this cautionary statement. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur.

Any future-oriented financial information or financial outlooks in this release (including any such information or outlooks under the heading 'Outlook' on page 3 of this release) are based on certain assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While the Group considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. These risks, uncertainties and other factors include, but are not limited to: credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, and interest rates or tax rates.

Financial Review

Gaming revenue

The Group's gaming revenue during the three months ended 31 December 2018 consisted of:

- £53.9 million in revenue earned from Jackpotjoy's^{9,10} operational activities.
- £32.5 million in revenue earned from Vera&John's operational activities.

The Group's gaming revenue during the three months ended 31 December 2017 consisted of:

- £57.5 million in revenue earned from Jackpotjoy's^{9,10} operational activities.
- £21.7 million in revenue earned from Vera&John's operational activities.

The increase in gaming revenue for the three months ended 31 December 2018 in comparison with the three months ended 31 December 2017 relates to organic growth⁴ of the Vera&John segment, where gaming revenue increased by 50%.

The Group's gaming revenue during the year ended 31 December 2018 consisted of:

- £216.0 million in revenue earned from Jackpotjoy's^{9,10} operational activities.
- £103.6 million in revenue earned from Vera&John's operational activities.

The Group's gaming revenue during the year ended 31 December 2017 consisted of:

- £216.1 million in revenue earned from Jackpotjoy's^{9,10} operational activities.
- £73.2 million in revenue earned from Vera&John's operational activities.

The increase in gaming revenue for the year ended 31 December 2018 in comparison with the year ended 31 December 2017 relates to organic growth⁴ of the Vera&John segment, where gaming revenue increased by 42%.

Costs and expenses

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Distribution costs	43,089	44,034	158,865	140,736
Administrative costs	30,027	29,733	109,444	107,412
Severance costs	—	700	850	700
Transaction related costs	550	4,034	1,888	6,710
	73,666	78,501	271,047	255,558

Distribution costs

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Selling and marketing	15,643	16,474	55,535	48,482
Licensing fees	11,854	11,175	44,311	41,598
Gaming taxes	9,967	12,648	40,390	37,851
Processing fees	5,625	3,737	18,629	12,805
	43,089	44,034	158,865	140,736

Selling and marketing expenses consist of payments made to affiliates and general marketing expenses related to each brand. Licensing fees consist of the fees for the Jackpotjoy segment to operate on its platforms and game suppliers' fees paid by both the Vera&John and Jackpotjoy segments. Gaming taxes largely consist of point of consumption ('POC') taxes, payable in the regulated jurisdictions that the Group operates in. Variance in gaming taxes from the prior year relates to a 15% general betting duty on all free or discounted online bets ('POC2') introduced in the UK in Q4 2017. Processing fees consist of costs associated with using payment providers and include payment service provider transaction and handling costs, as well as deposit and withdrawal fees. With the exception of selling and marketing expenses, distribution costs tend to be variable in relation to revenue.

The decrease in distribution costs for the three months ended 31 December 2018 compared to the same period in 2017 is mainly due to decreased selling and marketing spending in the Jackpotjoy segment. This decrease is further driven by lower gaming taxes related to lower revenues achieved by the Jackpotjoy UK and Mandalay brands. The increase in distribution costs for the year ended 31 December 2018 compared to the same period in 2017 is mainly due to higher revenues achieved and increased selling and marketing spending, primarily in the Vera&John segment.

Administrative costs

	Three month period ended 31 December 2018 (£000's)	Three month period ended 31 December 2017 (£000's)	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Compensation and benefits	9,238	8,429	33,484	31,943
Professional fees	1,465	1,067	4,369	3,729
General and administrative	3,965	4,387	10,752	10,858
Amortisation and depreciation	15,359	15,850	60,839	60,882
	30,027	29,733	109,444	107,412

Compensation and benefits costs consist of salaries, wages, bonuses, directors' fees, benefits and share-based compensation expense. The increase in these expenses for the three months and year ended 31 December 2018 compared to the same periods in 2017 is due to additional staff hired as well as higher bonus accruals.

Professional fees consist mainly of legal, accounting and audit fees. The increase in professional fees in the three months and year ended 31 December 2018 compared to the same periods in 2017 relates to additional gaming industry regulatory requirements that came into effect in the current period.

General and administrative expenses consist of items, such as rent and occupancy, travel and accommodation, insurance, listing authority fees, technology and development costs, and other office overhead charges. The decrease in these costs for the three months and year ended 31 December 2018 compared to the same periods in the prior year can be attributed to higher accounts receivable write-offs recorded in 2017.

Amortisation and depreciation expenses consist of amortisation of the Group's intangible assets and depreciation of the Group's tangible assets over their useful lives. The decrease in amortisation and depreciation for the three months and year ended 31 December 2018 compared to the same periods in the prior year is due to the fact that amortisation expense related to purchase price intangibles

recognised in prior years decreases with each passing year of their useful lives as a result of the amortisation method used.

Transaction related costs

Transaction related costs consist of legal, professional, due diligence, other direct costs/fees associated with transactions and acquisitions or disposals contemplated or completed, costs associated with the Group's premium listing and the refinancing of the Group's external debt. Q1 2017 transaction related costs also included costs associated with the UK strategic review and implementation of UK-centred strategic initiatives, including the listing of the Group on the London Stock Exchange.

Severance costs

Severance costs during the year ended 31 December 2018 relate to personnel redundancies resulting from internal restructuring.

Business unit results

Jackpotjoy^{9,10}

	Q4 2018 £(millions)	Q4 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	53.9	57.5	(3.6)	(6%)
Distribution costs	27.1	32.4	(5.3)	(16%)
Administrative costs	4.9	4.1	0.8	20%
Adjusted EBITDA ²	21.9	21.0	0.9	4%

	YTD 2018 £(millions)	YTD 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	216.0	216.1	(0.1)	0%
Distribution costs	105.6	104.0	1.6	2%
Administrative costs	17.4	15.0	2.4	16%
Adjusted EBITDA ²	93.0	97.1	(4.1)	(4%)

Gaming revenue for the Jackpotjoy^{9,10} segment for the three months ended 31 December 2018 was 6% lower than in the same period in 2017 due to a decline in Jackpotjoy UK and the Mandalay brands, which accounted for 63% and 5% of the segment's revenue, respectively. The decrease was partially offset by increases in the Starspins and Botemania brands, which collectively accounted for 29% of this segment's revenue.

Gaming revenue for the year ended 31 December 2018 was flat against the same period in 2017.

The decrease in distribution costs for the three months ended 31 December 2018 compared to the same period in 2017 is driven by a reduction in UK marketing spend as well as a decrease in gaming taxes driven by lower revenues.

The increase in distribution costs for the year ended 31 December 2018 is driven by an incremental gaming tax expense, which relates to tax on bonuses through the POC2 tax introduced in Q4 2017.

The increase in administrative costs for the three months and year ended 31 December 2018 compared to the same periods in 2017 was mainly driven by increases in administrative overhead costs.

Vera&John

	Q4 2018 £(millions)	Q4 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	32.5	21.7	10.8	50%
Distribution costs	16.0	11.6	4.4	38%
Administrative costs	6.4	6.4	—	—
Adjusted EBITDA ²	10.1	3.7	6.4	173%

	YTD 2018 £(millions)	YTD 2017 £(millions)	Variance £(millions)	Variance %
Gaming revenue	103.6	73.2	30.4	42%
Distribution costs	53.2	36.6	16.6	45%
Administrative costs	19.6	18.6	1.0	5%
Adjusted EBITDA ²	30.8	18.0	12.8	71%

Gaming revenue for the Vera&John segment for the three months and year ended 31 December 2018 increased by 50% and 42%, respectively, compared to the same periods in 2017 due to organic growth⁴. On a constant currency basis¹¹, revenue increased by 50% and 40% in the three months and year ended 31 December 2018 compared to the same periods in 2017.

Distribution costs increased by 38% and 45%, respectively, for the three months and year ended 31 December 2018 compared to the same periods in 2017 as a result of higher marketing spend in the current period. These increases were further driven by higher gaming taxes due to increased revenue in regulated jurisdictions compared to the prior periods.

The increase in administrative costs for the year ended 31 December 2018 compared to the same period in 2017 was mainly driven by increases in personnel costs and administrative overhead costs as the segment continues to grow.

Unallocated Corporate Costs

Adjusted EBITDA² on Unallocated Corporate Costs decreased from (£3.1) million to (£3.3) million in the three months ended 31 December 2018 compared to the three months ended 31 December 2017. The variance mainly relates to a £0.5 million increase in compensation costs offset by a £0.2 million decrease in professional fees and a £0.1 million decrease in general administrative overhead costs.

