

ALLWYN ENTERTAINMENT LTD

Registered number 13157556

Annual report and financial statements

for the year ended 31 December 2022



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Strategic Report

The Directors present their reports and audited financial statements for Allwyn Entertainment Ltd (the "Company") for the year ended 31 December 2022. The Company was incorporated on 25 January 2021, and changed its name from SAZKA Group UK 2 Limited to Allwyn Entertainment Ltd on 30 March 2021.

Principal activities, strategic review and future development

The Company was established to operate the UK National Lottery in the event that Allwyn International a.s. ("Allwyn") was successful in its bid to win the Fourth National Lottery Licence Competition (the "Competition"). The Competition was run by the Gambling Commission to select an operator for the Fourth National Lottery Licence (the "Fourth Licence") for 10 years from 1 February 2024.

On 15 March 2022 the Gambling Commission issued the Outcome Notification declaring that the Allwyn bid had been selected as the Preferred Applicant for the Fourth Licence. Following that announcement, the Board agreed to start incurring costs with effect from 20 April 2022 in anticipation of the award of the Fourth Licence.

On 15 September 2022 the Gambling Commission issued the Award Notification to the Company as the successful applicant in the Competition. On 16 September 2022, the Gambling Commission and the Company entered into the Enabling Agreement which sets out the framework for delivering the Company's comprehensive plan to transition from the Third National Lottery Licence to the Fourth Licence. Since 16 September 2022 the Company has been focussed on delivering this plan. The Company has been supported by its immediate parent company Allwyn UK Holding Ltd, which has invested £65.4m to date by way of shares issued for cash.

Business review

The Company recorded an operating loss of £52.9m for the year. Until the Company starts to operate the UK National Lottery on 1 February 2024 it will not record any revenue. The operating loss has arisen in the year due to costs incurred in developing the business and starting to implement plans for the transition to the Fourth Licence. Such costs include: staff costs; external consultancy firms used to support the development of the business strategy, business plan, and run the project management office; legal fees in establishing supplier relationships; and secondees costs from other lottery experts within the Allwyn group. The Company incurred financing charges of £15.7m and recorded a tax credit on the loss of £17.1m, resulting in a loss after tax of £51.5m. The Directors are of the opinion that at this stage in the Company's evolution an analysis using key performance indicators is not necessary for an understanding of the development, performance and position of the business.

Dividends

No dividends were paid during the year (2021: £nil). The Directors do not recommend the payment of a final dividend (2021: £nil).

Strategic Report (continued)

Principal risks and uncertainties

The management of the business going forward will be subject to the risk of continuing elevated inflation. High levels of inflation and higher energy prices, as a consequence of the Russian invasion of Ukraine, may have a detrimental impact on the economic environment. These factors may lead to lower consumer spending on our products, as reductions in income may lead to players becoming less willing to purchase tickets or decreasing the amounts they purchase and in addition could also result in increases in our costs. Whilst management takes measures to control the cost base, in the short term these pressures may impact it. In addition, interest rates may rise further as the Bank of England seeks to reduce inflation to its target, and any such increases may increase the interest cost of servicing our revolving credit facility.

The transition from the Third National Lottery Licence to the Fourth Licence is a complex programme of work which carries a level of risk. In particular it is dependent on reaching agreement for continued cooperation with existing key lottery suppliers and ensuring the Company retains and continues to attract key talent to deliver the programme. The existing licence holder is Camelot UK Lotteries Limited which was acquired by the Allwyn group on 5 February 2023 to assist in the mitigation of this risk.

On behalf of the Board

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Kenneth Morton
Director

DocuSigned by:

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Robert Chvatal
Director

5th Floor, One Connaught Place
London. W2 2ET
3 August 2023

Directors' Report

The Directors present their report and audited financial statements for the Company for the year ended 31 December 2022.

A review of the business is provided in the Strategic Report on Page 3.

The names of the Directors, who served during the year and up to the date of signing of the financial statements were:

Robert Chvatal

Katarina Kohlmayer

Kenneth Morton

Sir Keith Mills (appointed 19 April 2022)

Justin King (appointed 19 April 2022)

Pavel Saroch (appointed 19 April 2022)

David Craven (appointed 19 April 2022; resigned 20 January 2023)

Sharon Doherty (appointed 15 September 2022)

Victoria McKenzie-Gould (appointed 15 September 2022)

Jonathan Handyside was appointed Company Secretary on 22 April 2022.

