# NORTHERN & SHELL PLC

## GROUP ANNUAL REPORT & FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2022

**NORTHERN & SHELL PLC**

**ANNUAL REPORT**

**For the year ended 31 December 2022**

## CONTENTS

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

Mr. R.C. Desmond (Chairman)
Mr. R. Sanderson
Mr. M.S. Ellice
Mr. R. Martin
Mr. D. Rancombe

### SECRETARY

Mr. R. Sanderson

### COMPANY NUMBER

04086466 (England)

### AUDITOR

KPMG LLP
15 Canada Square
London, E14 5GL
United Kingdom

### BANKERS

Barclays Bank
27 Soho Square
London, W1D 3QR
United Kingdom

SG Kleinwort Hambros Bank
One Bank Street
Canary Wharf
London, E14 4SG
United Kingdom

Goldman Sachs
Plumtree Court
25 Shoe Lane
London, EC4A 4AU
United Kingdom

### REGISTERED OFFICE

The Northern & Shell Building
Number 10 Lower Thames Street
London, EC3R 6EN
United Kingdom

# NORTHERN & SHELL PLC

## STRATEGIC REPORT

### For the year ended 31 December 2022

### PRINCIPAL ACTIVITIES

Northern & Shell plc is the ultimate holding company of the Northern & Shell group of companies. It owns a group of companies which are principally engaged in property development, lottery management services, other investment interests and the exploitation of media assets.

It is the intention of the Group to continue trading in these areas for the foreseeable future.

### BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The consolidated statement of comprehensive income is set out on page 12.

The financial year 2022 was the fourth full year of trading for the newly constituted Group, following the disposal of its remaining directly held publishing and printing assets to Reach plc in February 2018. Part of the sale consideration comprised of 25.8 million of shares in Reach plc, which is now the largest commercial national and regional news publisher in the UK, including such iconic brands as the Daily Mirror, Sunday Mirror, Sunday People, Daily Express, Sunday Express, Daily Star, Daily Star Sunday, Daily Record, Sunday Mail, market leading brands in key metropolitan markets across the country and paid for celebrity brands OK! and new!. In 2021, following a significant increase in Reach plc's share price and upon receiving an approach to buy the Group's shares in the business, the directors took the strategic decision to sell the Group's entire remaining shareholding in Reach plc. The total consideration for the shares was £62.5 million, in addition to dividend income received to date of £3.7 million, representing a total profit on the sale of the investment of £46.2 million (note 14).

In our lottery division, The Health Lottery has been successfully established in Great Britain as a highly visible lottery product with strong brand recognition.

The Health Lottery, through its brand, provides lottery management services for 6 Community Interest Companies (CIC's), covering each region of Great Britain, who raise monies for health related good causes with a specific brief of addressing health inequalities in their individual localities. To date, in excess of £128.0 million has been raised for good causes, with donations awarded and distributed through a separate Charity, the People's Health Trust (PHT).

Grants through the PHT have been made to more than 3,400 local health projects throughout England, Scotland and Wales which has directly aided more than 643,000 people. Among Charities that have benefitted are national charities, such as Scope, The Royal Voluntary Service and Citizens UK. However, in 2022, as in recent years, assistance has been focused on many worthy local community projects such as Great Yarmouth & Gorleston Young Carers Project in England, Finding Your Feet in Scotland, and Cymmer Afan Community Library in Wales. Organisations interested in, or enquiring about, funding should apply to the People's Health Trust, 356 Holloway Road, London, N7 6PA and application forms are available at www.peopleshealthtrust.org.uk/apply-for-funding.

The directors take great pride in the philanthropic work that has been enabled through the efforts and activities of The Health Lottery and the truly positive effects that it has already had on so many people's lives in this country.

The New Lottery Company Limited, a subsidiary undertaking, was actively engaged in bidding for the 4th UK National Lottery licence due to commence in February 2024. During the year, the Group incurred costs of £1.7 million (2021: £8.9 million) in providing services to support the bid process. The costs are included in administrative expenses in the profit and loss account. The Group has incurred total costs to date of £17.8 million on the bid process. The award decision was made by the Gambling Commission in March 2022 and unfortunately, after what they describe as a 'fair, open and robust competition', the Group's bid was not selected to be the 'Preferred Applicant'. Having reviewed the competition decision, the Group are currently legally challenging the fairness and integrity of the process on a number of grounds.

In relation to our Property interests, work is underway to implement a consented planning scheme on the Group's site in London's Docklands, near Canary Wharf. To date, certain packages of work have been completed, including the demolition of the old printworks and associated buildings, the excavation of the common basement tub, the piling mat installation and the delivery of utilities diversion, surface water discharge and drainage across the site. As at 31 December 2022, the Group had invested £94.2 million (2021: £90.3 million) in the development of the site. These costs, less costs written-off, are included in stocks - work in progress, in the balance sheet (note 16).

**BUSINESS REVIEW AND FUTURE DEVELOPMENTS (Continued)**

In July 2018, the Group submitted to the London Borough of Tower Hamlets a new planning application for a comprehensive mixed-use redevelopment comprising 1,540 residential units (subsequently revised to 1,524 units), shops, offices, flexible workplaces, financial and professional services, restaurants, cafes and bars, community uses, a health centre and creche, car and cycle basement parking, associated landscaping, new public realm and all other necessary enabling works. As part of our S106 obligations, the development would also facilitate a 1,200-place secondary school with extensive outdoor amenities and recreational sports facilities on site.

Ultimately, given the strategic importance of the site, the Secretary of State for Housing, Communities and Local Government assumed the role of the relevant planning authority. In November 2021, a Minister in his department gave the decision to reject our planning application on Appeal.

Naturally, the Group was disappointed with this outcome. However, we remain committed to deliver on our promise to bring a significant development to fruition, on what is currently a derelict brownfield site. At this time, we are in discussions with all relevant local stakeholders to seek to improve the consented scheme, which should support more than 1,500 construction jobs at the peak of the development and provide in excess of 1,400 much needed new homes for Londoners in a vibrant new waterfront neighbourhood just minutes from Canary Wharf.

Aside from the ongoing planning issues, the Group is pleased with the overall progress of the development works which have progressed under the 2016 consent with the works undertaken to date being also applicable to any new considered variant of the overall development masterplan. Following the rejection of the 2018 planning application by the Ministry of Housing Communities and Local Government, the Group reviewed its costs, held as stocks - work in progress, and wrote-off £15.0 million in 2021, representing costs specific to the 2018 scheme with either no perceived or reduced ongoing value in the development (notes 7 and 16).

Given the resources of the Group, its positioning in the various markets in which it operates and the clear strategic focus that underlies its corporate development, the directors are optimistic on the future prospects of the Group's businesses.

The Group's net assets were £376.0 million at 31 December 2022 (2021: £467.7 million).

The directors feel that the Group is well placed to build on its established activities and broader interests to take advantage of improved market conditions and new opportunities as they arise.

**KEY PERFORMANCE INDICATORS**

A range of key performance indicators (KPI's) are used to monitor the performance of the operating entities and the Group and their progress towards strategic objectives. The principal KPI's vary according to division and include lottery draw ticket sales, profitability by business segment, year on year variance analysis and cash flows.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's operations expose it to a variety of financial risks that include credit, liquidity, interest rate, foreign exchange and market risks. The Group has mechanisms in place that seek to limit the impact of the adverse effects of these risks on the financial performance of the Group.

**Credit risk**
The Group has implemented policies that require appropriate credit checks to be performed on potential customers before sales are made.

**Liquidity risk**
The Group actively manages its finances to ensure that the Group has sufficient funds available for its operations.

## PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

### Interest rate cash flow risks
The Group has both interest bearing assets and liabilities. The interest bearing assets are cash balances and current asset investments subject to floating and fixed interest rates. Where appropriate, the Group utilises interest rate swaps with a fixed rate to manage its liabilities. The directors keep these measures under constant review.