Adjusted EBITDA² on Unallocated Corporate Costs increased from (£11.7) million to (£11.1) million in the year ended 31 December 2018 compared to the year ended 31 December 2017. The variance mainly relates to a £0.4 million increase in compensation costs offset by a £0.6 million decrease in general administrative overhead costs and a £0.3 million decrease in professional fees.

Net loss on Unallocated Corporate Costs decreased from £49.7 million to £5.3 million in the three months ended 31 December 2018 compared to the three months ended 31 December 2017. This decrease is primarily related to lower interest expense incurred as a result of the debt refinance that

took place in Q4 2017. The decrease is further driven by lower fair value adjustments on contingent consideration due to the third milestone payment being revalued to £nil in the current period and the fact that there were no fair value adjustments in the second and third quarters of 2018 as the final earn-out period ended in Q1 2018.

Net loss on Unallocated Corporate Costs decreased from £125.5 million to £43.9 million in the year ended 31 December 2018 compared to the year ended 31 December 2017. This decrease is primarily related to a lower foreign exchange loss and lower interest expense incurred in the current year as a result of the debt refinance that took place in Q4 2017. The decrease in net loss can further be attributed to lower fair value adjustments on contingent consideration due to the third milestone payment being revalued to £nil in the current year and the fact that there were no fair value adjustments in the second and third quarters of 2018 as the final earn-out period ended in Q1 2018.

Costs included in net loss which are excluded from the adjusted EBITDA² measure are discussed on page 10 of this release.

Key performance indicators

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

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

Monthly Real Money Gaming Revenue per Average Active Customer is a key performance indicator used by management to assess the Group's ability to generate Real Money Gaming Revenue on a per customer basis. The Group defines Monthly Real Money Gaming Revenue per Average Active Customer ('Monthly Real Money Gaming Revenue per Average Active Customer') as being Average Real Money Gaming Revenue per Month divided by Average Active Customers per Month. While this measure is not recognised by IFRS, management believes that it is a meaningful indicator of the Group's ability to generate Total Real Money Gaming Revenue.

	Year ended 31 December 2018	Year ended 31 December 2017	Variance	Variance %
Average Active Customers per Month (#)	259,664	250,321	9,343	4%
Total Real Money Gaming Revenue (£000's) ⁽¹⁾	311,428	282,375	29,053	10%
Average Real Money Gaming Revenue per Month (£000's)	25,952	23,531	2,421	10%
Monthly Real Money Gaming Revenue per Average Active Customer (£)	100	94	6	6%

⁽¹⁾Total Real Money Gaming Revenue for the year ended 31 December 2018 consists of total revenue less revenue earned from B2B and affiliate websites of £8.2 million (31 December 2017 – £6.9 million).

Monthly Real Money Gaming Revenue per Average Active Customer increased by 6% year-over-year which is in line with the Group's overall customer acquisition and retention strategy.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Gaming revenue⁵	319,588	289,258
Costs and expenses		
Distribution costs ^{5,6}	158,865	140,736
Administrative costs ⁶	109,444	107,412
Severance costs ⁵	850	700
Transaction related costs ⁵	1,888	6,710
Foreign exchange loss ⁵	354	9,857
Total costs and expenses	271,401	265,415
Gain on sale of intangible assets	–	(1,271)
Fair value adjustments on contingent consideration ¹⁹	7,208	27,562
Realised loss on cross currency swap	–	12,512
Interest income ⁸	(349)	(182)
Interest expense ⁸	19,821	30,189
Accretion on financial liabilities ⁸	2,993	25,049
Financing expenses	29,673	95,130
Net income/(loss) for the year before taxes from continuing operations	18,514	(70,016)
Current tax provision ²³	853	1,128
Deferred tax recovery ²³	(395)	(427)
Net income/(loss) for the year after taxes from continuing operations	18,056	(70,717)
Net (loss)/income from discontinued operation⁷	(3,579)	2,820
Net income/(loss) for the year attributable to owners of the parent	14,477	(67,897)
Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods		
Foreign currency translation gain	394	27,607
Unrealised loss on cross currency swap	–	(7,737)
Reclassification of loss on cross currency swap	–	7,737
Unrealised loss on interest rate swap ¹³	(1,141)	–
Total comprehensive income/(loss) for the year attributable to owners of the parent	13,730	(40,290)
Net income/(loss) for the year per share		
Basic ⁹	£0.20	£(0.92)
Diluted ⁹	£0.19	£(0.92)
Net income/(loss) for the year per share – continuing operations		
Basic	£0.24	£(0.96)
Diluted	£0.24	£(0.96)

See accompanying notes

CONSOLIDATED BALANCE SHEETS

	As at 31 December 2018 (£000's)	As at 31 December 2017 (£000's)
ASSETS		
Current assets		
Cash ^{10,19}	84,383	59,033
Restricted cash ^{10,19}	6,161	208
Customer deposits ¹⁹	9,032	8,180
Trade and other receivables ^{11,19}	17,070	19,379
Taxes receivable	7,313	6,432
Total current assets	123,959	93,232
Non-current assets		
Tangible assets	2,232	1,339
Intangible assets ¹⁴	226,324	292,223
Goodwill ¹⁴	288,355	296,781
Other long-term receivables ^{12,19}	5,036	5,604
Total non-current assets	521,947	595,947
Total assets	645,906	689,179
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities ^{15,19}	20,606	17,821
Other short-term payables ^{13,16,19}	9,709	12,151
Interest payable ¹⁹	264	924
Payable to customers ¹⁹	9,032	8,180
Convertible debentures ^{19,21}	–	254
Current portion of contingent consideration ¹⁹	4,540	51,866
Provision for taxes	8,169	7,273
Total current liabilities	52,320	98,469
Non-current liabilities		
Contingent consideration ¹⁹	–	7,717
Other long-term payables ^{13,19,20}	1,817	8,245
Deferred tax liability	1,196	1,204
Long-term debt ^{18,19}	371,450	369,487
Total non-current liabilities	374,463	386,653
Total liabilities	426,783	485,122
Equity		
Retained earnings	182,435	167,799
Share capital ²¹	7,434	7,407
Share premium	2,068	1,342
Other reserves	27,186	27,509
Total equity	219,123	204,057
Total liabilities and equity	645,906	689,179

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital (£000's)	Share Premium (£000's)	Merger Reserve (£000's)	Redeemable Shares (£000's)	Share- Based Payment Reserve (£000's)	Translation Reserve (£000's)	Hedge Reserve (£000's)	Retained (Deficit)/ Earnings (£000's)	Total (£000's)
Balance at 1 January 2017	7,298	403,883	(6,111)	50	8,667	(3,958)	–	(170,361)	239,468
Comprehensive income/(loss) for the year:									
Net loss for the year (continued and discontinued operations)	–	–	–	–	–	–	–	(67,897)	(67,897)
Loss on cross currency swap	–	–	–	–	–	–	(7,737)	–	(7,737)
Reclassification of loss on cross currency swap	–	–	–	–	–	–	7,737	–	7,737
Other comprehensive income	–	–	–	–	–	27,607	–	–	27,607
Total comprehensive income/(loss) for the year:	–	–	–	–	–	27,607	–	(67,897)	(40,290)
Contributions by and distributions to shareholders:									
Conversion of debentures ²¹	92	2,986	–	–	–	–	–	–	3,078
Exercise of options ²¹	17	405	–	–	(125)	–	–	125	422
Cancellation of redeemable shares	–	–	–	(50)	–	–	–	–	(50)
Cancellation of share premium ²	–	(405,932)	–	–	–	–	–	405,932	–
Share-based compensation ²¹	–	–	–	–	1,429	–	–	–	1,429
Total contributions by and distributions to shareholders:	109	(402,541)	–	(50)	1,304	–	–	406,057	4,879
Balance at 1 January 2018	7,407	1,342	(6,111)	–	9,971	23,649	–	167,799	204,057
Comprehensive income/(loss) for the year:									
Net income for the year (continued and discontinued operations)	–	–	–	–	–	–	–	14,477	14,477
Other comprehensive income/(loss)	–	–	–	–	–	394	(1,141)	–	(747)
Total comprehensive income/(loss) for the year:	–	–	–	–	–	394	(1,141)	14,477	13,730
Contributions by and distributions to shareholders:									
Conversion of debentures ²¹	6	186	–	–	–	–	–	–	192
Exercise of options ²¹	21	540	–	–	(159)	–	–	159	561
Share-based compensation ²¹	–	–	–	–	583	–	–	–	583
Total contributions by and distributions to shareholders:	27	726	–	–	424	–	–	159	1,336
Balance at 31 December 2018	7,434	2,068	(6,111)	–	10,395	24,043	(1,141)	182,435	219,123