Future developments

Details of future developments of the Company are provided in the Strategic Report on Page 3. The Company is committed to ensuring that it follows the highest standards of corporate governance. It is in the process of developing its corporate governance arrangements to ensure compliance with the UK Corporate Governance Code by the start date of the Fourth Licence. No further changes are planned.

Research and development

The Company did not spend on research and development in the financial year (2021: £nil).

Dividend

No dividends were paid during the year (2021: none). The Directors do not recommend the payment of a final dividend (2021: £nil).

Political contributions

The Company made no political donations or incurred any political expenditure during the financial year (2021: £nil).

Employees

The Company's goal is to create one of the UK's most inclusive organisations – where talented people can bring the best of themselves, to do their best work, every day, for the benefit of National Lottery Good Causes.

To support this goal the Company has made a commitment by signing up to the Mindful Business Charter, joining a wide range of businesses and professional service firms around the world in a collective commitment to address the avoidable stresses in our working practices, to promote healthier and more effective ways of working.

The Company is a UK founding partner of Purple, working together to ensure that the Company's workplace, supply chain, products and brand are as inclusive as possible for people with disabilities.

Directors' Report (continued)**Financial risks management**

The Company is subject to financial risks including the effects of changes in price risk, currency risk and cash flow risk.

Given the size of the Company, the Directors have not delegated the responsibility of monitoring financial risk management. The policies set by the Board of Directors are implemented by the Company's finance department. Appropriate trade terms are negotiated with suppliers and management reviews these terms and the relationship with suppliers and manages any exposure on normal trade terms.

Price risk

The Company is exposed to changes in price risk due to its operations. Management via its procurement policy manages exposure to this price risk.

Currency risk

The Company is exposed to some currency risk as a result of purchases denominated in foreign currency. However, given the size of the Company's purchases denominated in foreign currency, the risks are low.

Cash flow risk

The Company has funding requirements relating to the expansion of the organisation for which it will secure financial support from the parent company. For this reason cash flow risks are low.

Directors' indemnities

On 1 February 2022 the Company purchased insurance cover in respect of Directors' and Officers' liabilities which remained in place for the remainder of the financial year.

Going concern

The Directors have considered the net liability position of the Company and the award of the Fourth Licence, which has a start date of 1 February 2024 and the Company's progress in delivering its transition plan. Allwyn International a.s. ("Allwyn"), the Company's effective intermediate parent company, will provide financial support to the Company such that the Company is able to operate as a going concern and to settle its liabilities as they fall due. In the event that Allwyn is unable to meet the commitment, the Company is the beneficiary of a guaranteed level of funding as outlined in note 4 to the accounts. The Directors have concluded that it is reasonable to assume that the Company will continue in operational existence for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

Post balance sheet event**Issue of share capital**

The Company issued 23,700 ordinary shares of £1.00 each on 31 March 2023. The amount raised from the share issue amounted to £23.7m.

Directors' Report (continued)**Statement of disclosure of information to auditors**

The Directors at the time of approving the Directors' Report are listed in the Directors' Report. In the case of each of the persons who are directors at the time when the Report is approved, having made enquiries of fellow directors and management, the Directors confirm that:

- To the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- They have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

In accordance with the Company's articles, a resolution proposing that PricewaterhouseCoopers LLP be reappointed as auditors of the Company will be put at a General Meeting.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

On behalf of the board

Kenneth Morton
Director

DocuSigned by:

Kenneth Morton
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Robert Chvatal
Director

DocuSigned by:

Robert Chvatal
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5th Floor, One Connaught Place
London W2 2ET
3 August 2023



Independent auditors' report to the members of Allwyn Entertainment Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Allwyn Entertainment Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2022; the Profit and Loss account and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Enabling Agreement granted by the UK Gambling Commission and employment legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of meeting minutes of the Audit Committee and Board of Directors;
- Challenging assumptions and judgments made by management in their significant accounting estimates and judgements; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Julian Gray (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

3 August 2023

**Profit and Loss account
for the year ended 31 December 2022**

	Note	For the year ended 31 December 2022	For the period from 25 January 2021 to 31 December 2021
		£'000	£'000
Turnover		-	-
Administrative expenses		(52,920)	(13)
Operating loss	2	(52,920)	(13)
Interest payable and similar expenses	4	(15,677)	(54)
Loss before taxation		(68,597)	(67)
Tax credit on Loss	5	17,148	-
Loss for the financial year/period		(51,449)	(67)

There is no other comprehensive expense arising in the year/period apart from that shown above, which was wholly derived from continuing activities.

