

# AUDIT COMMITTEE REPORT

## MEMBERS

### PIERRE BOUCHUT – CHAIRMAN

(APPOINTED 13 SEPTEMBER 2018)

**STEPHEN MORANA** (FORMER CHAIRMAN)

**KARL DIACONO** (STEPPED DOWN 13 SEPTEMBER 2018)

**WILL WHITEHORN** (STEPPED DOWN 20 JUNE 2018)

**VIRGINIA MCDOWELL** (APPOINTED 6 JUNE 2018)

### PIERRE BOUCHUT IS REGARDED AS THE AUDIT COMMITTEE MEMBER WITH RECENT AND RELEVANT FINANCIAL AND RETAIL EXPERIENCE

#### Composition and constitution

The Audit Committee oversees the Group's financial reporting and internal controls and provides a formal reporting link with the external auditors. The Committee's Terms of Reference, which are reviewed annually, are available on the Company's website, <https://gvc-plc.com/wp-content/uploads/2018/09/Audit-Committee-Terms-of-Reference-GVC-Sept-amendment.pdf>

The Audit Committee currently comprises three members, all of whom are Independent Non-executive Directors. Appointments to the Committee are made by the Board at the recommendation of the Nomination Committee, which consults with the Chairman of the Audit Committee. The Board has satisfied itself that the Committee's membership includes at least one Director with recent and relevant financial experience and have competence in accounting and/or auditing and that all members are financially literate and have experience of corporate financial matters. All Directors on joining the Board are given specific sector training to ensure competence relevant to the business, in addition to the other skills they bring to the Board and Committees.

## MAIN RESPONSIBILITIES OF THE COMMITTEE

- Monitors the integrity of GVC Holdings PLC's financial statements and any formal announcements relating to the Company's financial performance and reviews, and challenges, where necessary, the significant financial reporting issues and judgements in relation to the half-year and annual financial statements before these are submitted to the Board for final approval;
- Makes recommendations to the Board concerning any proposed, new or amended accounting policies;
- Oversees the relationship with the Group's external auditor including reviewing the annual external audit plan and audit findings;
- Recommends the audit fee to the Board and sets the Group's policy on the provision of non-audit services by the external auditor;
- Reviews and monitors the external auditor's independence and objectivity, and the effectiveness of the audit process;
- Monitors and reviews the internal audit programme and its effectiveness;
- Monitors and reviews GVC's systems for internal control, financial reporting and risk management;
- Reviews internal audit reports covering the various areas and activities of the business and ensures the business responds to the recommendations made; and
- Assesses and reports on the Group's viability in line with the UK Code requirements, prior to being submitted to the Board for approval.