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Operating activities		
Net income/(loss) for the year	14,477	(67,897)
<i>Add (deduct) items not involving cash</i>		
Amortisation and depreciation	61,994	63,042
Share-based compensation expense ²¹	583	1,429
Current tax provision ²³	853	1,128
Deferred tax recovery ²³	(395)	(427)
Interest expense, net ⁸	22,465	55,056
Gain on sale of intangible assets	–	(1,271)
Fair value adjustments on contingent consideration ¹⁹	7,208	27,562
Realised loss on cross currency swap	–	12,512
Foreign exchange loss	317	10,051
Loss on sale of discontinued operation, net of tax ⁷	4,477	–
	111,979	101,185
Restriction of cash balances	(5,900)	(72)
Trade and other receivables	950	(3,009)
Other long-term receivables	(74)	640
Accounts payable and accrued liabilities	2,705	6,363
Other short-term payables	(2,871)	(3,170)
Cash generated from operations	106,789	101,937
Income taxes paid	(3,325)	(6,899)
Income taxes received	2,484	5,860
Total cash provided by operating activities	105,948	100,898
Financing activities		
Proceeds from exercise of options	561	422
Proceeds from cross currency swap settlement	–	26,094
Proceeds from long-term debt ¹⁸	–	367,743
Debenture settlement ²¹	(62)	–
Proceeds from long-term loan receivable	645	–
Repayment of non-compete liability ²⁰	(8,000)	(5,333)
Interest repayment	(21,007)	(30,874)
Payment of contingent consideration ¹⁹	(63,455)	(94,218)
Principal payments made on long-term debt ¹⁸	–	(373,962)
Total cash used in financing activities	(91,318)	(110,128)
Investing activities		
Purchase of tangible assets	(1,450)	(981)
Purchase of intangible assets	(5,250)	(3,212)
Proceeds from sale of intangible assets	1,450	1,002
Secured convertible loan ¹²	–	(3,500)
Disposal of discontinued operation ⁷	16,140	–
Total cash provided by/(used in) investing activities	10,890	(6,691)
Net increase/(decrease) in cash during the year	25,520	(15,921)
Cash, beginning of year	59,033	68,485
Exchange (loss)/gain on cash and cash equivalents	(170)	6,469
Cash, end of year	84,383	59,033

See accompanying notes

SUPPLEMENTARY NOTES FOR YEAR ENDED 31 DECEMBER 2018

1. Corporate information

JPJ Group plc, formerly Jackpotjoy plc, is an online gaming holding company that was incorporated under the Companies Act 2006 (England and Wales) on 29 July 2016. On 27 June 2018, Jackpotjoy plc changed its name to JPJ Group plc. JPJ Group plc's registered office is located at 35 Great St. Helen's, London, United Kingdom. Unless the context requires otherwise, use of 'Group' in these accompanying notes means JPJ Group plc and its subsidiaries, as applicable, and use of 'Parent Company' refers to JPJ Group plc.

The Group currently offers bingo, casino and other games to its customers using the Jackpotjoy, Starspins, Botemania, Vera&John, Costa Bingo, InterCasino, Solid Gaming and other brands. The Jackpotjoy, Starspins, and Botemania brands operate off proprietary software owned by the Gamesys group, the Group's principal B2B software and support provider. The Vera&John, InterCasino and Solid Gaming brands operate off proprietary software owned by the Group. The Costa Bingo and related brands operate off the Dragonfish platform, a software service provided by the 888 group.

These Consolidated Financial Statements were authorised for issue by the Board of Directors of JPJ Group plc (the 'Board of Directors') on 19 March 2019.

2. Basis of preparation

Basis of presentation

These Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The impact of the first time adoption of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers is explained in note 3.

These Consolidated Financial Statements have been prepared under the historical cost convention, other than for the measurement at fair value of the Group's Interest Rate Swap (as defined in note 13), contingent consideration, certain hedged loan instruments, and certain loans receivable.

On 1 February 2017, having been approved in the High Court, the Group's share premium was cancelled. Accordingly, the balance has been reallocated within equity reserves to the Group's retained earnings account by way of a restatement of the comparatives, which did not originally include this transaction. This is now shown in the Consolidated Statements of Changes in Equity as an adjustment to the balances on the Group's equity reserves in the year ended 31 December 2017. While there is no impact on the income statement, on earnings per share or on total equity, share premium has been reduced and retained earnings increased by £405.9 million.

The financial information for the period ended 31 December 2018 and the period ended 31 December 2017 does not constitute the company's UK statutory accounts for those years.

Statutory accounts for the period ended 31 December 2017 have been delivered to the UK Registrar of Companies. The statutory accounts for the period ended 31 December 2018 will be delivered to the Registrar of Companies in due course.

The auditors' reports to the accounts for the year ended 31 December 2018 and year ended 31 December 2017 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

Basis of consolidation

JPJ Group plc's Consolidated Financial Statements consolidate the Parent Company and all of its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All transactions and balances between companies within the group are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which JPJ Group plc obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany transactions, balances, income and expenses on transactions between JPJ Group plc's subsidiaries are eliminated. Profit and losses resulting from intercompany transactions that are recognised in assets are also eliminated.

The subsidiaries of JPJ Group plc, all of which have been included in these Consolidated Financial Statements, are wholly owned by the Group and constitute investment in subsidiaries on the Parent Company's Balance Sheets.

3. Summary of significant accounting policies

Business combinations and goodwill

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

Consideration transferred includes the fair values of the assets transferred, liabilities incurred, and equity interests issued by JPJ Group plc. Consideration also includes the fair value of any contingent consideration. Subsequent to the acquisition, contingent consideration that is based on an earnings target and classified as a liability is measured at fair value with any resulting gain or loss recognised in net income. Transaction related costs are expensed as incurred.

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

Segmental reporting

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

Revenue recognition

Effective from 1 January 2018, the Group adopted IFRS 15 – Revenue from Contracts with Customers ('IFRS 15'), which replaces IAS 18 – Revenue. While the standard is adopted on the full retrospective basis, applying this standard did not impact the Group's financial information as the revenue recognition policy applied by the Group prior to 1 January 2018 was already in compliance with the key principles outlined in IFRS 15. As a result, there was no change in how the Group identifies timing of revenue recognition or determines its transaction price and performance obligations.

The Group earns its revenue from operating online bingo and casino websites ('Net Gaming Revenue'). Other revenue streams, which the Group does not consider material comprise of licencing of its proprietary platform to a third party ('B2B revenue'), affiliate aggregation services ('Affiliate Revenue'), and game aggregation services ('Game Aggregation Revenue'). Up to 31 August 2018, the Group also earned revenue from social gaming.

Net Gaming Revenue

Revenue from online bingo and casino consists of the difference between total amounts wagered by players less all winnings payable to players, bonuses allocated and jackpot contributions. Players transact with the Group's businesses under agreed terms, which forms the basis for the contractual arrangement. The Group does not consider that there are any significant judgements required in applying IFRS 15 to these arrangements.

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

There is no significant degree of uncertainty involved in quantifying the amount of Net Gaming Revenue earned, including bonuses, jackpot contributions, and loyalty points. Bonuses, jackpot contributions and loyalty points are measured at face value when credited to the player's account.

As discussed in note 7, the social gaming part of the business was sold on 31 August 2018, at which point social gaming ceased to be a revenue stream for the Group. Prior to this sale, social gaming revenue was recognised once the customer made a deposit, at which point the Group's obligation was fulfilled as such deposits were non-refundable.

Fair value measurement

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability, or in the

absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Foreign currency translation

Foreign currency transactions and balances

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

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

Financial instruments

Effective from 1 January 2018, the Group adopted IFRS 9 – Financial Instruments ('IFRS 9'). The adoption of the new standard solely impacts the provision for expected credit losses, which are quantified and disclosed in note 11. Treatment of the Group's remaining financial instruments was already in compliance with the key principles of IFRS 9.

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

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

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

Fair value through profit or loss

Financial instruments classified as FVPL include contingent consideration and an interest rate swap. Any gains or losses are recorded in net income in the period in which they arise.

Financial assets at amortised cost

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

The Group has adopted the simplified Expected Credit Loss model ('ECL') ('ECL Model') for JPJ Group plc's trade receivables in accordance with IFRS 9. Other receivables have been evaluated under the standard ECL Model. Under the ECL Model, JPJ Group's trade receivables are classified in stage 1 – financially healthy assets that are expected to perform in line with their contractual terms and which show no signs of increased credit risk.

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

- 0-30 days past due: 1% of carrying value
- 31-60 days past due: 15% of carrying value
- 61-90 days past due: 19% of carrying value
- More than 90 days past due: 25% of carrying value

Financial liabilities at amortised cost

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

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets are assessed for impairment using the ECL approach discussed above.

Factors considered:

- likelihood of breach based on analysis of historical settlement patterns; and
- regulatory environments in the issuers' or counterparties' respective jurisdictions.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in the Consolidated Statements of Comprehensive Income within administrative costs, if applicable.