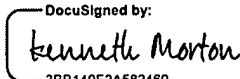
The accompanying notes on pages 15-30 form part of the financial statements.

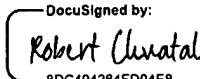
Balance Sheet
as at 31 December 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Intangible assets	6	12,746	-
Tangible assets	7	1,783	-
		<u>14,529</u>	<u>-</u>
Current assets			
Debtors: amounts falling due after more than one year	8	18,193	-
Debtors: amounts falling due within one year	8	227	300
Cash and cash equivalents		29,985	-
		<u>48,405</u>	<u>300</u>
Creditors: amounts falling due within one year	9	<u>(71,525)</u>	<u>(367)</u>
Total assets less current liabilities		<u>(8,591)</u>	<u>(67)</u>
Creditors: amounts falling due after one year	10	<u>(1,225)</u>	<u>-</u>
Net liabilities		<u>(9,816)</u>	<u>(67)</u>
Equity			
Called up share capital	11	42	0
Share premium	11	41,658	-
Accumulated loss	12	(51,516)	(67)
Total Shareholders' deficit		<u>(9,816)</u>	<u>(67)</u>

The accompanying notes on pages 15 to 30 form part of the financial statements.

The financial statements on pages 12 to 30 were approved by the board of Directors on 3 August 2023 and were signed on its behalf by:

DocuSigned by:

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Kenneth Morton
Director

DocuSigned by:

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Robert Chvatal
Director

Company registered number: 13157556

Statement of Changes in Equity**For the period from 25 January 2021 to 31 December 2021**

	Note	Called up share capital £'000	Share Premium £'000	Accumulated losses £'000	Total Shareholders' deficit £'000
As at 25 January 2021		-	-	-	-
Share capital at incorporation	11	0	-	-	0
Loss for the financial period	12	-	-	(67)	(67)
As at 31 December 2021		<u>0</u>	<u>-</u>	<u>(67)</u>	<u>(67)</u>

For the year ended 31 December 2022

	Note	Called up share capital £'000	Share Premium £'000	Accumulated losses £'000	Total Shareholders' deficit £'000
As at 1 January 2022		0	-	(67)	(67)
Share capital issued	11	42	41,658	-	41,700
Loss for the financial year	12	-	-	(51,449)	(51,449)
As at 31 December 2022		<u>42</u>	<u>41,658</u>	<u>(51,516)</u>	<u>(9,816)</u>

Notes to the financial statements *(forming part of the financial statements)*

General information

Allwyn Entertainment Ltd (the "Company") is a private company limited by shares, incorporated, domiciled and registered in England in the UK. The registered number is 13157556 and the registered address is 5th Floor, One Connaught Place, London, United Kingdom W2 2ET. The Company was established to operate the UK National Lottery in the event that Allwyn International a.s. ("Allwyn") was successful in its bid to win the Fourth National Lottery Licence Competition (the "Competition"). The Competition was run by the Gambling Commission to select an operator for the Fourth National Lottery Licence (the "Fourth Licence") for 10 years from 1 February 2024.

1 Significant accounting policies

The accounting policies set out below, unless otherwise stated, have been applied consistently in the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("*FRS 101*") and the Companies Act 2006. The financial statements are prepared on the historical cost and accrual basis. The presentation currency of these financial statements is sterling (GBP).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based Payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- Paragraph 111 of IAS 1, 'Presentation of financial statements' (statement of cash flows information).

1.1 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the Company's financial statements.

Notes to the financial statements (*continued*)

Accounting policies (*continued*)

1.2 *Going concern*

The Directors have considered the financial position of the Company, the award of the Fourth Licence which has a start date of 1 February 2024 and the Company's progress in delivering its transition plan. Allwyn International a.s. ("Allwyn"), the Company's effective intermediate parent company, will provide financial support to the Company such that the Company is able to operate as a going concern and to settle its liabilities as they fall due. In the event that Allwyn is unable to meet the commitment, the Company is the beneficiary of a guaranteed level of funding as outlined in note 4 to these accounts. The Directors have concluded that it is reasonable to assume that the Company will continue in operational existence for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

1.3 *Foreign currency*

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the Profit and Loss account.