#### Meeting attendance

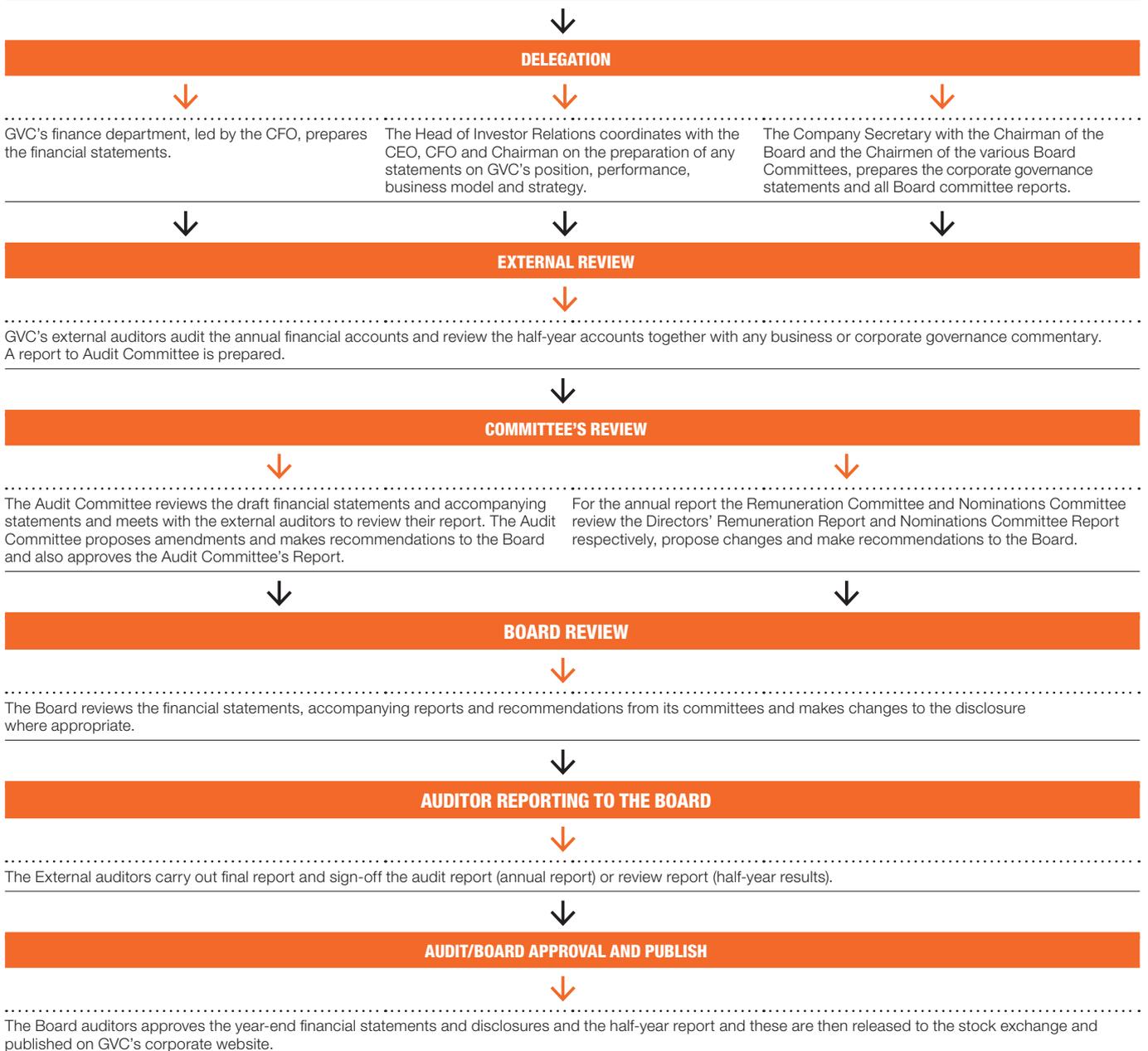
The Audit Committee met four times in 2018. Other Directors, including the Chief Financial Officer, attend the Audit Committee meetings by invitation. The Committee has also met for private discussions with the external auditor, whose representatives attend all of its meetings, together with Internal Audit.

Details of the number of Committee meetings held during the year and the attendance of Committee members is shown below:

Director	Meetings entitled to attend	Meetings actually attended
Pierre Bouchut	1	1
Stephen Morana	4	4
Karl Diacono	3	3
Will Whitehorn	2	1
Virginia McDowell	2	2

## RESPONSIBILITY FOR THE GVC FINANCIAL STATEMENTS

The Board is ultimately responsible for presenting a fair, balanced and understandable assessment of GVC's position and prospects, which extends to the half-year and annual financial statements.



In respect of the financial statements and accompanying reports for the year ended 31 December 2018, the Company has followed the process detailed above. In doing so the Directors confirm that they have reviewed the complete 2018 Annual Report and considered that taken as a whole, the report is fair, balanced and understandable and provides the information necessary for GVC's shareholders to assess the Company's performance, business model and strategy.

# AUDIT COMMITTEE REPORT CONTINUED

## Accounting and key areas of judgement

Throughout the course of the year, the Audit Committee determined the following areas of the financial statements were of significant interest. These issues were discussed with management and the external auditors to ensure that the required level of disclosure has been provided and that appropriate rigour has been applied where any judgement may be exercised.