Compound financial instruments

The Group's compound financial instruments comprise of a convertible loan receivable that can be converted to equity of the loan party after 12 months following the date of the loan agreement.

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

Offsetting of financial instruments

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

Derivative financial instruments

From time to time JPJ Group plc uses derivative instruments for risk management purposes. JPJ Group plc does not use derivative instruments for speculative trading purposes. All derivatives are recorded at fair value on the Consolidated Balance Sheets. The method of recognising unrealised and realised fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives not designated as hedging instruments, unrealised gains and losses are recorded in interest income/expense on the Consolidated Statements of Comprehensive Income. For derivatives designated as hedging instruments, unrealised and realised gains and losses are recognised according to the nature of the hedged item and where the hedged item is a non-financial asset, amounts recognised in the hedging reserve are reclassified and the non-financial asset is adjusted accordingly.

In relation to the Gaming Realms Transaction (as defined in note 12), the Group no longer separates the embedded derivative from its host contract and the entire asset is measured at fair value through profit or loss. Also in relation to this transaction, the adoption of IFRS 9 resulted in balances shown as other long-term receivables and other long-term assets at 31 December 2017 being combined into a single figure and shown as other long-term receivables at 31 December 2018.

Hedge accounting

The Group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting period end. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in the Statements of Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

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

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

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

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

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

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the Consolidated Statements of Comprehensive Income as a financing expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Consolidated Statements of Comprehensive Income as a financing expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

At 31 December 2018, the Group had no hedges designated as fair value hedges.

Cash flow hedges

The Group uses interest rate contracts as hedges of its exposure to interest rate risk in forecast transactions and firm commitments. The effective portion of the gain or loss on the hedging instrument is recognised in the Statements of Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss. The ineffective portion relating to interest rate contracts is recognised in financing expenses. Amounts recognised in the Statements of Other Comprehensive Income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

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

Effective from 16 February 2018, the Group designated its Interest Rate Swap (as defined in note 13) as a cash flow hedge.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in the Statements of Other Comprehensive Income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Effective from 14 December 2017, the Group elected to use its EUR Term Facility as a hedge of its exposure to foreign exchange risk on its investments in EUR foreign subsidiaries. Gains or losses on the retranslation of this borrowing are transferred to the Statements of Other Comprehensive Income to offset any gains or losses on translation of the net investments in the subsidiaries.

At 31 December 2018, no material ineffectiveness arising on net investment hedge was included in the Consolidated Statements of Comprehensive Income.

Income taxes

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

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Group does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, as well as balances with payment processors which are subject to an insignificant risk of change in value.

Cash and cash equivalents exclude restricted cash. Restricted cash is made up of cash held on deposit for the purpose of applying for a business licence, as well as reserves held with payment service providers.

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

Tangible assets

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

Computer hardware	33% per annum
Office furniture	20% per annum
Leasehold improvements	Over the term of the lease

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

Intangible assets

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

Brand	5% per annum
Gaming licences	5% per annum
Software	20% - 33% per annum
Customer relationships and partnership agreements	8% - 25% per annum (variable, according to the expected pattern of consumption)

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

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

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

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Share-based compensation and long-term incentive plan

Compensation expense for equity-settled stock options awarded under the share option plan is measured at the fair value at the grant date using the Black-Scholes valuation model and is recognised using the graded vesting method over the vesting period of the options granted. Compensation expense for equity-settled stock options awarded under the LTIP and LTIP2 (as defined in note 21) is measured at the fair value at the grant date using the Black-Scholes valuation model for the EPS and EPS CAGR Tranches (as defined in note 21) and the Monte Carlo model for the TSR Tranches (as defined in note 21).

Compensation expense recognised is adjusted to reflect the number of options that has been estimated by management for which conditions attached to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognised expense corresponds to the options that have actually vested. The compensation expense credit is attributed to contributed surplus when the expense is recognised in the Consolidated Statements of Comprehensive Income.

Earnings per share

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

Provisions

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

Research and development costs

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

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

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

Leases

JPJ Group plc has classified its rental leases as operating leases. Operating lease payments are recognised on a straight-line basis over the lease term. Operating lease payments are recorded under administrative costs in the Consolidated Statements of Comprehensive Income unless they are attributable to qualifying assets, in which case they are capitalised.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

IFRS 16 – Leases ('IFRS 16') has not been applied to these Consolidated Financial Statements. IFRS 16 will be applicable for annual reporting periods commencing 1 January 2019. The Group will be applying IFRS 16 using the modified retrospective approach and therefore the comparative information will not be restated and will continue to be reported under IAS 17 – Leases and related interpretations. Impact of IFRS 16 is further discussed in note 29 of these Consolidated Financial Statements.

4. Summary of significant accounting estimates and assumptions

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

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

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

Business combinations and contingent consideration

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

In certain acquisitions, the Group may include contingent consideration which is subject to the acquired company achieving certain performance targets. At each reporting period, JPJ Group plc estimates the future earnings of acquired companies, which are subject to contingent consideration in order to assess the probability that the acquired company will achieve their performance targets and thus earn their contingent consideration. Any changes in the fair value of the contingent consideration between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the estimated probability of the acquired business achieving its earnings targets and the consequential impact of amounts payable under these arrangements.

Goodwill and intangible assets

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

Taxes

Group companies may be subject to indirect taxation on transactions, which have been treated as exempt supplies of gambling, or on supplies which have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from customers located in any particular jurisdiction may give rise to further taxes in

that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group, its financial position or its reported results. Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date.

5. Segment information

Segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Makers (as defined in note 3).

The Vera&John segment consists of the online casino operating results of various brands, including Vera&John, InterCasino and Solid Gaming. The Jackpotjoy segment consists of the real money operating results of the Jackpotjoy, Starspins, Botemania brands and various online bingo websites operated off the Dragonfish platform and the operating results of affiliate portal websites.

In March 2018, the Group determined that its reportable operating segments had changed such that the Mandalay segment was aggregated with the Jackpotjoy segment with effect from 1 January 2018, as Mandalay no longer met the criteria for a reportable operating segment, set out in IFRS 8 – Operating Segments. Mandalay was therefore aggregated with the Jackpotjoy segment, consistent with the Group's other third-party platform hosted operations. Additionally, as discussed in note 7, the Group sold its social gaming business in the current year. All current year and 2017 comparative segment figures have been restated accordingly. The social gaming business was previously reported as a part of the Jackpotjoy segment.

The following tables present selected financial results for each segment and the Unallocated Corporate Costs:

Year ended 31 December 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	216,015	103,573	—	319,588
Distribution costs	105,616	53,186	63	158,865
Amortisation and depreciation	50,318	10,131	390	60,839
Compensation, professional, and general and administrative expenses	17,424	19,549	11,632	48,605
Severance costs	—	850	—	850
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Financing, net	5	(120)	29,788	29,673
Net income/(loss) for the year before taxes from continuing operations	42,414	19,638	(43,538)	18,514
Taxes	—	122	336	458
Net income/(loss) for the year after taxes from continuing operations	42,414	19,516	(43,874)	18,056
Net income/(loss) for the year after taxes from continuing operations	42,414	19,516	(43,874)	18,056
Interest expense/(income), net	5	(120)	19,587	19,472
Accretion on financial liabilities	—	—	2,993	2,993
Taxes	—	122	336	458
Amortisation and depreciation	50,318	10,131	390	60,839
EBITDA	92,737	29,649	(20,568)	101,818
Share-based compensation	—	—	583	583
Severance costs	—	850	—	850
Fair value adjustments on contingent consideration	—	—	7,208	7,208
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Adjusted EBITDA	92,975	30,838	(11,112)	112,701
Net income/(loss) for the year after taxes from continuing operations	42,414	19,516	(43,874)	18,056
Share-based compensation	—	—	583	583
Severance costs	—	850	—	850
Fair value adjustments on contingent consideration	—	—	7,208	7,208
Transaction related costs	—	139	1,749	1,888
Foreign exchange loss/(gain)	238	200	(84)	354
Amortisation of acquisition related purchase price intangibles	50,251	7,945	—	58,196
Accretion on financial liabilities	—	—	2,993	2,993
Adjusted net income/(loss)	92,903	28,650	(31,425)	90,128