1.4 *Financial assets*

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit loss. Trade and other receivables are considered credit impaired when management consider that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is credit impaired. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account within administrative expenses.

1.5 *Financial liabilities*

Financial liabilities are classified according to the substance of the contractual arrangements entered into. The Company derecognises financial liabilities when and only when the Company's obligations are discharged, cancelled, or otherwise expire.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value of the proceeds received less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Finance charges are charged on an accrual basis to the Profit and Loss Account.

Trade and other payables

Trade and other payables are not interest-bearing and are initially measured at their fair value, and subsequently their amortised cost using the effective interest method.

Notes to the financial statements (*continued*)

Accounting policies (*continued*)

1.6 *Company as a Lessee*

At the inception of a contract, the Company considers whether the contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Company once again assesses if an agreement is or contains a lease only if the terms and conditions of the agreement change.

For an agreement that contains a lease component and one or more additional lease components or other components that are not leases, the Company will distribute the consideration for the agreement to each component of the lease based on the independent relative price of the lease component. This is based on the price that a lessor or a similar supplier would charge an entity separately for this component or one that is similar and uses observable information and the contractual terms of the agreement.

The Company does not apply the recognition and measurement requirements indicated in IFRS 16 to low value leases and for leases where the lease terms ends within 12 months of the commencement. In such cases, payments (excluding costs for services and insurance) made under operating leases are recognised in the Profit and Loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the Profit and Loss account over the term of the lease as an integral part of the total lease expense.

Initial recognition

The Company recognises a Right-of-use asset and a lease liability at the lease commencement date or the date at which the Company obtains the right to control the asset. The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted at an appropriate discount rate. The discount rate used to calculate the lease liability is the rate implicit in the lease if it can be readily determined, or the lessee's incremental borrowing rate if not. The Company uses an incremental borrowing rate being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the Right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Right-of-use asset is measured at cost which includes the initial lease liability, any lease payments made at or before commencement, any initial direct costs and restoration costs; less lease incentives received if material.

Subsequent measurement of the right-of-use asset

Right-of-use assets are stated at cost less depreciation and accumulated impairment losses. Depreciation of Right-of-use assets is provided over the shorter of the asset's useful life or the lease term or the period to the end of the Fourth Licence on a straight-line basis. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is immediately written-down.

Notes to the financial statements (continued)**Accounting policies (continued)****1.6 Company as a Lessee (continued)***Subsequent measurement of the lease liability*

The lease liability is measured by:

- (a) increasing the carrying amount to reflect the interest on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) measuring the carrying amount again should any changes in the lease be made or where extension options are reasonably certain to be extended (or not terminated).

Interest on the lease liability is charged to interest payable and similar expenses in the Profit and Loss account.

1.7 Interest receivable and Interest payable

Interest income and interest payable are recognised in the Profit and Loss account as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.8 Cash at bank and in hand

Cash and cash equivalents includes cash in hand, and deposits held at call with banks.

1.9 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising when:

- certain types of income or expense are non-taxable or are disallowable for tax ;or
- certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.10 Share capital and reserve

The Company recognises the issue of shares or other equity instruments as equity when it issues those instruments and another party is obliged to provide cash or other resources to the entity in exchange for the instruments. The Company measures the equity instruments at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments.

Reserves corresponds to surpluses distributable by the Company.

Notes to the financial statements (*continued*)**Accounting policies (*continued*)****1.11 Tangible assets**

Fixed assets held for use in the business are stated at cost less any subsequent depreciation, and subsequent accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost or valuation, less estimated residual value of each asset in equal instalments over its expected useful life. Under the terms of the Fourth Licence the Company will operate the UK National Lottery until 31 January 2034. There is no certainty that revenue will continue after this date, and as a general rule the depreciation period will be compared with the end of the Fourth Licence and shortened if necessary. The principal asset categories for depreciation are as follows:

Leasehold improvements – over the unexpired period of the lease or the end of the Fourth Licence

Plant and equipment – the shorter of between 3 to 10 years or the end of the Fourth Licence depending on the asset.

1.12 Intangible assets

Intangible fixed assets held for use in the business are stated at cost less any subsequent amortisation and accumulated impairment losses.

