Company Number: 02822203

Camelot UK Lotteries Limited

Annual Report and financial statements for the year ended 31 March 2017

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Strategic Report

The Directors present the Strategic Report of Camelot UK Lotteries Limited (the 'Company' or 'Camelot') for the year ended 31 March 2017.

Business Review

Camelot is currently trading under its third Licence to operate The National Lottery. The third operating Licence was awarded to Camelot, following a tender process, in August 2007. The Licence period started on 1 February 2009, to run until 31 January 2019, with a possible extension for a period of up to five years. In the 2011/12 financial year, the National Lottery Commission, (subsequently merged with the Gambling Commission), granted an extended Licence through to 31 January 2023, a four-year extension.

Camelot has had a challenging year, with sales falling for the first time in three years. The current trading environment is challenging and the outlook is for this to continue into the current year. The Company's focus is to return to growth over the next 12 to 24 months.

During the year Camelot, in conjunction with our EuroMillions partners, launched a number of changes to the EuroMillions game including the introduction of two new Lucky Stars, a raffle across the EuroMillions community and new, exciting UK-only events.

Camelot's key stakeholders

As the operator of The National Lottery, Camelot's role is critical to the lottery's success. Other bodies, however, also play a key role:

- The Government, empowered by The National Lottery etc. Act 1993 (as amended) through the Secretary of State for Culture, Media and Sport;
- The Gambling Commission which, under the 1993 Act, is responsible for awarding the Licence to run The National Lottery and for regulating the operation of The National Lottery; and
- The 12 lottery distribution bodies who decide which beneficiaries should receive National Lottery funding.

Strategy

Camelot's purpose is to Change Lives – of the winners created through our games and the people and projects supported by National Lottery funding. We achieve this through growing sales in a socially responsible manner which under the aligned model set out in the third Licence maximises returns for National Lottery Good Causes and Camelot's shareholders. Camelot's strategy is centred on four key elements:

1. Continuing to build a strong The National Lottery brand with universal appeal, maximising participation in National Lottery games;

2. Continuing to develop and innovate games as consumer needs change;

3. Giving consumers easy access to games wherever and whenever they want to play; and

4. Building more direct relationships with both digital and retail players;

During the current year, the Company has launched a refresh of the EuroMillions game and continued to innovate in Instant Win Games. The Company has also continued to develop the mobile platform with mobile sales having a record year of £619.3m (2016: £595.5m).

The strategy aims to achieve objectives beyond sales growth and maximising returns to society. Camelot is a socially responsible organisation, maintaining high standards of corporate governance, as well as safeguarding its position as one of the most cost-efficient lottery operators in the world.

Strategic Report continued

Risks, uncertainties and opportunities

The third operating Licence provides Camelot with significant opportunities, as well as some significant risks and uncertainties, and these have been incorporated into the Company's risk mitigation plans, further details of which are provided in the Report on Corporate Governance. Over the coming year, the particular challenges ahead are:

- Operating in an ever more competitive environment with organisations from both the gaming and gambling sectors, benefiting from significantly more advantageous taxation regimes, directly challenging and impinging on National Lottery games;
- Continued pressure on disposable income, with an ever increasing requirement for TNL marketing to remain relevant and with sufficient scale to command an appropriate share of voice;
- Implementing and operating new and complex technology solutions in a market moving at an ever increasing pace, whilst continuing to comply fully with the current operating licence; and
- Keeping pace with the changing retail, digital and social landscapes. Continuing to provide solutions for all stakeholders that are relevant and appeal to as many consumers as possible.

Camelot continues to work closely with the Gambling Commission to gain regulatory approval for new games and enhancements.

Key performance indicators (KPIs)

The Company's financial KPIs cover sales levels, prizes and returns to the Good Causes, as well as profit for the financial year. Performance in these areas is discussed below. Cash flow is also a KPI monitored on a regular basis. In addition, Camelot is required to maintain and report on specific standards of performance on player accessibility including terminal sales availability and the service provided to players. Failure to meet specific targets can result in a breach of the operating Licence. Figures for the current year were submitted to the Commission as required.

Sales

Gross ticket sales for the year ended 31 March 2017 were £6,925.3m (2016: £7,595.2m).

Within these revenues, sales for draw-based games totalled £4,023.2m (2016: £4,642.9m), a reduction of £(619.7)m. Both Lotto and EuroMillions games were impacted by lower rollovers than would be expected statistically.