Year ended 31 December 2017:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	216,091	73,167	—	289,258
Distribution costs	104,008	36,582	146	140,736
Amortisation and depreciation	50,546	9,956	380	60,882
Compensation, professional, and general and administrative expenses	15,028	18,558	12,944	46,530
Severance costs	—	—	700	700
Transaction related costs	—	—	6,710	6,710
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Financing, net	4	(166)	95,292	95,130
Net income/(loss) for the year before taxes from continuing operations	46,869	8,640	(125,525)	(70,016)
Taxes	—	701	—	701
Net income/(loss) for the year after taxes from continuing operations	46,869	7,939	(125,525)	(70,717)
Net income/(loss) for the year after taxes from continuing operations	46,869	7,939	(125,525)	(70,717)
Interest expense/(income), net	4	(166)	30,169	30,007
Accretion on financial liabilities	—	—	25,049	25,049
Taxes	—	701	—	701
Amortisation and depreciation	50,546	9,956	380	60,882
EBITDA	97,419	18,430	(69,927)	45,922
Share-based compensation	—	—	1,429	1,429
Severance costs	—	—	700	700
Fair value adjustments on contingent consideration	—	—	27,562	27,562
Realised loss on cross currency swap	—	—	12,512	12,512
Transaction related costs	—	—	6,710	6,710
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Adjusted EBITDA	97,055	18,027	(11,661)	103,421
Net income/(loss) for the year after taxes from continuing operations	46,869	7,939	(125,525)	(70,717)
Share-based compensation	—	—	1,429	1,429
Severance costs	—	—	700	700
Fair value adjustments on contingent consideration	—	—	27,562	27,562
Realised loss on cross currency swap	—	—	12,512	12,512
Transaction related costs	—	—	6,710	6,710
Gain on sale of intangible assets	(269)	(1,002)	—	(1,271)
Foreign exchange (gain)/loss	(95)	599	9,353	9,857
Amortisation of acquisition related purchase price intangibles	50,499	8,568	—	59,067
Accretion on financial liabilities	—	—	25,049	25,049
Adjusted net income/(loss)	97,004	16,104	(42,210)	70,898

The following table presents net assets per segment and Unallocated Corporate Costs as at 31 December 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	18,055	54,394	51,510	123,959
Goodwill	231,322	57,033	—	288,355
Other non-current assets	200,642	28,152	4,798	233,592
Total assets	450,019	139,579	56,308	645,906
Current liabilities	19,758	25,788	6,774	52,320
Non-current liabilities	—	1,196	373,267	374,463
Total liabilities	19,758	26,984	380,041	426,783
Net assets	430,261	112,595	(323,733)	219,123

The following table presents net assets per segment and Unallocated Corporate Costs as at 31 December 2017:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	20,960	41,970	30,302	93,232
Goodwill	240,960	55,821	—	296,781
Other non-current assets	262,471	31,878	4,817	299,166
Total assets	524,391	129,669	35,119	689,179
Current liabilities	27,870	19,877	50,722	98,469
Non-current liabilities	—	1,204	385,449	386,653
Total liabilities	27,870	21,081	436,171	485,122
Net assets	496,521	108,588	(401,052)	204,057

During the years ended 31 December 2018 and 2017, revenue was earned from customers located in the following locations: United Kingdom – 57% (2017 – 64%), Sweden – 8% (2017 – 10%), Spain – 10% (2017 – 8%), Japan – 13% (2017 – 8%), rest of Europe – 8% (2017 – 6%), rest of world – 4% (2017 – 4%).

During the year ended 31 December 2018 and 2017, the Group's B2B Revenue, Affiliate Revenue and Game Aggregation Revenue comprised 3% (2017 – 3%) of total Group revenues, with the remaining portion being revenues earned from Net Gaming Revenue operations as described in note 1.

Non-current assets by geographical location as at 31 December 2018 were as follows: Europe £85.2 million (31 December 2017 – £87.7 million) and Americas £436.8 million (31 December 2017 – £508.2 million).

6. Costs and expenses

As discussed in note 7, the Group sold its social gaming business in the current year. As a result, all current and 2017 comparative figures have been restated accordingly.

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Distribution costs:		
Selling and marketing	55,535	48,482
Licensing fees	44,311	41,598
Gaming taxes	40,390	37,851
Processing fees	18,629	12,805
	158,865	140,736
Administrative costs:		
Compensation and benefits	33,484	31,943
Professional fees	4,369	3,729
General and administrative	10,752	10,858
Tangible asset depreciation	598	424
Intangible asset amortisation	60,241	60,458
	109,444	107,412

7. Discontinued operations

On 31 August 2018, the Group completed the sale of its social gaming business for cash consideration of £18.0 million, excluding working capital adjustments and costs of disposal paid by the Group. The social gaming business was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of comprehensive income is presented below to show the discontinued operation separately from continuing operations. The results of the social gaming business have been excluded from notes 5 and 6 above.

Results of discontinued operation

	Eight month period to disposal on 31 August 2018 (£000's)	Year ended 31 December 2017 (£000's)
Social gaming revenue	7,495	15,388
Expenses	6,597	12,568
Results from operating activities	898	2,820
Income tax	—	—
Income for the year	898	2,820
Loss on disposal of discontinued operation	(4,477)	—
Income tax on loss on sale of discontinued operation	—	—
(Loss)/income from discontinued operation, net of tax	(3,579)	2,820
Basic (loss)/income per share	£(0.05)	£0.04
Diluted (loss)/income per share	£(0.05)	£0.04

Cash flows from discontinued operation

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Net cash provided by operating activities	2,016	5,174
Net cash provided by investing activities	16,140	—
Net cash from financing activities	—	—
Net cash flows for the year	18,156	5,174

Effect of disposal on the financial position of the Group

	31 December 2018 (£000's)
Trade and other receivables	184
Non-current assets	10,365
Goodwill	9,638
Net assets	20,187
Working capital adjustment payable*	(1,203)
Costs of disposal	(1,118)
Consideration received, satisfied in cash	18,031
Loss on disposal of discontinued operation	(4,477)

*As at 31 December 2018 £0.4 million remains payable as shown in note 16.

Goodwill disposed of was allocated to the social gaming business on the basis of its earnings before interest, taxes, depreciation and amortisation, relative to that of the overall segment.

8. Interest income/expense

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Interest earned on cash held during the year	136	182
Interest earned on long-term loan receivable	213	—
Total interest income	349	182
Interest paid and accrued on long-term debt	19,815	30,144
Interest paid and accrued on convertible debentures	6	45
Total interest expense	19,821	30,189
Accretion of discount recognised on contingent consideration	1,204	6,052
Interest accretion recognised on convertible debentures	8	42
Debt issue costs and accretion recognised on long-term debt*	576	17,095
Interest accretion recognised on other long-term liabilities	1,205	1,860
Total accretion on financial liabilities	2,993	25,049

*2017 figure includes accelerated accretion of costs of £14.1 million as a result of debt refinancing that took place in December 2017.

9. Earnings per share

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

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Numerator:		
Net income/(loss) – basic	14,477	(67,897)
Net income/(loss) – diluted ¹	14,477	(67,897)
Denominator:		
Weighted average number of shares outstanding – basic	74,241	73,865
Weighted average effect of dilutive share options	563	–
Weighted average effect of convertible debentures ²	29	–
Weighted average number of shares outstanding – diluted ¹	74,833	73,865
Instruments, which are anti-dilutive:		
Weighted average effect of dilutive share options	–	453
Weighted average effect of convertible debentures ²	–	238
Net income/(loss) per share ^{3,4}		
Basic	£0.20	£(0.92)
Diluted ¹	£0.19	£(0.92)

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

² An assumed conversion of convertible debentures had an anti-dilutive effect on loss per share for the year ended 31 December 2017.

³ Basic income/(loss) per share is calculated by dividing the net income/(loss) attributable to owners of the parent by the weighted average number of shares outstanding during the year.

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

10. Cash and restricted cash

	31 December 2018 (£000's)	31 December 2017 (£000's)
Cash	84,383	59,033
Restricted cash	6,161	208
Total cash balances	90,544	59,241

11. Trade and other receivables

Trade and other receivables consist of the following items:

	31 December 2018 (£000's)	31 December 2017 (£000's)
Due from the Gamesys group	8,764	8,634
Due from the 888 group	1,665	3,101
B2B and affiliate revenue receivable	2,722	2,481
Receivable for intangible assets sold	–	1,450
Prepaid expenses	2,925	2,375

Other	1,994	1,338
Less: ECL provision for trade and other receivables	<u>(1,000)</u>	<u>—</u>
	<u>17,070</u>	<u>19,379</u>

The following table summarises the Group's ECL on its trade receivables and loan receivables:

	0-30 days (£000's)	31-60 days (£000's)	61-90 days (£000's)	90 days + (£000's)	Total (£000's)
Trade and other receivables	—	91	131	417	639
Other long-term receivables	—	—	—	361	361
	<u>—</u>	<u>91</u>	<u>131</u>	<u>778</u>	<u>1,000</u>

12. Other long-term receivables

On 29 November 2017, the Group entered into a secured convertible loan and services agreement with Gaming Realms plc ('Gaming Realms') (the 'Gaming Realms Transaction').