Software Costs are broken down between internally generated and separately acquired assets. Internally generated costs are recognised as intangible assets if the following criteria are met:

- It is technically completed and available for use;
- It can be demonstrated that how the software will generate probable future economic benefits; and
- The expenditure attributed to the set-up can be reliably measured.

Any costs that do not meet the above criteria are expensed immediately in the Profit and Loss account. Intangible assets purchased separately, such as software licences, that do not form an integral part of related hardware, are capitalised at cost.

Amortisation is provided on all intangible assets on a straight-line basis to write off the cost or valuation, less estimated residual value of each asset over its expected useful life. Under the terms of the Fourth Licence the Company will operate the UK National Lottery until 31 January 2034. There is no certainty that revenue will continue after this date, and as a general rule the amortisation period will be compared with the end of the Fourth Licence and shortened if necessary. The amortisation basis for the principal asset categories is as follows:

- Licence cost – over 10 years or the end of the Fourth Licence.
- Separately acquired software – the shorter of between 3 to 5 years or the end of the Fourth Licence depending on the asset.
- Internally generated software – the shorter of between 3 to 10 years or the end of the Fourth Licence depending on the asset.

Cloud computing arrangements such as software-as-a-service are evaluated to determine whether they contain a lease or an intangible asset or neither. See note 1.6 for the recognition and accounting of leases. Where the arrangement is not determined to be a lease, and the Company receives a resource that it can control, an intangible asset is recognised. If a cloud computing arrangement does not contain a lease or an intangible asset, then the right to access the underlying software in the cloud computing arrangement is generally a service contract. In such cases the fees paid for the cloud computing service are expensed in the Profit and Loss account as the service is received.

Notes to the financial statements (continued)**Accounting policies (continued)****1.13 Impairment of tangible and intangible assets**

At each year end date the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount is compared to the carrying value to determine the extent of any loss.

The recoverable amount is determined by a value in use calculation. The value in use calculation is based on the estimated future pre-tax cashflows discounted to their present value using an appropriate discount rate.

1.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as creditors: amounts falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as creditors: amounts falling due after more than one year.

All borrowing costs are recognised in Profit and Loss in the period in which they are incurred.

1.15 Critical accounting estimates and judgments

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

No critical accounting estimates and judgements were made in preparing the financial statements other than those relating to Note 1.6 Company as a Lessee, in selecting the appropriate discount rate and deciding when the Company obtains control of the asset.

Notes to the financial statements (continued)**2 Operating loss**

The operating loss is stated after charging:

	For the year ended 31 Dec 2022	For the period from 25 Jan 2021 to 31 Dec 2021
	£'000	£'000
Staff costs	5,606	-
Depreciation of Right-of-use assets	185	-
Depreciation of other tangible assets	72	-
Lease expenses for low value assets and short-term leases	120	-
Audit fees payable to the Company's auditor	35	13

The operating loss further includes such costs as: external consultancy firms used to support the development of the business strategy, business plan, and run the project management office; legal fees in establishing supplier relationships; and secondees costs from other experts within the Allwyn group.

3 Staff numbers and costs

The Company employed 81 members of staff during the year ended 31 December 2022 (2021: nil). All staff were performing administrative roles in implementing the Company's plan to transition from the Third National Lottery licence to the Fourth Licence

Employees	For the year ended 31 Dec 2022 £'000	For the period from 25 Jan 2021 to 31 Dec 2021 £'000
Staff costs (including directors) comprises:		
Wages and Salaries	4,799	-
Social security costs	671	-
Other pension costs	136	-
	5,606	-

The Company operates a defined contribution pension scheme on behalf of the employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund which amounted to £135,548 in the year ended 31 December 2022 (2021: £nil). Contributions amounting to £60,716 (2021: £nil) were payable to the fund at the year end and included in creditors.

Notes to the financial statements (continued)**Staff numbers and costs (continued)****Directors' remuneration**

	For the year ended 31 Dec 2022	For the period from 25 Jan 2021 to 31 Dec 2021
	£'000	£'000
Directors' emoluments	619	-
Amount paid under a long-term incentive plan	200	-
Amount paid to third parties for directors' services	10	-
	829	-

No directors were members of the Company's pension scheme (2022: nil).