### Foreign exchange risk
The Group has foreign currency assets and liabilities. Where appropriate, the Group utilises financial instruments to manage the risk of fluctuating exchange rates. The directors keep these measures under constant review.

### Market risk
The Group has current asset investments which are subject to financial market risk. The Group manages a mixed portfolio of assets to help mitigate financial market risk.

### Geopolitical risk
The conflict in Ukraine has raised short-term economic uncertainties. The Group's financial market positions are monitored and kept under review.

### Consideration of climate change risk
In preparing the financial statements, the directors have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosures. There has been no material impact identified on the financial reporting judgements and estimates. In particular, the directors considered the impact of climate change in respect of the following areas:

- going concern and viability of the Group over the next three years;
- cash flow forecasts used in the impairment assessments of fixed asset investments; and
- carrying value and useful economic lives of tangible fixed assets.

Whilst there is currently no short or medium-term impact expected from climate change, the directors are aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group’s financial statements.

On behalf of the Board:

Mr. R. Sanderson
Director

Date: 21 June 2023

**NORTHERN & SHELL PLC**

**DIRECTORS' REPORT**

**For the year ended 31 December 2022**

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

## RESULTS AND DIVIDENDS

The Group recorded a loss after tax for the financial year of £91.7 million (2021: £3.1 million profit), after recording non-recurring overhead costs of £2.7 million (2021: £25.3 million) (note 6), loss from current asset investments of £77.9 million (2021: £20.0 million income)(note 5) and a profit on sale of fixed asset investments of £nil (2021: £23.9 million) (note 14).

The directors do not recommend the payment of a dividend (2021: £nil).

## DIRECTORS

The membership of the board during the year is set out on page 2. These directors, and no others, held office throughout the entire year.

## EMPLOYEE INVOLVEMENT

During the year, the Group and Company maintained their practice of keeping employees informed about current activities and progress of the business using various methods including formal briefings, e-mails and a corporate website. Consultation with employees or their representatives has continued at all levels, with the aim of ensuring their views are taken into account where decisions are likely to affect their interests. This practice is reviewed regularly. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group and Company continues and the appropriate training is arranged. It is the policy of the Group and Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

## POLITICAL AND CHARITABLE DONATIONS

Charitable donations were made during the year amounting to £6,000 (2021: £10,000).

Political donations were made during the year amounting to £nil (2021: £nil).

## DISCLOSURE OF INFORMATION TO AUDITOR

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

## AUDITOR

The auditor, KPMG LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

On behalf of the Board:

Mr. R. Sanderson
Director

Date: 21 June 2023

The Northern & Shell Building
Number 10 Lower Thames Street
London, EC3R 6EN
United Kingdom

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

### For the year ended 31 December 2022

The directors are responsible for preparing the Group Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

KPMG
15 Canada Square
London
E14 5GL
United Kingdom

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

# NORTHERN & SHELL PLC

## OPINION

We have audited the financial statements of Northern & Shell Plc ("the Company") for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;

- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

## FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Group is not listed, does not hold any external debt and internal performance indicators are not revenue-based which means that there is limited pressure on management from sources inside or outside the Group to achieve certain revenue targets.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

*Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, anti-money laundering, recognising the financial nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## STRATEGIC REPORT AND DIRECTORS' REPORT

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in these respects.

## DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the Group and Parent 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 they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

## THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

**Mark Prince (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*

15 Canada Square
London
United Kingdom
E14 5GL

Date: 23 June 2023

# NORTHERN & SHELL PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### For the year ended 31 December 2022

| | Notes | 2022 | 2021 |
|---|---|---|---|
| | | **£000** | **£000** |
| **TURNOVER** | 4 | **14,178** | 15,511 |
| Cost of sales | | **(7,657)** | (7,522) |
| **GROSS PROFIT** | | **6,521** | 7,989 |
| (Loss)/income from current asset investments | 5 | **(77,917)** | 20,000 |
| Administrative expenses | 6 | **(30,726)** | (51,784) |
| **GROUP OPERATING LOSS** | | **(102,122)** | (23,795) |
| Share of operating loss of associates | 14 | **(191)** | (51) |
| **TOTAL OPERATING LOSS** | 3/7 | **(102,313)** | (23,846) |
| Profit on sale of investments | 14 | **-** | 23,892 |
| Dividend income from fixed asset investments | 14 | **-** | 587 |
| Interest receivable and similar income | 9 | **734** | 45 |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | 3 | **(101,579)** | 678 |
| Tax on (loss)/profit on ordinary activities | 10 | **9,886** | 2,440 |
| **(LOSS)/PROFIT FOR THE FINANCIAL YEAR** | | **(91,693)** | 3,118 |
| Other comprehensive income | | **-** | - |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR** | | **(91,693)** | 3,118 |

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

The notes on pages 18 - 41 form an integral part of these financial statements.

## NORTHERN & SHELL PLC

## CONSOLIDATED BALANCE SHEET as at 31 December 2022

| | Notes | 2022 £000 | 2021 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 12 | **642** | 964 |
| Tangible assets | 13 | **6,512** | 8,109 |
| Investments: | 14 | | |
| Investments in associates | | **213** | 404 |
| Other investments | | **1,752** | 1,752 |
| | | **1,965** | 2,156 |
| | | **9,119** | 11,229 |
| **CURRENT ASSETS** | | | |
| Stocks | 16 | **79,157** | 75,263 |
| Debtors | 17 | **26,601** | 34,477 |
| Current asset investments | 18 | **223,647** | 324,268 |
| Cash at bank and in hand | | **64,510** | 48,975 |
| | | **393,915** | 482,983 |
| **CREDITORS:** amounts falling due within one year | 20 | **(12,072)** | (14,544) |
| **NET CURRENT ASSETS** | | **381,843** | 468,439 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **390,962** | 479,668 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 21 | **(14,925)** | (11,938) |
| **NET ASSETS** | | **376,037** | 467,730 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 23 | **110** | 110 |
| Other reserves | | **3,860** | 3,860 |
| Profit and loss account | | **372,067** | 463,760 |
| **TOTAL SHAREHOLDERS' FUNDS** | | **376,037** | 467,730 |

The notes on pages 18 - 41 form an integral part of these financial statements.

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

Mr. R.C. Desmond
Chairman
Date: 21 June 2023

Company registered number: 04086466

## NORTHERN & SHELL PLC

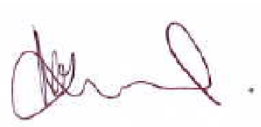
## COMPANY BALANCE SHEET as at 31 December 2022

| | Notes | 2022<br>£000 | 2021<br>£000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 13 | **6,069** | 7,049 |
| Investments | 14 | **177,861** | 188,033 |
| | | **183,930** | 195,082 |
| **CURRENT ASSETS** | | | |
| Debtors | 17 | **37,995** | 54,434 |
| Cash at bank and in hand | | **4,308** | 22,421 |
| | | **42,303** | 76,855 |
| **CREDITORS:** amounts falling due within one year | 20 | **(67,897)** | (84,094) |
| **NET CURRENT LIABILITIES** | | **(25,594)** | (7,239) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **158,336** | 187,843 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 21 | **(50,288)** | (50,961) |
| **NET ASSETS** | | **108,048** | 136,882 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 23 | **110** | 110 |
| Profit and loss account | | **107,938** | 136,772 |
| **TOTAL SHAREHOLDERS' FUNDS** | | **108,048** | 136,882 |

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own Statement of Comprehensive Income. The Company's loss for the year amounted to £28.8 million (2021: £7.9 million).

The notes on pages 18 - 41 form an integral part of these financial statements.