Key terms of the Gaming Realms Transaction include: (a) five-year secured convertible loan to Gaming Realms in the principal amount of £3.5 million with an interest rate of 3 month UK LIBOR plus 5.5% per annum; (b) conversion option that allows the Group to convert some or all of the loan (in tranches of £0.5 million) into ordinary shares of Gaming Realms after 12 months; (c) a ten-year services agreement ('Services Agreement') for the supply by Gaming Realms of some of its content to websites of the Group's choosing free-of-charge. The value of the free-of-charge services provided under this Services Agreement will be capped at £3.5 million over the first five years of the agreement, at which point the provision of free-of-charge services will cease.

In connection with this transaction, the Group recognised a long-term receivable of £3.6 million (2017 – £3.5 million) for the secured convertible loan, in accordance with IFRS 9, based on the calculation of fair value at 31 December 2018, as explained in note 19.

13. Interest rate swap

On 16 February 2018, JPJ Group plc entered into an interest rate swap agreement (the 'Interest Rate Swap') in order to minimise the Group's exposure to interest rate fluctuations. The Interest Rate Swap has an effective date of 15 March 2018 (the 'Effective Date') and an expiry date of 15 March 2023. Under this agreement, JPJ Group plc will pay a fixed 6.439% rate of interest in place of floating GBP interest payments of GBP LIBOR plus 5.25%. The fixed interest rate will be paid on 60% of the GBP Term Facility (£150.0 million – the 'Notional Amount') to start. The Notional Amount will decrease by £30.0 million every 12 months from the Effective Date. The Interest Rate Swap was designated as a cash flow hedge, as described in note 3.

As at 31 December 2018, the fair value of the Interest Rate Swap was a £0.5 million payable. The Group has included £0.1 million of this payable in current liabilities, as shown in note 16, with the value of the remaining balance, being £0.4 million, included in other long-term payables.

14. Intangible assets and goodwill

As at 31 December 2018:

	Gaming licences (£000's)	Customer relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non- complete clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2018	93	337,655	25,211	70,019	12,900	20,434	316,386	782,698
Additions	—	—	5,318	—	—	—	—	5,318
Disposals (note 7)	—	(18,000)	—	—	—	—	(9,638)	(27,638)
Translation	(2)	405	426	307	—	—	2,373	3,509
Balance, 31 December 2018	91	320,060	30,955	70,326	12,900	20,434	309,121	763,887
Accumulated amortisation/impairment								
Balance, 1 January 2018	81	139,333	12,551	10,005	4,458	7,661	19,605	193,694
Amortisation	44	40,496	5,518	3,502	1,622	10,214	—	61,396
Disposals (note 7)	—	(7,635)	—	—	—	—	—	(7,635)
Translation	(69)	380	211	70	—	—	1,161	1,753
Balance, 31 December 2018	56	172,574	18,280	13,577	6,080	17,875	20,766	249,208
Carrying value								
Balance, 31 December 2018	35	147,486	12,675	56,749	6,820	2,559	288,355	514,679

As at 31 December 2017:

	Gaming licences (£000's)	Customer relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non- complete clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2017	94	340,927	21,670	70,054	12,900	20,434	317,829	783,908
Additions	—	—	2,708	—	—	—	—	2,708
Disposals*	—	(3,822)	—	—	—	—	—	(3,822)
Translation	(1)	550	833	(35)	—	—	(1,443)	(96)
Balance, 31 December 2017	93	337,655	25,211	70,019	12,900	20,434	316,386	782,698
Accumulated amortisation/impairment								
Balance, 1 January 2017	34	96,811	7,414	6,523	2,824	—	21,477	135,083
Amortisation	41	44,958	4,820	3,504	1,634	7,661	—	62,618
Disposals*	—	(2,638)	—	—	—	—	—	(2,638)
Translation	6	202	317	(22)	—	—	(1,872)	(1,369)
Balance, 31 December 2017	81	139,333	12,551	10,005	4,458	7,661	19,605	193,694
Carrying value								
Balance, 31 December 2017	12	198,322	12,660	60,014	8,442	12,773	296,781	589,004

*On 6 December 2017, the Group entered into an agreement to sell certain affiliate contracts for £1.5 million.

Goodwill impairment testing

For the purpose of the annual impairment test, goodwill has been allocated to each operating segment of the business, which also represent the Group CGUs.

The recoverable amount of the Vera&John CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 18% (2017 – 22%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2017 – 2.5%) growth rate.

The recoverable amount of the Jackpotjoy CGU has been determined based on a fair value less selling costs calculation using cash flow projections from financial forecasts approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 14% (2017 – 14%) and cash flows beyond the five-year period are extrapolated using a 2.5% (2017 – 2.5%) growth rate.

The fair value less selling costs calculations are based on level 3 in the fair value hierarchy.

As at 31 December 2018, there was no indication of impairment of goodwill, nor do the Directors expect any reasonably possible change in a key assumption that may give rise to an impairment.

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following items:

	31 December 2018 (£000's)	31 December 2017 (£000's)
Affiliate/marketing expenses payable	7,038	6,547
Payable to game suppliers	3,181	1,899
Compensation payable	5,773	4,868
Professional fees	1,231	875
Gaming tax payable	1,174	2,101
Other	2,209	1,531
	20,606	17,821

16. Other short-term payables

Other short-term payables consist of:

	31 December 2018 (£000's)	31 December 2017 (£000's)
Transaction related payables	516	3,484
Current portion of other long-term payables (note 20)	8,667	8,667
Interest Rate Swap (note 13)	97	—
Working capital adjustment payable (note 7)	429	—
	9,709	12,151

17. Financial risk management

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. As at 31 December 2018, the Group is largely exposed to credit risk through its relationship with its service providers, the Gamesys group, the 888 group, as well as its cash balances. Credit risk also arises from payment services providers ('PSPs'). Prior to accepting new PSPs, credit

checks are performed using a reputable external source, where available. Management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. As at 31 December 2018 the Group recognised a £1.0 million provision for potentially uncollectable trade and other receivables as well as other long-term receivables to be in compliance with IFRS 9, as explained in note 3. With the exception of the balances discussed in note 11, no other receivables are considered past due or impaired. Quantitative analysis of the Group's exposure to credit risk arising from its receivables is included in note 11 and analysis of the Group's exposure to its credit risk arising from cash is presented below.

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

Financial Institution Rating	31 December 2018 (£000's)	31 December 2017 (£000's)*
AA-	17,786	18,209
A+	—	7,677
A	43,946	7,307
A-	31	60
BBB+	1,969	2,701
BBB	5,975	5,481
BB	4,002	9,122

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

**2017 ratings have been restated to match ratings of respective banks at 31 December 2018.*

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. JPJ Group plc is exposed to cash flow interest rate risk on its credit facilities, described in note 18, which bear interest at variable rates. A one percentage point increase (decrease) in interest rates would have decreased (increased) net earnings before income taxes by approximately £3.7 million for the year ended 31 December 2018 (31 December 2017 – £3.5 million), with all other variables held constant.

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

On 16 February 2018, JPJ Group plc entered into an Interest Rate Swap (as defined in note 13) to mitigate its exposure to interest rate volatility. A one percentage point increase (decrease) in interest rates would have increased (decreased) the fair value of the Interest Rate Swap by approximately £2.9 million for the year ended 31 December 2018 (31 December 2017 – £nil), with all other variables held constant.

Foreign exchange risk

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

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

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

At 31 December 2018	Net foreign currency financial assets/(liabilities)	Effect of 10% strengthening in foreign exchange rates on comprehensive income	Effect of 10% weakening in foreign exchange rates on comprehensive income
	(£000's)	(£000's)	(£000's)
Canadian dollar	(237)	(24)	24
EURO	(99,546)	(9,955)	9,955
United States dollar	1,471	147	(147)

At 31 December 2017	Net foreign currency financial assets/(liabilities)	Effect of 10% strengthening in foreign exchange rates on comprehensive income	Effect of 10% weakening in foreign exchange rates on comprehensive income
	(£000's)	(£000's)	(£000's)
Canadian dollar	(480)	(48)	48
EURO	(96,854)	(9,685)	9,685
United States dollar	5,416	542	(542)

Liquidity risk

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

Liquidity risk arises from the Group's ability to meet its financial obligations as they become due. The following tables summarise the Group's undiscounted financial and other liabilities as at 31 December 2018 and 31 December 2017:

At 31 December 2018	On demand	Less than 1 year	2-3 years	4-5 years	After 5 years
	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)
Accounts payable and accrued liabilities	20,606	—	—	—	—
Other payables	1,612	8,097	2,388	—	—
Payable to customers	9,032	—	—	—	—
Contingent consideration	—	4,670	—	—	—
Long-term debt	—	—	—	—	375,692
Interest payable on long-term debt	—	19,763	39,580	39,526	20,081
	31,250	32,530	41,968	39,526	395,773

At 31 December 2017	On demand	Less than 1 year	2-3 years	4-5 years	After 5 years
	(£000's)	(£000's)	(£000's)	(£000's)	(£000's)
Accounts payable and accrued liabilities	17,821	—	—	—	—
Other payables	4,151	8,000	10,000	—	—
Payable to customers	8,180	—	—	—	—
Contingent consideration	—	53,348	8,750	—	—
Convertible debentures	—	258	—	—	—
Long-term debt	—	—	—	—	374,292
Interest payable on long-term debt	—	20,621	39,461	39,407	39,461
	30,152	82,227	58,211	39,407	413,753

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

Subject to meeting certain financial covenants, the Group may have the ability to draw on the £13.5 million RCF (as defined in note 18) as a further capital resource.