Robert Chvatal, Katarina Kohlmayer, Kenneth Morton (who served throughout the financial period) and Pavel Saroch (who served from 19 April 2022) are remunerated by other Allwyn group companies. These directors' services to the Company are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to other Allwyn group companies. Accordingly, these directors received no emoluments for services provided to this Company. No recharges were received from other Allwyn group companies for these directors in 2022 (2021: £nil).

Following the resignation of David Craven on 20 January 2023, Robert Chvatal assumed the role of Interim Chief Executive Officer.

The highest paid director's emoluments, including a bonus payment relating to the successful outcome to the Fourth National Lottery Competition were £519,863 (2021: nil)

4 Interest payable and similar expenses

	For the year ended 31 Dec 2022	For the period from 25 Jan 2021 to 31 Dec 2021
	£'000	£'000
Revolving Credit Facility fees	875	54
Bank guarantee payments	14,789	-
Interest charge on leases	13	-
Total interest payable and similar charges	15,677	54

Borrowing arrangements

On 13 October 2021 the Company entered into a Revolving Credit Facility ("RCF") of £60,000,000 with HSBC to support its bid submission to the Gambling Commission and paid an arrangement fee of £300,000. Under the terms of the agreement this facility would become available once the Company received an award from the Gambling Commission and signed the Enabling Agreement. The Enabling Agreement was signed on 16 September 2022 and the Company paid

Notes to the financial statements (continued)**4. Interest payable and similar expenses (continued)**

a further fee of £750,000 on 22 September 2022. Up until award the Company paid a ticking fee at rates between 0 and 1.225%. Since the award it has paid a commitment fee of 2% on the undrawn amount. Going forward the Company will pay interest on drawn amounts based on the Sterling Overnight Index Average rate plus a margin of 3.5% and a commitment fee of 2% on undrawn amounts.

Bank Guarantee Payments

The Company is the beneficiary of an equity commitment made to it by its immediate parent company Allwyn UK Holding Ltd, under which total commitments of £328.7m and US\$70.0m have been committed and backed by guarantees with a syndicate of banks. The Guarantee Facility Arrangement has been entered into by Allwyn and provides security for the Company to proceed with its transition plans, should Allwyn and Allwyn UK Holding Ltd not be able to fulfil their commitments. The fees above represent the costs of the guarantee payable in the period. At the year end the values of the outstanding equity commitments and related guarantees were £287.0m and US\$70.0m.

5 Tax credit on loss

Total tax credit recognised in the Profit and Loss account

	For the year ended 31 Dec 2022 £'000	For the period from 25 Jan 2021 to 31 Dec 2021 £'000
Current tax		
Current tax on loss for the period	-	-
Tax in respect of prior years	-	-
Total Current tax	<u>-</u>	<u>-</u>
Deferred tax		
Tax credit on loss for the period	(13,019)	-
Tax in respect of prior years	(13)	-
Impact of tax rate change	(4,116)	-
Total deferred tax	<u>(17,148)</u>	<u>-</u>
Total tax credit on loss	<u>(17,148)</u>	<u>-</u>

Notes to the financial statements (continued)**5. Tax credit on loss (continued)****Reconciliation of tax on loss**

The tax credit assessed for the period is in line with the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	For the year ended 31 Dec 2022	For the period from 25 Jan 2021 to 31 Dec 2021
	£'000	£'000
Loss before taxation	(68,597)	(67)
Tax credit using the UK corporation tax rate of 19%	(13,033)	(17)
Tax credit deemed not recoverable	-	17
Tax adjustments in respect of permanent differences	14	-
Tax in respect of prior years	(13)	-
Remeasurement of tax to expected utilisation rate	(4,116)	-
Total tax credit on loss	(17,148)	-

Factors that may affect future tax charges:

Legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023 was included in the Finance Act 2021 which received Royal Assent on 10 June 2021. The Company does not expect to be able to utilise these tax losses immediately and the rate of 25% has been used to create this deferred tax asset, being the rate that is expected to apply when the tax losses are utilised. The impact of the change in the tax rate to the Company is £4.1m.