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



Mr. R.C. Desmond
Chairman
Date: 21 June 2023

Company registered number: 04086466

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the year ended 31 December 2022

| | Called up Share capital £000 | Other reserves £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|---|
| Balance at 1 January 2021 | 110 | 3,860 | 460,642 | **464,612** |
| Total comprehensive income for the year: | | | | |
| Profit for the year | - | - | 3,118 | **3,118** |
| Other comprehensive income | - | - | - | **-** |
| Total comprehensive income for the year | - | - | 3,118 | **3,118** |
| **Balance at 31 December 2021** | **110** | **3,860** | **463,760** | **467,730** |

| | Called up Share capital £000 | Other reserves £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|---|
| Balance at 1 January 2022 | 110 | 3,860 | 463,760 | **467,730** |
| Total comprehensive income for the year: | | | | |
| Loss for the year | - | - | (91,693) | **(91,693)** |
| Other comprehensive income | - | - | - | **-** |
| Total comprehensive loss for the year | - | - | (91,693) | **(91,693)** |
| **Balance at 31 December 2022** | **110** | **3,860** | **372,067** | **376,037** |

Other reserves represent a merger reserve arising from the reorganisation of Northern & Shell Group Limited, a subsidiary undertaking, on 30 October 2000.

The notes on pages 18 - 41 form an integral part of these financial statements.

**NORTHERN & SHELL PLC**

**COMPANY STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2022**

| | Called up Share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|
| Balance at 1 January 2021 | 110 | 144,623 | 144,733 |
| Total comprehensive income for the year: | | | |
| Loss for the year | - | (7,851) | (7,851) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss for the year | - | (7,851) | (7,851) |
| **Balance at 31 December 2021** | **110** | **136,772** | **136,882** |

| | Called up Share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|
| Balance at 1 January 2022 | 110 | 136,772 | 136,882 |
| Total comprehensive income for the year: | | | |
| Loss for the year | - | (28,834) | (28,834) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss for the year | - | (28,834) | (28,834) |
| **Balance at 31 December 2022** | **110** | **107,938** | **108,048** |

The notes on pages 18 - 41 form an integral part of these financial statements.

## NORTHERN & SHELL PLC

## CONSOLIDATED CASH FLOW STATEMENT

### For the year ended 31 December 2022

| | 2022 | 2021 |
|---|---|---|
| | £000 | £000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| (Loss)/profit for the financial year | **(91,693)** | 3,118 |
| Adjustments for: | | |
| Amortisation of intangible fixed assets (notes 7 and 12) | **322** | 322 |
| Depreciation of tangible fixed assets (notes 7 and 13) | **1,170** | 1,349 |
| Impairment of tangible fixed assets (notes 7 and 13) | **885** | 1,293 |
| Stock write-off (notes 7 and 16) | **-** | 15,030 |
| Interest receivable and similar income (note 9) | **(734)** | (45) |
| Profit on sale of investments (notes 7 and 14) | **-** | (23,892) |
| Share of loss from associate undertakings (note 14) | **191** | 51 |
| Dividend income from fixed asset investments (note 14) | **-** | (587) |
| Loss/(income) from current asset investments (note 5) | **77,917** | (20,000) |
| Taxation (note 10) | **(9,886)** | (2,440) |
| Interest received (including bond interest income – note 5) | **741** | 282 |
| Increase in stocks (note 16) | **(3,894)** | (2,336) |
| Decrease in debtors (note 17) | **17,800** | 15,856 |
| Decrease in creditors (note 20) | **(409)** | (1,922) |
| Increase in provisions (note 21) | **2,987** | 3,650 |
| Taxation paid | **(57)** | (1,229) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(4,660)** | (11,500) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of tangible fixed assets (note 13) | **(458)** | (330) |
| Dividends received (fixed and current asset investments) | **731** | 1,209 |
| Settlement of foreign exchange forward contracts | **(23,083)** | - |
| Proceeds from sale of fixed asset investments (note 14) | **-** | 62,623 |
| Investment in current asset investments (note 18) | **(164,370)** | (217,894) |
| Proceeds from current asset investments (note 18) | **207,375** | 192,448 |
| **NET CASH FROM INVESTING ACTIVITIES** | **20,195** | 38,056 |
| **NET INCREASE IN CASH AT BANK AND IN HAND** | **15,535** | 26,556 |
| **CASH AT BANK AND IN HAND AT 1 JANUARY** | **48,975** | 22,419 |
| **CASH AT BANK AND IN HAND AT 31 DECEMBER** | **64,510** | 48,975 |

The notes on pages 18 - 41 form an integral part of these financial statements.

## 1. PRINCIPAL ACCOUNTING POLICIES

These Group and Parent Company financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014.

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

### a) Basis of accounting

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below.

### b) Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3 to 5.

The directors believe that the Group is well placed to manage its business risk successfully. The directors made enquiries of, and considered the Group's performance against its plans and objectives and satisfied themselves that the Group is performing as expected.

The Company and its subsidiaries are seen as significant market participants in their industries and the directors feel that they are well placed to build on their established activities to take advantage of improved market conditions and new opportunities as they arise.

The directors have prepared cash flow forecasts for the Group for a period of at least 12 months from the date of approval of these financial statements ("the going concern assessment period"). For the purposes of their assessment of the appropriateness of the preparation of the Group's accounts on a going concern basis, the directors have considered the principal areas of uncertainty within the forecasts and the underlying assumptions, in particular those relating to market and customer risks, cost management and working capital management in this period. These forecasts, sensitised for reasonably possible and certain downside scenarios, indicate that the Group will have sufficient funds to meet its liabilities for that period. Having considered the downside risk, the directors note that they have significant cash, cash equivalent and current asset investments, that, if needed in extreme circumstances, could be realised to support the activities of the Group. As part of the forecasting, the Directors have considered the financing required to continue to fund the development of the Group's site in London's Docklands. Based on the Group's current cash, cash equivalent and current asset investments, it would be able to fund this development in the going concern assessment period. However, the Group acknowledges that it had always anticipated partially funding this development using external financing as part of a balanced financing package and, although this will not be required for some time, early conversations with its bankers have indicated their support of this. In the event of unforeseen and more severe downsides than forecast, the Group has potential mitigating actions, including reducing the level of controllable costs, including capital expenditure on the development site in London's Docklands, which would further increase the Group's headroom.

The directors have also considered the Company's ability to provide ongoing support to those subsidiaries which may require it, and have concluded that the Company has sufficient resources to provide the support required by those subsidiaries in the going concern assessment period.

The directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis of accounting in the preparation of accounts.

### c) Basis of consolidation

The consolidated statement of comprehensive income, balance sheet and cash flow statement include the results, financial position and cash flows of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its associates, from the date of acquisition and until the date of disposal. Intra-group sales, profits/(losses) and balances are eliminated fully on consolidation.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Parent Company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the Parent Company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time; and
- No separate Parent Company Cash Flow Statement with related notes is included.

### d) Revenue recognition

Turnover represents the invoiced amount of goods dispatched and services provided (stated net of value added tax, or other applicable sales taxes and net of trade discounts).

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Lottery turnover represents the amount receivable for lottery management services and money transfer and money handling services (stated net of value added tax or other applicable sales taxes). Turnover is recognised when the lottery draw to which the services relate has taken place.

Turnover and profit in respect to the sale of property is recognised on legal completion.

Group turnover includes sales made by group undertakings to associates, but excludes sales by associates.

### e) Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with any differences being taken to the profit and loss account.

### f) Intangible fixed assets

#### i. Goodwill

Goodwill represents the excess of the fair value of the consideration paid for acquisitions over the fair value of net assets acquired. Goodwill is amortised on a straight line basis over the estimated economic life of the acquisition.

Goodwill arising on acquisition of the Health Lottery group in 2011 is being amortised over its estimated economic life of 10 years in accordance with FRS 102.

Goodwill arising on associate acquisitions is being amortised over its estimated useful economic life of 10 years.

These periods are the periods over which the directors estimate that the value of the underlying businesses acquired are expected to match the value of the underlying assets.