MATTER CONSIDERED	ACTION
<p><b>IFRS 3 fair value exercise of the Ladbrokes Coral business</b></p> <p>The GVC Group completed the acquisition of the Ladbrokes Coral Group, Neds International, a majority shareholding of Mars LLC (referred to as "Crystalbet") and a number of other smaller acquisitions during the year, as detailed in note 31 to the financial statements. Included within the IFRS 3 fair value exercise undertaken are a number of judgements including the value of acquired intangibles (£2,507.6m) and goodwill (£2,366.7m).</p>	<p>The Audit Committee have reviewed the judgements made in connection with the accounting treatment, to determine whether the assets and liabilities recognised in the financial statements are carried at an appropriate fair value. In assessing the valuations, the Committee have reviewed the working papers provided by management and its advisers in relation to the fair value exercise and has assessed the assumptions used and conclusions reached. The Committee has also considered the conclusions reached by KPMG on their work in this area and have concluded that the treatment within the financial statements is appropriate.</p>
<p><b>Provision for historical tax claims</b></p> <p>During the current year, the Group has recognised a provision of £119.4m in respect of potential historical tax liabilities in Greece. In quantifying the provision recorded, management have made certain judgements over the likely settlement.</p>	<p>In assessing the provision recorded by management, the Committee have assessed the basis for the provision and the advice received by the Group's legal advisors over the likely liability. The Committee have also reviewed the analysis prepared by KPMG and are satisfied that the approach adopted and the disclosure provided is appropriate.</p>
<p><b>Separately disclosed items and proforma information</b></p> <p>The Group separately discloses certain items in order to allow a clearer understanding of the underlying trading performance of the business. In 2018, the Group has recorded a net charge in respect of items which have been separately disclosed of £434.2m in the Income Statement.</p> <p>In addition, given the financial statements only include trading since the date of acquisition for the acquired Ladbrokes Coral business, proforma financial information has been provided within the Annual Report and Accounts to assist in the articulation of the underlying business performance.</p>	<p>As part of their assessment that the treatment of separately disclosed items in the financial statements is appropriate, the Committee have considered each of the items disclosed separately and challenged, where necessary, the treatment adopted by management. The Committee has also considered the conclusions reached by KPMG as part of its audit in this area and are satisfied with the disclosure adopted.</p> <p>Management's use of proforma information in explaining the underlying business performance has also been considered by the Committee, as have KPMG's views on the use of proforma information and non-GAAP measures. The Committee has also considered the prominence given to non-GAAP measures compared to statutory measures and is satisfied with the balance of the disclosure provided.</p>
<p><b>Carrying value of long-lived assets and depreciable lives</b></p> <p>The Group has significant value in enduring and indefinite life assets such as licenses in the Retail estate and goodwill which need to be reviewed for impairment. In 2018, the Group has recognised an impairment charge against the assets in the Retail estate of £40.1m.</p>	<p>The carrying value of all enduring and indefinite life assets are tested for impairment annually. In reaching their conclusion that the treatment adopted is appropriate, the Committee have reviewed the forecasts, key assumptions and methodology adopted by management in determining the impairment charges required in the 2018 financial statements.</p> <p>As part of this process and in reaching their conclusion that the current charges and disclosure are appropriate, the Committee have also reviewed KPMG's audit findings.</p>
<p><b>Contingent consideration</b></p> <p>Included within the Group Balance Sheet as at 31 December 2018 is contingent consideration of £109.2m, which has been calculated based on potential future profitability.</p>	<p>The Committee have reviewed the process and judgements taken by management in determining the likely pay-out under the contingent consideration agreements as well as the findings of the KPMG audit and are satisfied that the liabilities recognised are appropriate given the circumstances.</p>

### External auditors

During the year ended 31 December 2018, KPMG LLP was appointed under an engagement letter to act as auditor to enable the Company to meet its obligations to prepare financial statements in accordance with the Listing Rules. The 2018 financial year-end serves as KPMG LLP's inaugural financial reporting period as the Group's external auditor, following the conclusion of an external audit tender process in 2018, with Mike Harper as the lead audit partner.

A resolution will be proposed at the 2019 AGM to re-appoint KPMG LLP as the external auditors.

### Policy on external audit tender

The UK Corporate Governance Code recommends that FTSE 350 companies put their external audit out to tender at least once every ten years. The EU Audit Regulation, effective across all Member States from the 17 June 2016, enforces mandatory audit firm rotation after a period of maximum tenure, set at 20 years.