Notes to the financial statements (continued)**6. Intangible assets**

	Licence cost	Internally generated software	Totals
	£'000	£'000	£'000
Cost			
At 1 January 2022	-	-	-
Additions	12,224	522	12,746
	<u>12,224</u>	<u>522</u>	<u>12,746</u>
At 31 December 2022	<u>12,224</u>	<u>522</u>	<u>12,746</u>
Accumulated amortisation			
At 1 January and 31 December 2022	-	-	-
Net book value:			
At 31 December 2022	<u>12,224</u>	<u>522</u>	<u>12,746</u>
At 31 December 2021	-	-	-

Licence costs are specifically identifiable costs incurred and arising directly from the award of the Fourth Licence. The cost will give rise to future economic benefits in the form of revenues from this licence. They are stated at cost and will be amortised over the life of the Fourth Licence starting on 1 February 2024 and ending on 31 January 2034. The Company is a special purpose entity, which has been established with the exclusive purpose of running the UK National Lottery under the Fourth Licence. For that reason, we consider the whole Company to be the Cash Generating Unit over which we will consider impairment.

Internally generated software relates to the development of software assets needed to operate the UK National Lottery, including website development. The assets above will be brought into use at the start of the Fourth Licence on 1 February 2024 and no amortisation has currently been provided.

The Company has performed an impairment review of these intangible assets at the year end by comparing the carrying value of these assets against their recoverable amount. This is an area where the Directors exercise judgement and estimation. The recoverable amount is determined by value in use calculations using the Company's latest long-term forecast reviewed by the Board. A suitable discount rate is applied to the cash flows to reflect the time value of money.

Notes to the financial statements (continued)**7 Tangible assets**

	Short leasehold improvements £'000	Plant and equipment £'000	Right-of- use £'000	Totals £'000
Cost				
At 1 January 2022	-	-	-	-
Additions	276	699	1,065	2,040
At 31 December 2022	276	699	1,065	2,040
Depreciation				
At 1 January 2022	-	-	-	-
Charge for the year	42	30	185	257
At 31 December 2022	42	30	185	257
Net book value				
At 31 December 2022	234	669	880	1,783
At 31 December 2021	-	-	-	-

Depreciation on tangible assets was charged to Administrative expenses in the Profit and Loss account. There were no impairment losses recognised on tangible assets in the year (2021: £nil).

Right-of-use assets relates to the IFRS 16 valuation and depreciation of the Company's lease for its main offices in Watford. The lease runs for less than 2 years, and the liability position is given below.

Lease liabilities

	2022 £'000	2021 £'000
At beginning of period	-	-
Non-cash movements		
Additions	1,065	-
Interest charge on leases	13	-
Cash movements		
Repayment of lease liabilities (including interest)	(190)	-
Total liability	888	-
Split between:		
Current	568	-
Non-current	320	-
Total liability	888	-

Notes to the financial statements (continued)**8 Debtors**

	2022 £'000	2021 £'000
Debtors: amounts falling due within one year:		
Amounts owed by group undertaking	-	0
Other debtors	227	300
	<u>227</u>	<u>300</u>
Debtors: amounts falling due after more than one year		
Other debtors	70	-
Long term receivables relating to financial instruments	975	-
Deferred tax asset	17,148	-
	<u>18,193</u>	<u>-</u>

Deferred tax assets of £17,148,000 have been recognised in respect of all tax losses where the Directors believe it is probable that future taxable profits will be available against which these assets can be offset. The Company has a reasonable expectation of the assets being recovered within 60 months of the date of signing the accounts with reference to the anticipated profits under the Fourth Licence which commences on 1 February 2024. Details of the deferred tax asset, and amounts recognised in profit or loss are shown above and have been calculated at the enacted rate of tax which is expected to apply when the tax losses are utilised and have not been discounted. The enacted rate used was 25%.

Long term receivables relating to financial instruments are amounts paid for RCF fees outlined in Note 4, and are being amortised over the life of the RCF.

9. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	734	-
Amounts owed to group undertakings	63,588	327
Accruals and deferred income	5,800	40
Lease liabilities	568	-
Taxation and social security	745	-
Other creditors	90	-
	<u>71,525</u>	<u>367</u>

Amounts owed to group undertakings are unsecured, repayable on demand and interest free. During the period the Company received financial support from Allwyn UK Holding Ltd, its immediate parent company, which settled certain costs in establishing the Company, including the Guarantees described in note 4, on its behalf. The Company and Allwyn UK Holding Ltd have agreed to convert this balance into a long-term loan agreement, but as this loan agreement had not been finalised at the year end, the balance of £61,921,398 has been shown in amounts falling due within one year, and forms part of the balance of £63,588,000 above.