Assets are reviewed for impairment at the level of income-generating units whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the difference between the carrying amount and the recoverable amount and taken immediately to the profit and loss account. The recoverable amount is the higher of the asset's net realisable value and its value in use.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

**1. PRINCIPAL ACCOUNTING POLICIES (Continued)**

**g) Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of tangible fixed assets represents the purchase cost together with any incidental costs of acquisition (including interest costs). Depreciation is provided on all tangible fixed assets to write off the cost of each asset, less any estimated residual value, evenly over its expected useful life, as follows:

| | |
|---|---|
| Leasehold land and buildings | 50 years, estimated useful life or period of the lease, whichever is the shorter |
| Plant, computer and office equipment | 3 to 10 years |
| Websites and game development | 3 years |

Assets in the course of construction are not depreciated.

The Group reviews its depreciation rates regularly to take account of technological changes, intensity of use over the life of the assets and market requirements.

The profit or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

**h) Fixed asset investments**

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. An investment in an associate is accounted for under the equity method from the date on which it falls within the definition of an associate. On acquisition of the investment any difference between the cost of acquisition and the investor's share of the equity of the associate is described as goodwill. The Group's share of the profits and losses of the associate are disclosed separately in the Group's profit and loss account.

**i) Impairment of fixed assets**

At each reporting period end date, the Group and Parent Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and Parent Company estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### j) Stocks

Work in progress stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Costs comprise land and development costs including direct materials and, where applicable, subcontractor labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

### k) Cash and liquid resources

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

### l) Financial instruments

The Group and Parent Company have elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Group and Parent Company's balance sheets when the Group or Parent Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

*Basic financial assets*
Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

*Other financial assets*
Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except those investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Current asset investments are liquid resources which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying value or traded in an active market. Liquid resources comprise cash, equities, managed funds, corporate bonds and government securities.

Current asset investments are measured at fair value with the resultant gains or losses taken to the profit and loss account. Net gains and losses from current asset investments includes realised and unrealised fair value changes and foreign exchange gains and losses but excludes interest and dividend income.

Dividend income is recognised in the profit and loss account on the date at which the right to receive payment is established.

*Impairment of financial assets*
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

*Derecognition of financial assets*
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

*Classification of financial liabilities*
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group or company after deducting all of its liabilities.

*Basic financial liabilities*
Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

*Derecognition of financial liabilities*
Financial liabilities are derecognised when the Group's contractual obligations expire or are discharged or cancelled.

### m) Leases

Assets obtained under finance leases are capitalised and depreciated over the lesser of the period of the lease and the estimated useful life of the asset. Obligations relating to finance leases, net of finance charges in respect of future periods, are included in Creditors due within or after more than one year, as appropriate.

Finance costs are charged to the profit and loss account and allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Assets leased to third parties under operating leases are capitalised and depreciated over the estimated useful life of the asset.

Rental income is recognised on a straight line basis over the shorter of the entire lease term or the period to the first break option. Where a lease incentive does not enhance the property, it is amortised on a straight line basis over the period from the date of the lease commencement to the earlier of the first break option, or the end of the lease term. On new leases with rent free periods, rental income is allocated evenly over the period from the date of lease commencement to the earlier of the first rent review and the lease end date.

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

### n) Taxation

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

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts, which have been prepared and approved by the Directors.

Deferred tax assets and liabilities are not discounted and are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates substantively enacted at the balance sheet date.

### o) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised in the profit and loss account in the period in which it arises.

Where the Parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

### p) Employee benefits

Defined contribution plans:

Pension costs relating to defined contribution schemes are the amount of contributions payable for the year and are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

## 2. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group and Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The directors consider the judgement associated with these financial statements to be over the carrying value of investments, tangible fixed assets and stock, recoverability of debtor balances, including deferred tax assets, and provisions for liabilities and charges.

## 3. SEGMENTAL ANALYSIS

The Group's turnover and (loss)/profit before taxation arise principally from its lottery management services, property development and other investment activities.

The Group's turnover, (loss)/profit before taxation and net assets are principally attributable to activities in the United Kingdom.

Segmental analysis is presented after elimination of intra-group sales, profits/(losses) and balances.

The abbreviations used below relate to the following segments:

| | |
|---|---|
| LM | Lottery management |
| P&O | Property development and other |

| | LM 2022 £000 | P&O 2022 £000 | TOTAL 2022 £000 |
|---|---|---|---|
| **TURNOVER** | | | |
| Turnover gross | 6,620 | 7,706 | **14,326** |
| Inter-segment sales | - | (148) | **(148)** |
| Third party sales | 6,620 | 7,558 | **14,178** |
| **OPERATING LOSS** | **(9,345)** | **(92,968)** | **(102,313)** |
| Common costs – net interest receivable | | | **734** |
| Profit on ordinary activities before taxation | | | **(101,579)** |

| | LM 2021 £000 | P&O 2021 £000 | TOTAL 2021 £000 |
|---|---|---|---|
| **TURNOVER** | | | |
| Turnover gross | 8,201 | 7,677 | **15,878** |
| Inter-segment sales | - | (367) | **(367)** |
| Third party sales | 8,201 | 7,310 | **15,511** |
| **OPERATING PROFIT/(LOSS)** | **(16,327)** | **(7,519)** | **(23,846)** |
| Profit on sale of associate undertaking | - | 23,892 | **23,892** |
| Dividend income from investments | - | 587 | **587** |
| | **(16,327)** | **16,960** | **633** |
| Common costs – net interest receivable | | | **45** |
| Profit on ordinary activities before taxation | | | **678** |

The common costs are the sum of other interest receivable and similar income of £734,000 (2021: £45,000).

## 3. SEGMENTAL ANALYSIS (Continued)

| **Net operating assets/(liabilities)** | **2022** **£000** | **2021** **£000** |
|---|---|---|
| Lottery management | **(214,673)** | (204,643) |
| Property development and other | **287,858** | 296,212 |
| | **73,185** | 91,569 |
| **Reconciliation of net operating assets to net assets** | | |
| Net operating assets | **73,185** | 91,569 |
| Investments (note 14) | **1,965** | 2,156 |
| Deferred tax asset (notes 17 and 19) | **12,951** | 3,027 |
| Current asset investments (including cash balances held on deposit – note 18) (net of fair value of foreign exchange forward contract liability of £221,000 – note 20) | **223,426** | 322,003 |
| Cash at bank and in hand | **64,510** | 48,975 |
| | **376,037** | 467,730 |

## 4. TURNOVER

An analysis of turnover by class of business is as follows:

| | **2022** **£000** | **2021** **£000** |
|---|---|---|
| Provision of services | **6,191** | 7,710 |
| Commission | **429** | 491 |
| Rental income | **7,558** | 7,310 |
| Total Group Turnover | **14,178** | 15,511 |

## 5. (LOSS)/INCOME FROM CURRENT ASSET INVESTMENTS

| | **2022** **£000** | **2021** **£000** |
|---|---|---|
| Dividend income | **731** | 622 |
| Net fair value (loss)/gain from current asset investments | **(78,655)** | 19,127 |
| Bond interest income | **7** | 251 |
| | **(77,917)** | 20,000 |

The net fair value (loss)/gain from current asset investments includes losses on foreign exchange forward contracts of £21.0 million (2021: £1.1 million gain).

## 6. ADMINISTRATIVE EXPENSES

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Chairman's emoluments | **213** | **417** |
| Other administrative expenses | **30,513** | **51,367** |
| | **30,726** | **51,784** |

Other administrative expenses include non-recurring overhead costs of £2.7 million (2021: £25.3 million), including an impairment of tangible fixed assets of £885,000 (2021: £1.3 million) (notes 7 and 13), a stock write-off of £nil (2021: £15.0 million) (notes 7 and 16), a provision for non-recurring legal costs relating to discontinued operations of £123,000 (2021: £634,000 credit) (note 7) and services to support the 4th UK National Lottery licence bid process of £1.7 million (2021: 8.9 million).