GVC last ran a competitive audit tender process in 2017, however, in light of the discussions to acquire Ladbrokes Coral, the Audit Committee put a final decision on the external audit of the Company on hold for the 2017 year end, with Grant Thornton continuing in office.

Following the completion of the acquisition of the Ladbrokes Coral Group, the audit tender process was concluded, where, from the four original participating firms who had submitted written proposals in July 2017, two were shortlisted. Having evaluated both of these firms and considered their independence to act in the capacity as Group external auditor, the Audit Committee recommended to the Board that KPMG LLP be appointed for the 2018 year-end.

The 2018 financial year-end serves as KPMG LLP's inaugural financial reporting period as the Group's external auditor, and, having carried out a tender process in 2017, the Audit Committee, and the Board intend on putting the external audit out to tender at least once every ten years, in line with the guidance provided by the Financial Reporting Council, the EU Regulation and the Statutory Audit Services Order. The Audit Committee continues to follow an Auditor Rotation and Tendering Policy (which was first adopted in 2017).

### Effectiveness of the external audit process

The Audit Committee is committed to ensuring that the external audit process remains effective on a continuing basis. In particular, throughout the year the Audit Committee paid specific attention to the following areas:

- Reviewing that safeguards put in place by the incumbent auditor against independence threats are sufficient and comprehensive;
- Ensuring that the quality and transparency of communications with the external auditors are timely, clear, concise and relevant and that any suggestions for improvements or changes are constructive;
- Exercising professional scepticism, including but not limited to, looking at contrary evidence, the reliability of evidence, the appropriateness and accuracy of management responses to queries, considering potential fraud and the need for additional procedures and the willingness of the auditor to challenge management assumptions; and
- Considering if the quality of the audit engagement team is sufficient and appropriate – including the continuity of appropriate industry, sector and technical expertise (including new areas of activity by the client and changes in regulation or professional standards) and whether it has exercised sufficient objectivity to mitigate any independence and familiarity threats.

Feedback is provided to the external auditor at every instance by the Audit Committee and through one-to-one discussions between the Chairman of the Audit Committee and the audit firm partner.

# AUDIT COMMITTEE REPORT CONTINUED

## Non-audit services provided by the external auditor

The Audit Committee has established a policy regarding the appointment of external auditors to perform non-audit services for the Group and keeps this under continual review, receiving a report at each Audit Committee meeting. This policy dictates that in the Company's financial year, the total fees for non-audit services provided by the external auditors, excluding non-audit fees for due diligence for acquisitions and other specific matters noted below, should not exceed 70% of the average of the total fees for audit services they provided in the preceding 3-year period. In the year ended 31 December 2018, the total non-audit fees as a percentage of the audit fees paid to the external auditors was 18%.

In addition to their statutory duties, KPMG LLP is also employed where, as a result of their position as auditors or for their specific expertise, they either must, or the Audit Committee accepts they are best placed to, perform the work in question. This is primarily work in relation to matters such as shareholder circulars, Group borrowings, regulatory filings and certain business acquisitions and disposals. In such circumstances the Audit Committee will separately review the specific service requirements and consider any impact on objectivity and independence of the auditors and any appropriate safeguards to this. As such the Audit Committee believes it appropriate for these non-audit services to be excluded from the 70% cap set out above. In the year ended 31 December 2018 the total fees paid to the external auditors in respect of due diligence for acquisitions was £0.1m.

## Internal audit and its effectiveness

The Board delegates responsibility for reviewing the effectiveness of the Group's systems of internal control to the Audit Committee. This covers all material controls including financial, operational and compliance controls and risk management systems.

The Group's Internal Audit function forms the primary source of internal assurance via the delivery of the Internal Audit Plan, which is structured to align with the Group's strategic priorities and key risks and is developed by Internal Audit with input from management and the Audit Committee.