18. Credit facilities

	Term Loan (£000's)	Incremental First Lien Facility (£000's)	Second Lien Facility (£000's)	EUR Term Facility (£000's)	GBP Term Facility (£000's)	Total (£000's)
Balance, 1 January 2017	220,016	67,534	83,243	—	—	370,793
Principal advanced	—	—	—	122,574	250,000	372,574
Repayment	(218,793)	(70,000)	(90,000)	—	—	(378,793)
Debt financing costs incurred	—	—	—	(1,397)	(3,434)	(4,831)
Accretion*	7,846	2,466	6,757	8	18	17,095
Foreign exchange translation	(9,069)	—	—	1,718	—	(7,351)
Balance, 31 December 2017	—	—	—	122,903	246,584	369,487
Accretion*	—	—	—	172	404	576
Foreign exchange translation	—	—	—	1,387	—	1,387
Balance, 31 December 2018	—	—	—	124,462	246,988	371,450
Current portion	—	—	—	—	—	—
Non-current portion	—	—	—	124,462	246,988	371,450

*Effective interest rates are as follows: EUR Term Facility – 4.44%, GBP Term Facility – 6.01%.

On 6 December 2017, JPJ Group plc entered into a senior facilities agreement ('Senior Facilities Agreement') pursuant to which debt facilities were made available to JPJ Group plc and certain of its subsidiaries in an aggregate sterling equivalent amount of approximately £388.5 million, comprised of (i) a €140.0 million term facility (the 'EUR Term Facility'), (ii) a £250.0 million term facility (the 'GBP

Term Facility and, together with the EUR Term Facility', the 'Term Facilities') and (iii) a £13.5 million revolving credit facility (the 'RCF' and, together with the Term Facilities, the 'Facilities'). Proceeds from the Term Facilities were used in part to repay the Group's existing First and Second Lien Facilities on 14 December 2017, at which point, the accretion of the remaining debt issue costs on the First and Second Lien facilities was accelerated. Proceeds from the RCF can be applied to, among other things, working capital and general corporate purposes and financing or refinancing capital expenditure.

The Term Facilities are non-amortising and mature in December 2024. The RCF matures in December 2023 and remains undrawn as at 31 December 2018.

The EUR Term Facility has an interest rate of EURIBOR (with a 0% floor) plus an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.25% to 3.50% based on reductions in the senior secured net leverage ratio ('SSLR') and meeting certain ratings requirements. The GBP Term Facility has an interest rate of LIBOR (with a 0% floor) plus an opening margin of 5.25% per annum, subject to a margin ratchet with step downs of 0.25% to 4.50% based on reductions in the SSLR and meeting certain ratings requirements. The RCF has an interest rate of EURIBOR (for Euro loans, with a 0% floor) or LIBOR (for GBP and USD loans, with a 0% floor) plus, in each case, an opening margin of 4.25% per annum, subject to a margin ratchet with step downs of 0.50% to 3.25% based on reductions in the SSLR.

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

JPJ Group plc was in compliance with the terms of the Senior Facilities Agreement as at 31 December 2018.

19. Financial instruments

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

Financial assets

	Financial assets as subsequently measured at amortised cost	
	31 December 2018 (£000's)	31 December 2017 (£000's)
Cash and restricted cash	90,544	59,241
Trade and other receivables	17,070	19,379
Other long-term receivables	1,462	2,104
Customer deposits	9,032	8,180
	118,108	88,904

Financial liabilities

	Financial liabilities as subsequently measured at amortised cost	
	31 December 2018 (£000's)	31 December 2017 (£000's)
Accounts payable and accrued liabilities	20,606	17,821
Other short-term payables	9,612	12,151
Other long-term payables	1,429	8,245
Interest payable	264	924
Payable to customers	9,032	8,180
Convertible debentures	—	254
Long-term debt	371,450	369,487
	412,393	417,062

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

Other financial instruments

	Financial instruments at fair value through profit or loss – assets/(liabilities)	
	31 December 2018 (£000's)	31 December 2017 (£000's)
Interest Rate Swap	(485)	—
Contingent consideration	(4,540)	(59,583)
Other long-term receivables	3,574	3,500
	(1,451)	(56,083)

Fair value hierarchy

The hierarchy of the Group's financial instruments carried at fair value is as follows:

	Level 2		Level 3	
	31 December 2018 (£000's)	31 December 2017 (£000's)	31 December 2018 (£000's)	31 December 2017 (£000's)
Interest Rate Swap	(485)	—	—	—
Other long-term receivables	3,574	3,500	—	—
Contingent consideration	—	—	(4,540)	(59,583)

The Interest Rate Swap balance represents the fair value of expected cash outflows under the Interest Rate Swap agreement.

Other long-term receivables represent the fair value of the loan receivable from Gaming Realms. The key inputs into the fair value estimation of this balance include the share price of Gaming Realms on the date of cash transfer, a five-year risk-free interest rate of 1.386%, and an estimated share price return volatility rate of Gaming Realms of 48.3%.

A discounted cash flow valuation model was used to determine the value of the contingent consideration at 31 December 2017. The model considered the present value of the expected payments, discounted using a risk-adjusted discount rate of 7%. The expected payments were determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.

On 15 June 2018, the Group made a final earn-out payment of £58.5 million for the Botemania brand, its Spanish business within the Jackpotjoy segment, and a £5.0 million milestone payment related to certain performance achievements within the Jackpotjoy segment. This final payment was met using existing cash resources.

At year-end, the Group reviewed the two remaining milestone payments related to the Jackpotjoy segment and concluded that it is highly unlikely that the last milestone balance will become payable. As a result, the last milestone balance was revalued to £nil.

As at 31 December 2018, the entire contingent consideration balance relates to one remaining milestone payment for the Jackpotjoy segment.

The movement in Level 3 financial instruments is detailed below:

	(£000's)
Contingent consideration, 1 January 2017	120,187
Fair value adjustments	27,562
Payments	(94,218)
Accretion of discount	6,052
Contingent consideration, 31 December 2017	59,583
Fair value adjustments*	7,208
Payments	(63,455)
Accretion of discount	1,204
Contingent consideration, 31 December 2018	4,540
Current portion	4,540
Non-current portion	—

**The figure is made up of an earn-out fair value adjustment of £11.4 million, less a 4.2 million revaluation of the last milestone payment.*

20. Other long-term payables

The Group is required to pay the Gamesys group £24.0 million in equal monthly instalments in arrears over the period from April 2017 to April 2020, for additional non-compete clauses that came into effect in April 2017 and that expire in March 2019. The Group has included £8.7 million of this payable in current liabilities, as shown in note 16 (31 December 2017 — £8.7 million), with the discounted value of the remaining balance, being £1.4 million (31 December 2017 — £8.2 million), included in other long-term payables. During the year ended 31 December 2018, the Group has paid a total of £8.0 million (year ended 31 December 2017 — £5.3 million) in relation to the additional non-compete clauses.

As at 31 December 2018, the other long-term payables figure of £1.8 million (31 December 2017 — £8.2 million) also includes the non-current portion of the Group's Interest Rate Swap (as discussed in note 13).

21. Share capital

As at 31 December 2018, JPJ Group plc's issued share capital consisted of 74,328,930 ordinary shares, each with a nominal value of £0.10.

	(£000's)	Ordinary shares of £0.10 #
Balance, 1 January 2017	7,298	72,983,277
Conversion of convertible debentures, net of costs	92	916,498
Exercise of options	17	165,156
Balance, 31 December 2017	7,407	74,064,931
Conversion of convertible debentures, net of costs	6	56,499
Exercise of options	21	207,500
Balance, 31 December 2018	7,434	74,328,930

Convertible debentures

During the year ended 31 December 2018, debentures at an undiscounted value of £0.2 million were converted into 56,499 ordinary shares of JPJ Group plc. The remaining convertible debentures were redeemed in full to the value of £0.1 million on 1 June 2018.