## 7. NOTES TO THE PROFIT AND LOSS ACCOUNT

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **(Loss)/profit on ordinary activities before tax is stated after charging/(crediting):** | | |
| Depreciation of tangible fixed assets (note 13) | **1,170** | 1,349 |
| Impairment of tangible fixed assets (note 13) | **885** | 1,293 |
| Write-off of stock (note 16) | **-** | 15,030 |
| Amortisation of goodwill – acquisitions (note 12) | **322** | 322 |
| Amortisation of goodwill – associates (note 14) | **128** | 128 |
| Profit on disposal of investments – other (note 14) | **-** | (23,892) |
| Operating lease rentals – land and buildings | **7,975** | 7,975 |
| Operating lease rentals – other income | **(5,701)** | (5,481) |
| Legal provision relating to discontinued operations (note 6) | **123** | (634) |
| Foreign exchange loss | **2,008** | 126 |

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Services provided by the Group's auditor and associated firms** | | |
| During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG LLP, at costs as detailed below: | | |
| **Audit services** | | |
| Fees payable to the Company's auditor for the audit of the Company and consolidated accounts | **44** | 37 |
| **Other services** | | |
| Fees payable to the Company's auditor and its associates for the audit of associates to the Company pursuant to legislation | **211** | 173 |

## 8. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

### (a) Directors

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Emoluments | **1,898** | 2,047 |
| Company contributions to money purchase pension schemes | **7** | 7 |
| | **1,905** | 2,054 |

Pension benefits are accruing to one director under money purchase pension schemes (2021: one director).

The above emoluments and pension contributions include the following amounts in respect of the highest paid director.

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Emoluments | **512** | 500 |

### (b) Staff costs (including directors)

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Wages and salaries | **3,406** | 3,220 |
| Social security costs | **440** | 454 |
| Contributions to defined contribution plans | **60** | 61 |
| | **3,906** | 3,735 |

| Average number of people employed by activity: | 2022 Number | 2021 Number |
|---|---|---|
| Selling and distribution | **1** | 1 |
| Administration | **38** | 39 |
| | **39** | 40 |

## 9. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Bank and term deposit interest receivable | **734** | 45 |

## 10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on profit for the year at 19.0% (2021: 19.0%) | **-** | 1,248 |
| Adjustments in respect of previous periods | **(19)** | - |
| Foreign taxes suffered | **57** | 54 |
| Double taxation relief on profit on ordinary activities | **-** | (54) |
| Total current tax expense | **38** | 1,248 |
| **Deferred tax** | | |
| Origination and reversal of timing differences (accelerated capital allowances and other) | **(9,682)** | (2,130) |
| Adjustments in respect of previous periods | **(242)** | (1,558) |
| Total deferred tax income (note 19) | **(9,924)** | (3,688) |
| Tax credit on (loss)/profit on ordinary activities | **(9,886)** | (2,440) |

Total tax analysed as:

| | 2022 Current Tax £000 | 2022 Deferred Tax £000 | 2022 Total Tax £000 | 2021 Current Tax £000 | 2021 Deferred Tax £000 | 2021 Total Tax £000 |
|---|---|---|---|---|---|---|
| Recognised in profit and loss account | **38** | **(9,924)** | **(9,886)** | 1,248 | (3,688) | (2,440) |
| Total tax | **38** | **(9,924)** | **(9,886)** | 1,248 | (3,688) | (2,440) |

The tax assessed for the year differs from the rate of 19.0% (2021: 19.0%) and the differences are explained below:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | **(101,579)** | 678 |
| (Loss)/profit on ordinary activities multiplied by the rate of 19.0% (2021: 19.0%) | **(19,300)** | 129 |
| Effects of: | | |
| Net effect of expenses not deductible for tax and income not subject to tax | **47** | (30) |
| Excess of depreciation over capital allowances and other timing differences | **298** | 372 |
| Adjustments in respect of previous periods | **(261)** | (1,558) |
| Non tax deductible goodwill amortisation and other permanent differences | **86** | 86 |
| Movements in deferred tax assets not recognised | **11,497** | (662) |
| Foreign taxes suffered | **57** | - |
| Impact of tax rate changes | **(2,310)** | (777) |
| Total tax income included in profit or loss | **(9,886)** | (2,440) |

### 10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (Continued)

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences.

Factors that may affect future tax charges:

Based on current capital investment plans, the Group expects capital allowances to exceed depreciation in future years. Deferred tax assets not recognised relate to unutilised trading losses.

The Group has tax losses of £113.8 million (2021: £88.2 million) available to carry forward against future profits. Whilst the Group expects to be able to benefit from tax losses carried forward, a deferred tax asset has only been recognised in respect of £12.3 million (2021: £40.0 million) of the available losses as future benefit is not certain. The Group expects to be able to benefit from tax losses carried forward in the period to 2032.

### 11. LOSS OF THE COMPANY

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own statement of comprehensive income. The Company's loss for the year amounted to £28.8 million (2021: £7.9 million), after a provision against amounts owed by group companies of £10.6 million (2021: £106.6 million credit), a charge for fixed asset investments impairment losses of £10.2 million (2021: £130.0 million) (note 14), a charge for tangible fixed assets impairments losses of £523,000 (2021: £1.3 million) (note 13), a provision for onerous rental commitments at the main business premises, Number 10 Lower Thames Street, London of £2.5 million (2021: £4.3 million) (note 21), a release of a provision for other property related commitments of £3.2 million (2021: £3.2 million) (note 21), a provision for non-recurring legal costs of £123,000 (2021: £634,000 credit), a profit on sale of fixed asset investments of £nil (2021: £23.8 million) (note 14) and receiving dividends of £nil (2021: £587,000) from fixed asset investments (note 14).

### 12. INTANGIBLE FIXED ASSETS

| | Goodwill £000 |
|---|---|
| **THE GROUP** | |
| Cost: | |
| **At 1 January 2022 and 31 December 2022** | **3,988** |
| Amortisation: | |
| At 1 January 2022 | 3,024 |
| Charge for the year | 322 |
| **At 31 December 2022** | **3,346** |
| Net book amounts: | |
| **At 31 December 2022** | **642** |
| At 31 December 2021 | 964 |

## 13. TANGIBLE FIXED ASSETS

| | Land and Buildings | Plant, Computer and Office Equipment | Websites and Game Development | Assets Under Construction | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **THE GROUP** | | | | | |
| Cost/valuation: | | | | | |
| At 1 January 2022 | 35,171 | 3,771 | 3,627 | 137 | 42,706 |
| Additions | 24 | 109 | 174 | 151 | 458 |
| Transfer | 50 | - | - | (50) | - |
| **At 31 December 2022** | **35,245** | **3,880** | **3,801** | **238** | **43,164** |
| Depreciation: | | | | | |
| At 1 January 2022 | 27,780 | 3,452 | 3,365 | - | 34,597 |
| Charge for the year | 863 | 109 | 198 | - | 1,170 |
| Impairment losses | 863 | 22 | - | | 885 |
| **At 31 December 2022** | **29,506** | **3,583** | **3,563** | **-** | **36,652** |
| Net book amounts: | | | | | |
| **At 31 December 2022** | **5,739** | **297** | **238** | **238** | **6,512** |
| At 31 December 2021 | 7,391 | 319 | 262 | 137 | 8,109 |

Land and buildings includes the following assets at net book value as at 31 December 2022:

- freehold land and buildings £nil (2021: £nil).
- short leasehold buildings – leasehold improvements £5.7 million (2021: £7.4 million).

As at 31 December 2022, the net book value of assets acquired under finance leases was £nil (2021: £nil). Capitalised interest included in the net book value of fixed assets was £nil (2021: £nil).