Notes to the financial statements (continued)**9. Creditors: amounts falling due within one year (continued)**

Allwyn UK Holding Ltd has confirmed that it will not seek repayment of this sum unless the conditions for distributions to shareholders are met. The following conditions for distributions to shareholders have been defined in the Company's application to the Competition:

- the Fourth Licence has started;
- net leverage ratio is less than 1.5x (calculated as Total Net Debt divided by EBITDA based on audited accounts completed after the start date of the Fourth Licence); and
- available liquidity is above £80m (calculated as cash in the Licensee General Account plus undrawn commitments under the RCF).

For the avoidance of doubt Allwyn UK Holding Ltd has confirmed it will not seek repayment within a period of 12 months from the signing of these accounts in line with the proposed long term loan agreement. The proposed loan agreement will be in addition to its equity commitment outlined in note 4.

10 Creditors: amounts falling due after one year

	2022 £'000	2021 £'000
Accruals and deferred income	905	-
Lease liabilities	320	-
	<u>1,225</u>	<u>-</u>

11 Called up share capital

	2022 Number	2022 £	2021 Number	2021 £
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1	41,800	41,800	100	100
Share Premium	n/a	41,658,300	n/a	-
	<u>41,800</u>	<u>41,700,100</u>	<u>100</u>	<u>-</u>

12 Profit and Loss Account

	2022 £'000	2021 £'000
At 1 January / 25 January	(67)	-
Loss for the year / period	(51,449)	(67)
As at 31 December	<u>(51,516)</u>	<u>(67)</u>

13 Commitments and contingencies

There were no outstanding contingencies at the balance sheet date. At the year end the Company had entered into a number of commercial arrangements as part of its transition plan to build the infrastructure necessary to run the Fourth Licence. At 31 December 2022 the balance of these commitments was £31m.

Notes to the financial statements (continued)**14 Related parties**

Purchases from related parties	For the year ended 31 Dec 2022	For the period from 25 Jan 2021 to 31 Dec 2021
	£'000	£'000
Parent company	59,565	-
Fellow subsidiary undertakings with common control	2,502	-
	62,067	-
Receivables and Other debtors	2022	2021
	£'000	£'000
Parent Company	-	0
Payables and Other creditors	2022	2021
	£'000	£'000
Parent company	61,921	-
Fellow subsidiary undertakings with common control	1,667	327
Entities over which Parent has significant influence	-	-
	63,588	327

Included within Purchases from the Parent company are recharges of amounts paid (directly or indirectly) to certain Directors (Justin King, Sir Keith Mills and David Craven) relating to arrangements with Allwyn Services UK Ltd (ASUK), a fellow subsidiary with common control.

Justin King was engaged as a consultant during the bid period by ASUK, through Harbury House Limited (HH) a company controlled by him. HH received £344,000 (excluding vat) for those consultancy services. ASUK terminated the contract with HH prior to the appointments of Justin King to the Board of the Company.

Sir Keith Mills was engaged as a consultant during the bid period by ASUK, through Kem Management Limited (KEM) a company controlled by him. KEM received £855,000 (excluding vat) for those consultancy services. ASUK terminated the consultancy contract with KEM prior to the appointment of Sir Keith Mills to the Board of the Company.

David Craven was employed by ASUK until 1 May 2023, at which point his employment transferred to the Company. His salary costs of £326,958, incurred by ASUK during the bid period, were recharged to the Company.

The total of the recharge in relation to the above was £1,831,142 inclusive of non-recoverable VAT.

Notes to the financial statements (*continued*)

15 Ultimate parent company and parent company of larger group

The Company is an immediate subsidiary undertaking of Allwyn UK Holding Ltd (formally SAZKA Group UK Holding Ltd), incorporated in the United Kingdom, registered number 13154201.

The largest group of undertakings in which the results of the Company are consolidated is that headed by KKCG AG, whose registered office address is Kapellgasse 21, 6004 Luzern, Switzerland. The consolidated financial statements of this group are not available to the public.

The smallest group in which the results of the Company are consolidated is that headed by Allwyn International a.s., whose registered office address is Evropská 866/71, 160 00 Prague 6, Czech Republic.

The consolidated financial statements of this group are available to the public at www.justice.cz

16 Post Balance Sheet Events

Issue of Share Capital

The Company issued 23,700 ordinary shares of £1.00 each at a premium of £999 on 31 March 2023. The amount raised from the share issue amounted to £23,700,000.