Share options

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

The changes in the number of share options outstanding during the year ended 31 December 2018 were as follows:

	Number of options #	Weighted average exercise price (£)
Outstanding, 1 January 2017	3,251,146	6.62
Forfeited	(58,000)	9.26
Exercised	(165,156)	2.71
Outstanding, 31 December 2017	3,027,990	6.79
Forfeited	(425,000)	9.51
Exercised	(207,500)	2.70
Outstanding, 31 December 2018	2,395,490	6.66

Share Option Plan

As at 31 December 2018, 2,392,005 options are exercisable (31 December 2017 – 2,923,726). The range of exercise prices of share options issued is £2.42 to £3.98 for options granted in 2014, £9.24 to £11.19 for options granted in 2015 and £6.79 for options granted in 2016. The weighted average remaining contractual life of share options outstanding as at 31 December 2018 is approximately 1.8 years (31 December 2017 – 2.6 years).

During the year ended 31 December 2018, the Group recorded £0.3 million (2017 – £1.3 million) in share-based compensation expense relating to the Share Option Plan with a corresponding increase in the share-based payment reserve.

Long-term incentive plan

On 24 May 2017, JPJ group plc granted awards over ordinary shares under the Group's long-term incentive plan ('LTIP') for key management personnel. The awards (i) will vest on the date on which the Board of Directors determines the extent to which the performance condition (as described below) has been satisfied, and (ii) are subject to a holding period of two years beginning on the vesting date, following the end of which they will be released so that the shares can be acquired. At 31 December 2018, the number of ordinary shares that may be allotted under the Group's 2017 LTIP awards is 170,190 (2017 – 332,052).

The performance condition as it applies to 50% of each award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 25 January 2017 ('TSR Tranche'). The performance condition as it applies to the remaining 50% of the award is based on the Group's earnings per share ('EPS') in the last financial year of that performance period ('EPS Tranche') and vests as to 25% if final year EPS is 133.5 pence, between 25% and 100% (on a straight-line basis) if final year EPS is more than 133.5 pence but less than 160 pence, and 100% if final year EPS is 160 pence or more.

On 26 March 2018, JPJ Group plc granted an equity-settled mirror award ('Mirror Award') over ordinary shares of JPJ Group plc. The Mirror Award is on the same commercial terms as the Group's LTIP for key management personnel. At 31 December 2018, the number of ordinary shares that may be allotted under the Group's Mirror Award is 57,435.

On 28 March 2018, JPJ Group plc granted additional equity-settled awards over ordinary shares of JPJ Group plc under the Group's long-term incentive plan ('LTIP2') for key management personnel. The awards will (i) vest on the date on which the remuneration committee determines the extent to which the performance conditions (as described below) have been met and (ii) are subject to a holding period of two years beginning on the vesting date. At 31 December 2018, the number of ordinary shares that may be allotted under the Group's 2018 LTIP2 awards is 251,893.

The performance condition as it applies to 50% of each LTIP2 award is based on the Group's total shareholder return compared with the total shareholder return of the companies constituting the Financial Times Stock Exchange 250 index (excluding investment trusts and financial services companies) over three years commencing on 1 January 2018 (the TSR Tranche). The performance condition as it applies to the remaining 50% of the award is based on the compound annual growth rate ('CAGR') of the Group's earnings per share in the last financial year of that performance period ('EPS CAGR Tranche') and vests as to 25% if the EPS CAGR equals 5.5%, between 25% and 100% (on a straight-line basis) if final year EPS CAGR is more than 5.5% but less than 14%, and 100% if final year EPS CAGR is 14% or more.

Each award under LTIP and LTIP2 is equity-settled and long-term incentive plan compensation expense is based on the awards' estimated fair value. The fair value has been estimated using the Black-Scholes model for the EPS and EPS CAGR Tranches and the Monte Carlo model for the TSR Tranche.

At 31 December 2018, the total number of ordinary shares that may be allotted under the Group's LTIP and LTIP2 awards is 479,518 (2017 – 332,052).

During the year ended 31 December 2018, the Group recorded £0.3 million (2017 — £0.1 million), in share-based compensation expense relating to LTIP and LTIP2 with a corresponding increase in share-based payment reserve.

Reserves

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

Share capital

The purpose of this reserve is to show JPJ Group plc's issued share capital at its nominal value of £0.10.

Share premium

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

Merger reserve

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

The reserve arises from the application of merger accounting for the 2017 plan of arrangement and represents the difference between the nominal value of the shares issued by the Group and the amount shown as paid in capital in the accounting records of the previous parent company of the Group.

Redeemable shares

The purpose of this reserve is to show redeemable shares issued by JPJ Group plc on 15 August 2016 and cancelled following the plan of arrangement transaction.

Share-based payment reserve

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

Translation reserve

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

Hedge reserve

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

Retained (deficit)/earnings

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

22. Capital management

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

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

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

There have been no changes to JPJ Group plc's approach to capital management or in the items the Group manages as capital during the year ended 31 December 2018.

23. Taxes and deferred taxes

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Current tax expense		
Total current tax on profits for the year	853	1,128
Deferred tax		
Origination and reversal of temporary differences related to business combinations	(395)	(427)
Total tax expense	458	701

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

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Gain/(loss) for the year before taxes	14,935	(67,196)
Tax using JPJ Group plc's domestic tax rate of 19% (2017 – 19.25%)	2,838	(12,935)
Effect of different tax rates applied in overseas jurisdictions	(3,754)	9,998
Non-capital loss for which no tax benefit has been recorded	1,374	3,638
Total tax expense	458	701

As at 31 December 2018, taxes receivable and payable balances consist of taxes owing and recoverable related to the 2017 and 2018 fiscal years.

The Group generated unused UK tax losses of approximately £7.1 million (2017 – £18.9 million) that are available indefinitely for offsetting against future taxable profits. There is no certainty over the use or timing of use of tax losses and as a result, no deferred tax assets have been recognised in the year.

24. Contingent liabilities

Indirect taxation

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

Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date. As at 31 December 2018, the Group had recognised £nil (31 December 2017 – £nil) related to potential contingent indirect taxation liabilities.

25. Related party transactions

Compensation of key management

Key management is comprised of the Board of Directors, officers, and members of management of the Group. Key management personnel compensation for service rendered is as follows:

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Salaries, bonuses and benefits	4,619	3,062
Severance costs	—	700
Stock-based compensation	404	936
	5,023	4,698

Related party transactions

As disclosed in note 12, the Group entered into loan and services agreements with Gaming Realms plc. Jim Ryan is a Director of both JPJ Group plc and Gaming Realms plc. Mr. Ryan recused himself from all discussions related to these agreements.

26. Employees

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Wages and salaries*	16,071	13,801
Pensions	545	160
Social security	1,846	1,032
Benefits	300	119
	18,762	15,112

*Wages and salaries figures include severance costs.

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

	31 December 2018 (#)	31 December 2017 (#)
Group	293	229

27. Auditors' remuneration

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

	Year ended 31 December 2018 (£000's)	Year ended 31 December 2017 (£000's)
Audit fees	335	316
Audit related assurance services	100	121
Taxation compliance services	—	10
Taxation advisory services	—	24
Other non-audit services fees	239	300
	674	771

28. Operating leases

The Group has entered into operating leases for office facilities, which require the following approximate future minimum lease payments due under the non-cancellable operating lease payments.

	31 December 2018 (£000's)	31 December 2017 (£000's)
Within one year	925	1,043
Later than one year but not later than 5 years	386	998
Later than 5 years	312	—
	1,623	2,041

During the year ended 31 December 2018, the Group incurred £1.0 million (2017 – £0.9 million) in operating lease expenses.

29. Recent accounting pronouncements

IFRS 16 - Leases

Adoption of IFRS 16 will result in the Group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing total commitments in its annual financial statements.

Management decided that the modified retrospective adoption method of IFRS 16 will be applied. Therefore, leases will be recognised on the Consolidated Balance Sheets as at 1 January 2019. In addition, it was also decided to measure right-of-use assets by reference to the measurement of the lease liabilities on the same date. This will ensure there is no immediate impact to the net assets or reserves on the date of implementation. The Group anticipates recognising right-of-use assets and lease liabilities of approximately £2.5 million on 1 January 2019. However, further work needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which could potentially result in the actual balances recognised to fluctuate against the estimate provided above.

Effective from 1 January 2019, the Group will recognise interest on its lease liabilities and amortisation on its right-of-use assets rather than reflect lease payments as operating expenses. The net income impact of the standard will not be significant.

30. Subsequent events

On 19 February 2019, the Group signed a definitive agreement for the sale of its Mandalay operating business for cash consideration of £18.0 million.

The sale was completed on 12 March 2019, with £12.0 million of the cash consideration received by the Group and the remaining £6.0 million expected to be received in September 2019.