The Group's policy is to carry out annual impairment reviews of its tangible fixed assets. Based on an assessment of cash generating units and future forecasts, including those directly associated with that of the onerous lease provision (note 21), the directors consider that the carrying amount of land and buildings tangible fixed assets exceeded the recoverable amount by £885,000 (2021: £1.3 million) and consequently has been written down by this amount. The impairment losses of £885,000 (2021: £1.3 million) have been recognised in administrative expenses in the profit and loss account (note 7).

## 13. TANGIBLE FIXED ASSETS (Continued)

| | Land and Buildings | Plant, Computer and Office Equipment | Assets Under Construction | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **THE COMPANY** | | | | |
| Cost/valuation: | | | | |
| At 1 January 2022 | 14,404 | 466 | 50 | 14,920 |
| Additions | 24 | 93 | 126 | 243 |
| Transfer | 50 | - | (50) | - |
| **At 31 December 2022** | **14,478** | **559** | **126** | **15,163** |
| Depreciation: | | | | |
| At 1 January 2022 | 7,615 | 256 | - | 7,871 |
| Charge for the year | 599 | 101 | - | 700 |
| Impairment losses | 523 | - | - | 523 |
| **At 31 December 2022** | **8,737** | **357** | **-** | **9,094** |
| Net book amounts: | | | | |
| **At 31 December 2022** | **5,741** | **202** | **126** | **6,069** |
| At 31 December 2021 | 6,789 | 210 | 50 | 7,049 |

Land and buildings includes the following assets at net book value as at 31 December 2022:

- freehold land and buildings £nil (2021: £nil).
- short leasehold buildings – leasehold improvements £5.7 million (2021: £6.8 million).

As at 31 December 2022, the net book value of assets acquired under finance leases was £nil (2021: £nil). Capitalised interest included in the net book value of fixed assets was £nil (2021: £nil).

The Company's policy is to carry out annual impairment reviews of its tangible fixed assets. Based on an assessment of cash generating units and future forecasts, including those directly associated with that of the onerous lease provision (note 21), the directors consider that the carrying amount of land and buildings tangible fixed assets exceeded the recoverable amount by £523,000 (2021: £1.3 million) and consequently has been written down by this amount. The impairment losses of £523,000 (2021: £1.3 million) have been recognised in administrative expenses in the profit and loss account (note 11).

## 14. FIXED ASSET INVESTMENTS

### THE GROUP

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Investments in associates | **213** | 404 |
| Other investments - Unlisted | **1,752** | 1,752 |
| | **1,965** | 2,156 |

### Investment in associates

At 31 December 2022, the Group held interests in the following associate undertakings:

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| FFS Beauty Limited | A1 Preferred | 23 | United Kingdom | Subscription shaving |
| My Single Friend Limited | Ordinary | 40 | United Kingdom | Online dating |
| Emoov Limited */ ** | Ordinary | 45 | United Kingdom | Online estate agency |
| Tepilo Holdings Limited * | Ordinary | 45 | United Kingdom | Online estate agency |
| Tepilo Limited * | Ordinary | 45 | United Kingdom | Online estate agency |

* Denotes the company entered into administration on 3 December 2018.
** Denotes the company was dissolved on 21 March 2023.

FFS Beauty Limited (formerly Friction Free Shaving Limited) is incorporated in the United Kingdom, with a registered office at Unit 14 Morgans Business Park, Bettys Lane, Norton Canes, Cannock, WS11 9UU. During the year, the Group's shareholding changed from 22.83% to 23.12%. There were no changes in class of shares held during the year.

My Single Friend Limited is incorporated in the United Kingdom, with a registered office at 34 Anyards Road, Cobham, Surrey, KT11 2LA. There were no changes in ownership or class of shares held during the year.

Emoov Limited is incorporated in the United Kingdom, with a registered office at The White Building, 1-4 Cumberland Place, Southampton, SO15 2NP. There were no changes in ownership or class of shares held during the year.

Tepilo Holdings Limited is incorporated in the United Kingdom, with a registered office at The White Building, 1-4 Cumberland Place, Southampton, SO15 2NP. There were no changes in ownership or class of shares held during the year.

Tepilo Limited is incorporated in the United Kingdom, with a registered office at The White Building, 1-4 Cumberland Place, Southampton, SO15 2NP. There were no changes in ownership or class of shares held during the year.

The Group's share of operating losses of its associates were as follows:

| | My Single Friend Limited £000 | FFS Beauty Limited £000 | Emoov Limited £000 | Total £000 |
|---|---|---|---|---|
| Share of loss for the year | - | (63) | - | **(63)** |
| Goodwill amortisation | - | (128) | - | **(128)** |
| | - | (191) | - | **(191)** |

## 14. FIXED ASSET INVESTMENTS (Continued)

### Other investments

On 28 February 2018, the Group divested of its publishing and printing assets with the sale of its entire shareholding in Northern & Shell Network Limited, a subsidiary undertaking, to Reach plc. The total consideration included £20.0 million of shares in Reach plc. In 2020, the Group received a further 1.1 million new ordinary shares by way of a bonus issue in lieu of payment of a cash interim dividend. In 2021, the Group sold its entire shareholding in Reach plc for a total consideration of £62.5 million, representing a total profit on the sale of the investments of £46.2 million (including dividends received to date of £3.7 million). The total profit on the sale of the investments was recorded in the profit and loss account as a profit on sale of investments of £23.8 million and dividend income on investments of £587,000 in the financial year, in addition to gains on revaluation – other investments of £18.7 million and dividend income on investments of £3.1 million recognised in prior periods.

During the year, the Group received a cash dividend from Reach plc of £nil (2021: £587,000).

On 24 March 2021, the Group sold part of its shareholding in The Cheeky Panda Limited for a total consideration of £161,000, resulting in a profit on sale of investments of £104,000 (note 7).

Impairment testing:

The Group's policy is to carry out annual reviews of its investments. Based on operating results for its other investments, future forecasts, their net assets and market comparables, the directors consider that the investments' recoverable amount is greater than its carrying amount and consequently no impairment is considered necessary.

### THE COMPANY

| | 2022<br>£000 | 2021<br>£000 |
|---|---|---|
| Investments in subsidiaries | **177,861** | 188,033 |

### Shares in group undertakings

| | 2022<br>£000 | 2021<br>£000 |
|---|---|---|
| Cost: | | |
| At 1 January | **380,291** | 247,050 |
| Additions | **-** | 134,936 |
| Disposals | **-** | (1,695) |
| At 31 December | **380,291** | 380,291 |
| Provision for impairment: | | |
| At 1 January | **192,258** | 63,953 |
| Impairment losses | **10,172** | 130,000 |
| Disposals | **-** | (1,695) |
| At 31 December | **202,430** | 192,258 |
| Net book amounts: | | |
| **At 31 December** | **177,861** | 188,033 |

In 2021, the company subscribed for 2 ordinary shares of £1 each in the capital of Northern & Shell Lotteries Limited, a subsidiary undertaking, for a total consideration of £130.0 million.

## 14. FIXED ASSET INVESTMENTS (Continued)

In 2021, the entire issued share capital consisting of 5,000,100 ordinary shares of £1 each of The New Lottery Company Holdings Limited was transferred from Northern & Shell Lotteries Limited, a subsidiary undertaking, to the Company for a consideration of £4.9 million.

In 2018, Northern & Shell Investments Limited, a subsidiary undertaking, was entered into members' voluntary liquidation and was dissolved on 9 March 2021. Accordingly, the Company's cost of investment of £1.7 million and impairment provision of £1.7 million was disposed of in 2021.

Investments in group undertakings are stated at cost less any provision for permanent diminution in value.

Impairment testing:

The Company's policy is to carry out annual reviews of its investments. Based on operating results for the subsidiary undertakings, future forecasts and their net assets, the directors consider that the investments' carrying amount exceeded the recoverable amount by £10.2 million (2021: £130.0 million) and consequently has been written down by this amount. The impairment loss has been recognised within administrative expenses in the profit and loss account (note 11).