Its mission is to provide independent, objective assurance and consulting services designed to add and protect value by improving the Group's operations. Internal Audit assists the Group to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Through its work, Internal Audit provides assurance to the Board, through the Audit Committee, that effective and efficient control processes are in place to identify and manage business risks that may prevent the business from achieving its objectives. The scope of this work includes:

- Providing assurance to the Board and executive management that effective systems and controls are in place and are being operated to manage all significant risks within the financial and business systems operated within the Group;
- Assisting the business in fulfilling its corporate governance responsibilities;
- Supporting operational management by providing best practice advice on internal controls, including practical recommendations to mitigate control weaknesses identified during the review process;
- Promoting effective control at reasonable cost and assisting management generally in the pursuit of value for money (e.g. by providing practical recommendations to improve the efficiency of the financial and business processes operated by the business); and
- Carry out ad-hoc investigations based on any allegations made through the Whistleblowing Policy or as requested or directed by the Audit Committee and/or executive management.

Recommendations arising from Internal Audit reviews are communicated to the relevant business area for implementation of appropriate corrective measures, with results reported to the Audit Committee.

The work completed by Internal Audit during the year focused on key areas of the Group (disclosed on pages 57 to 62 under principal risks), which included:

- Reviews of Anti-money Laundering and Social Responsibility Processes across the business units;
- Key financial control reviews across the business, inclusive of the Group's finance back-office support function based in Hyderabad, India;
- Operating review of the Group's Italian Retail and Online businesses;
- Licensing compliance frameworks across UK Retail and Online business segments;
- Online marketing and affiliate management processes across the UK Online business;
- Identity and Access Management review throughout the UK Online and Retail infrastructure; and
- UK Retail and Online GDPR readiness assessment.

In addition to the above, the Group formed a Regulatory Assurance function during the latter half of the year, reporting into the Group Director of Internal Audit. The Regulatory Assurance team has been set up to ensure that there are regular, ongoing monitoring programmes across regulatory processes, such as anti-money laundering, responsible gambling and Retail license obligations. Other regulated activities under scope include marketing compliance and affiliate management. A periodic review of key compliance activities aims to maintain ongoing oversight of controls on behalf of internal and external stakeholders.

The Board, with the support of the Audit Committee, has completed its annual review of the effectiveness of the internal system of control, and whilst they are satisfied that it is robust there are areas which could be improved and these have been incorporated into the 2019 Audit Plan. The areas which will be subject to focus in 2019 are:

- System access controls;
- Harmonisation and standardisation of the control environment in the combined business;
- Management of cyber-security and control structures;
- Ongoing compliance assurance over key regulations including gambling and responsibility requirements, anti money laundering, marketing and GDPR; and
- Effective implementation of key strategic projects and delivery of robust control environments.

The Directors acknowledge that, whilst GVC's system of internal control can reduce the probability of business risks impeding the Company in achieving its objectives, it cannot eliminate these risks and can therefore provide only reasonable, not absolute, assurance against material misstatement or loss. The Directors also acknowledge that the business faces several risks as a direct result of the integration of its various operations. This means that in 2019 there will be more focus on areas of the business affected by integration where changes in systems, personnel or processes could lead to weaknesses in internal controls during the ongoing transitional period.

### Whistleblowing policy

The Group adopted and published a formal "whistleblowing" procedure by which employees can, in confidence, raise concerns about possible improprieties in financial or other matters. This procedure is set out in the Group's Code of Conduct, which was re-launched across the enlarged Group during the year.

The Company seeks the highest ethical standards in carrying out its various business activities, and corrupt practices of any sort will not be tolerated. The Company is committed to tackling malpractice and it is the personal responsibility of every employee of the Group to manage and reduce the risk of malpractice in their business.

The Company actively encourages individuals, where they believe that malpractice has taken place, to make protected disclosures either internally to the Audit Committee or externally through the outsourced service provider, Expolink. Employees will be protected where they have reasonable grounds to believe that their employer, another worker or a third party has committed serious malpractice and make a disclosure in good faith.

The Group has a written policy available to all employees on the Group's intranet and approved by the Audit Committee, which sets out the type of disclosure which is protected and also specifies to whom disclosures should be made and the process that will be followed.

The Audit Committee is satisfied that robust and appropriate arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

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### Pierre Bouchut

Chairman of the Audit Committee  
5 March 2019