The recoverable amount of investments has been assessed with reference to its value in use which is calculated as the net present value of future cash flows using a post-tax discount rate of 10% (2021: 9%) as well as a terminal growth rate of 0% which the directors consider to be representative of the Group and the market in which it operates.

In relation to the lottery division, there are a number of different operational and strategic paths that the lottery business may follow. Therefore, given the range of potential outcomes the directors have prepared discounted cash flows for a number of scenarios, including a current base case scenario supported by additional investment in the business, together with variations on that with flexed operational, gaming and marketing strategies. The scenarios were also sensitised for variations in lottery ticket sales.

The Group is committed to the future success and longevity of The Health Lottery. However, due to uncertainty around some of the factors outlined above, there is ultimately uncertainty over the future forecasts and strategy of The Health Lottery. Therefore, in carrying out their impairment review, the directors assessed the range of forecasts covering each different strategy and applied probabilities against each scenario. The forecasts give a range of recoverable values but based on the available evidence and taking a balanced valuation, the directors consider that the investments' carrying amount for the lottery division exceeded the recoverable amount by £10.2 million (2021: £130.0 million) and consequently has been written down by this amount. The impairment loss has been recognised within administrative expenses in the profit and loss account of the company (note 11).

### Other investments

On 28 February 2018, the Company divested of its publishing and printing assets with the sale of its entire shareholding in Northern & Shell Network Limited, a subsidiary undertaking, to Reach plc. The total consideration included £20.0 million of shares in Reach plc. In 2020, the Company received a further 1.1 million new ordinary shares by way of a bonus issue in lieu of payment of a cash interim dividend. In 2021, the Company sold its entire shareholding in Reach plc for a total consideration of £62.5 million (note 11).

During the year, the Group received a cash dividend from Reach plc of £nil (2021: £587,000).

## 15. SUBSIDIARIES

At 31 December 2022, the Company held direct interests in the following subsidiary undertakings:

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| LTS Rentals Limited | Ordinary | 100 | United Kingdom | Letting of office space |
| Northern & Shell Group Limited | Ordinary | 100 | United Kingdom | Non-trading |
| Northern & Shell Lotteries Limited | Ordinary | 100 | United Kingdom | Holding company |
| Northern & Shell Properties Limited | Ordinary | 100 | United Kingdom | Holding company |
| Northern & Shell Services Limited | Ordinary | 100 | United Kingdom | Service Company |
| Northern & Shell Ventures Limited | Ordinary | 100 | United Kingdom | Media assets exploitation |
| NS Jersey Finance Limited | Ordinary | 100 | United Kingdom | Non-trading |
| The New Lottery Company Holdings Limited | Ordinary | 100 | United Kingdom | Holding company |

The following company was previously a direct subsidiary of Northern & Shell Plc. These companies entered into members' voluntary liquidation on 13 December 2018 and was dissolved on 9 March 2021 (note 14):

| | | | | |
|---|---|---|---|---|
| Northern & Shell Investments Limited | Ordinary | 100 | United Kingdom | Dormant |

At 31 December 2022, the Company held indirect interests in the following subsidiary undertakings:

| Company Name | Class of shares | Holding (%) | Country of incorporation | Principal Activity |
|---|---|---|---|---|
| Health Lottery ELM Limited | Ordinary | 100 | United Kingdom | Lottery management services |
| Health Lottery Financial Limited | Ordinary | 100 | United Kingdom | Money handling and money transfer services |
| Health Lottery Trustee Company Limited | Ordinary | 100 | United Kingdom | Dormant |
| Northern & Shell Broadcasting (CI) Limited | Ordinary | 100 | Jersey | Holding company |
| Northern & Shell Enterprises Limited | Ordinary | 100 | United Kingdom | Non-trading |
| The Health Lottery Limited | Ordinary | 100 | United Kingdom | Lottery management services |
| The New Lottery Company Limited | Ordinary | 100 | United Kingdom | Lottery management services |
| Westferry Developments Limited | Ordinary | 100 | United Kingdom | Property development |

All of the above companies are consolidated within the Group’s financial statements.

## 16. STOCKS

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Work in progress | **79,157** | 75,263 |

Movements in work in progress:

| | £000 |
|---|---|
| At 1 January | 75,263 |
| Additions | 3,894 |
| **At 31 December** | **79,157** |

The Group's policy is to carry out an annual impairment review of its stock. Following the rejection of the 2018 planning application by the Ministry of Housing Communities and Local Government, the Group is in discussions with all relevant stakeholders to seek to improve the current consented scheme. In carrying out their impairment review, there are a number of different variants to consider, including the number and mix of residential units, development costs, sales price per sq. ft. and deliverability of the scheme. The directors have therefore prepared a range of future forecasts covering several different scenarios. The forecasts give a range of recoverable values, including certain downside scenarios which would indicate an impairment, but based on the available evidence and taking a balanced valuation, the directors consider that the stock's recoverable amount is greater than its carrying amount and consequently no impairment is considered necessary.

In 2021, following the rejection of the 2018 planning, the Group reviewed its costs, held as stocks - work in progress, and wrote-off £15.0 million, representing costs specific to the 2018 scheme with either no perceived or reduced ongoing value in the development (note 7).

Work in progress is expected to be recoverable during the period in more than one year.

## 17. DEBTORS

| | The Group | |
|---|---|---|
| | 2022 £000 | 2021 £000 |
| Trade debtors | **885** | 1,388 |
| Other debtors | **1,056** | 874 |
| Prepayments and accrued income | **11,709** | 29,188 |
| Deferred tax asset (note 19) | **12,951** | 3,027 |
| | **26,601** | 34,477 |

Prepayments and accrued income include £nil (2021: £7.1 million) expected to be recoverable during the period in more than one year.

| | The Company | |
|---|---|---|
| | 2022 £000 | 2021 £000 |
| Trade debtors | **709** | 1,166 |
| Amounts owed by group undertakings | **26,304** | 24,581 |
| Other debtors | **47** | 278 |
| Prepayments and accrued income | **10,935** | 28,409 |
| | **37,995** | 54,434 |

Amounts owed by group undertakings include £26.3 million (2021: £24.6 million) expected to be recoverable during the period in more than one year. Prepayments and accrued income include £nil (2021: £7.1 million) expected to be recoverable during the period in more than one year.

**17. DEBTORS (Continued)**

Amounts owed by group undertakings carry interest at 2.0% above base rate, are unsecured and repayable on demand.

## 18. CURRENT ASSET INVESTMENTS

### THE GROUP

The market value of current asset investments is:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Bonds | **-** | 307 |
| Listed investments | **223,647** | 305,621 |
| Unlisted investments | **-** | 13,321 |
| Cash on deposit | **-** | 5,019 |
| | **223,647** | 324,268 |

The Group holds a mixed portfolio of current asset investments. These investments include equities, structured products, diversified growth funds, corporate bonds and cash balances held on deposit with financial institutions. The cash balances are held for maturities of between three months and one year and in accordance with the requirements of FRS 102 have been presented under current asset investments.

The fair value of the foreign exchange forward contract is based on mark to market calculations prepared by SG Kleinwort Hambros Bank Limited. The fair value as at the balance sheet date is a liability of £221,000 and has therefore been presented within creditors (note 20) as at 31 December 2022.

The movement during the year in current asset investments is:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| At 1 January | **324,268** | 277,416 |
| Additions | **164,370** | 217,894 |
| Disposals | **(207,375)** | (192,448) |
| Fair value (loss)/gain on revaluation | **(57,616)** | 21,406 |
| At 31 December | **223,647** | 324,268 |

### THE COMPANY

The market value of current asset investments is:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Cash on deposit | **-** | - |

The movement during the year in current asset investments is:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| At 1 January | **-** | 30,034 |
| Additions | **-** | - |
| Disposals | **-** | (30,034) |
| At 31 December | **-** | - |

## 19. DEFERRED TAX ASSET

**THE GROUP**

| | £000 |
|---|---|
| At 1 January 2022 – asset | **3,027** |
| Credited to the profit and loss account (note 10) | **9,924** |
| At 31 December 2022 – asset | **12,951** |

The deferred taxation recognised in these financial statements is as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Deferred tax recognised** | | |
| Accelerated capital allowances | **3,555** | 3,222 |
| Other timing differences | **6,314** | (9,138) |
| Losses | **3,082** | 8,943 |
| **Total deferred tax asset recognised** | **12,951** | 3,027 |
| 1 January | **3,027** | (661) |
| Deferred tax income in profit and loss account (note 10) | **9,924** | 3,688 |
| **At 31 December** | **12,951** | 3,027 |

Based on current capital investment plans, the Company and the Group expect capital allowances to exceed depreciation in future years. Deferred tax is measured on a non-discounted basis at the rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates substantively enacted at the balance sheet date.

The Company has no deferred tax assets, either recognised or unrecognised (2021: £nil).

## 20. CREDITORS: amounts falling due within one year

| | The Group | |
|---|---|---|
| | 2022 £000 | 2021 £000 |
| Trade creditors | **2,270** | 1,709 |
| Other creditors | **3,155** | 5,074 |
| Taxation and social security | **98** | 92 |
| Corporation tax | **-** | 19 |
| Accruals and deferred income | **6,549** | 7,650 |
| | **12,072** | 14,544 |

### 20. CREDITORS: amounts falling due within one year (Continued)

Included in other creditors is an amount of £221,000 (2021: £2.3 million) for the fair value of the foreign exchange forward contract. This is based on mark to market calculations prepared by SG Kleinwort Hambros Bank Limited (note 18).

In 2021, The New Lottery Company Limited, a subsidiary undertaking, entered into an agreement for loan and revolving credit facilities. It was the intention of the company to utilise these facilities in the event it was successful in its bid for the 4th UK National Lottery licence. As at 31 December 2022, the company had utilised facilities of £nil (2021: £nil). In March 2022, the Gambling Commission announced their decision and the company was not selected to be the 'Preferred Applicant'. In accordance with the agreements, notice was served on the date of the award decision and the facilities were cancelled.

| | **The Company** | |
|---|---|---|
| | **2022** | **2021** |
| | **£000** | **£000** |
| Trade creditors | **455** | 1,002 |
| Amounts owed to group undertakings | **61,491** | 73,783 |
| Other creditors | **859** | 738 |
| Taxation and social security | **63** | 65 |
| Corporation tax | **-** | 19 |
| Accruals and deferred income | **5,029** | 8,487 |
| | **67,897** | 84,094 |

Amounts owed to group undertakings carry interest at 2.0% above base rate, are unsecured and repayable on demand.

### 21. PROVISIONS FOR LIABILITIES AND CHARGES

| **The Group** | **£000** |
|---|---|
| At 1 January 2022 | **11,938** |
| Additions | **2,987** |
| **At 31 December 2022** | **14,925** |

Property provisions of £14.9 million (2021: £11.9 million) relate to the provision for onerous rental commitments at the main business premises, Number 10 Lower Thames Street, London. The remaining provisions are expected to be utilised during the period to 31 December 2033.

| **The Company** | **£000** |
|---|---|
| At 1 January 2022 | **50,961** |
| Additions | **2,546** |
| Utilised or released during the year | **(3,219)** |
| **At 31 December 2022** | **50,288** |

Property provisions of £50.3 million (2021: £51.0 million) relate to the provision for onerous rental commitments of £15.6 million (2021: £13.0 million) and other property related commitments of £34.7 million (2021: £38.0 million) at the main business premises, Number 10 Lower Thames Street, London. The remaining provisions are expected to be utilised during the period to 31 December 2033.

## 22. OPERATING LEASE COMMITMENTS

At 31 December 2022, the Group had total commitments under non-cancellable operating leases as follows:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Within one year | **7,975** | 7,975 |
| Between two and five years | **36,982** | 34,441 |
| More than five years | **60,428** | 70,944 |
| | **105,385** | 113,360 |

## 23. SHARE CAPITAL

| | The Group & Company | | | |
|---|---|---|---|---|
| | Authorised | | Allotted and Fully Paid | |
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| 110,000 Ordinary shares of £1 each | **110** | 110 | **110** | 110 |

## 24. PENSION SCHEMES

The Group participates in a defined contribution scheme for its employees. Contributions are charged to the profit and loss account to reflect amounts payable under the scheme. The charge for the year was £60,000 (2021: £61,000). At 31 December 2022, contributions of £5,000 were outstanding (2021: £5,000). These have been paid in full after the year end.

## 25. GUARANTEES AND CONTINGENT LIABILITIES

In 2019, Westferry Developments Limited, a subsidiary undertaking, entered into a bank guarantee with a supplier in relation to development works. The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay to the supplier on demand any sum or sums due under the terms of the guarantee to an amount not exceeding £168,000. Westferry Developments Limited has also pledged cash balances to an amount of £168,000 in a restricted account as security for the bank guarantee facility. During the year, the development works were completed and the guarantee was released by the supplier. Accordingly, the cash balances were no longer held in a restricted account as security.

In 2014, Westferry Developments Limited, a subsidiary undertaking, acquired freehold interest in property for the total sum of £18.1 million, included in stock (note 16). Under the terms of the acquisition deed, further amounts may become due payable to the seller, a third party. Accordingly, as at 31 December 2022, Westferry Developments Limited held in place a bank guarantee. The bank, subject to the terms of the guarantee but otherwise unconditionally, undertakes to pay to the seller on demand any sum or sums due under the terms of the guarantee to an amount not exceeding £719,000. Westferry Developments Limited has also pledged cash balances to an amount of £719,000 in a restricted account as security for the bank guarantee facility.

In 2020, The New Lottery Company Holdings Limited, a subsidiary undertaking, entered into a guarantee with a third party beneficiary, guaranteeing the performance of certain obligations of The New Lottery Company Limited, a subsidiary undertaking. Under the terms of the guarantee, the company irrevocably and unconditionally undertakes and guarantees to the beneficiary on demand the performance by The New Lottery Company Limited of all of its obligations under the guarantee agreement, including the due and punctual payment of any undisputed sums now or subsequently payable by The New Lottery Company Limited to the beneficiary. As part of the company's commitment to guarantee the obligations of The New Lottery Company Limited, the company agreed to deposit an amount of £5.0 million into a nominated bank account (note 18). During the year, the company was released of its obligations under the guarantee. Accordingly, as at 31 December 2022, the company held cash balances to an amount of £nil (2021: £5.0 million) in a restricted account.

## 26. RELATED PARTY TRANSACTIONS

Badger Property Partners LLP, of which Mr. R.C. Desmond is a member, owns the Number 10 Lower Thames Street property which is the head office of the Northern & Shell group. The Number 10 Lower Thames Street property is leased to the Group for a period of 20 years from 10 October 2013, for an annual rental of £8.0 million and with a rent review every 5 years. The charge for the year was £8.0 million (2021: £8.0 million). No amounts were due to Badger Property Partners LLP as at 31 December 2022 (2021: £nil).

In 2018, Northern & Shell Ventures Limited, a subsidiary undertaking, entered into a loan facility arrangement with Emoov Limited, an associate undertaking. The loan facility was for an initial amount of £2.5 million, charged interest at 5.0% and was repayable by June 2019. On 3 December 2018, Emoov Limited, together with its subsidiaries Tepilo Limited and Tepilo Holdings Limited, entered into administration. Accordingly, the amounts outstanding of £2.6 million were provided against in full with an impairment charge of £2.6 million recognised in the profit and loss account.

The Company has taken advantage of the exemption available under FRS 102 from disclosing transactions with other group undertakings that form part of the wholly owned Group.

## 27. ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Richard Desmond, the Chairman of the Company.