Sales from Gamestore reduced by (1.7)% to £2,902.1m (2016: £2,952.3m). Gamestore sales performance is in part linked to draw-based games. Scratchcards in particular have been impacted by reduced footfall in retail.

Sales performance across both the retail and digital channels have declined year on year. However proportionally the digital channel continues to grow in line with Camelot's strategy accounting for 22.0% of sales (2016: 20.9%). Camelot operates Europe's largest digital lottery in terms of sales. With over six million players, national-lottery.co.uk is one of the top 10 e-commerce sites in the UK. An ever growing proportion of interactive sales come from smartphones and tablets.

Lottery duty

Lottery duty has remained at 12% of sales, and totalled £831.0m for the year (2016: £911.5m).

Prizes

Total prizes reduced to £3,943.2m in 2017 (2016: £4,198.9m) as a result of lower sales. This represents 56.9% of sales (2016: 55.3%). An increase in instant-win games as a proportion of total sales to 41.9% (2016: 38.9%) is the main driver of the increased prize percentage. Instant-win games typically offer a higher prize percentage than a draw-based game.

In any lottery there are prizes which remain unclaimed. If prizes are not claimed within 180 days of the draw date for draw-based games, or 180 days after the close of a National Lottery Scratchcard game, they are paid over to the National Lottery Distribution Fund (NLDF).

Strategic Report continued

Camelot continues to make efforts to locate the winners of unclaimed draw-based prizes worth £50,000 or more, either via local or national publicity. Unclaimed prizes, which are paid to the NLDF, for the financial year amounted to 1.9% (2016: 1.4%) of sales and totalled £131.9m (2016: £128.4m). The interest earned on unclaimed prizes is also paid to the NLDF.

National Lottery Distribution Fund

In aggregate, the total raised for Good Causes amounted to £1,628.0m, representing 23.5% of sales (2016: £1,901.1m; 25.0%) for the year, which includes £1,496.1m (2016: £1,772.3m) in returns from ticket sales and other payments due from relevant income as specified in the operating Licence, and a further £131.9m (2016: £128.4m) in unclaimed prizes.

The amount of money returned to Good Causes is determined by the mix of games sold, as every game has a different percentage return. Draw-based games return more in percentage terms than Scratchcards and instant – win games, as a result of the changing sales mix between these products will result in a change in return to Good Causes.

Where Camelot's profits exceed a certain threshold, which depends on sales levels achieved, the additional profits are shared with the Good Causes in the form of Secondary Contributions. Total Secondary Contributions for the year are £8.8m (2016: £9.0m), a decrease of (2.2)%. This calculation is based on an 'adjusted profits' calculation as defined under the third Licence.

The NLDF is the central fund from which the National Lottery Distribution Bodies draw funds for distribution to the Good Causes.

Retailers' and other commission

Total sales, validation and other commissions for the year totalled £299.5m representing 4.3% of total sales (2016: £333.8m; 4.4%). This includes both commission paid to retailers and bank fees paid on interactive sales transactions.

The commission rate paid for Scratchcard sales is 6% and 5% for draw-based games. In addition, retailers receive 1% commission for prizes paid out above £10 for Scratchcards and £25 for draw-based games, both up to and including £500. The Post Office is able to validate prizes between £500 and £50,000 for which it continues to receive an annual payment.

Gaming systems and data communication costs

Gaming systems and data communication costs decreased to £114.0m for the year (2016: £119.6m).

Gaming systems and data communication costs include the cost of maintaining software, terminals and the communications network, all expenditure associated with the purchase of National Lottery Scratchcard tickets, point-of-sale and other consumables, together with the depreciation of gaming systems, terminal and data communications equipment. A decrease of £5.6m compared to the prior year resulted from a lower sales level leading to a decrease in software transaction costs and gaming consumables.

Administrative expenses

Administrative expenses were £168.4m (2016: £169.1m) and consisted of advertising and marketing expenditure, depreciation, staff, facilities and all other administrative costs.

Finance income and costs

Net finance income during the year amounted to £1.6m (2016: £0.7m) relating to interest. Finance income grew to £3.1m in the year (2016: £2.6m) primarily due to interest receivable from Premier Lotteries UK Limited, on a £26.8m loan (2016: £19.0m). The finance costs of £1.5m decreased on prior year (2016: £1.9m).

The average yield on investment was approximately 0.30% (2016: 0.50%). Strict controls apply to treasury operations, which are reviewed regularly. The Company's investment policy is approved by Camelot's Audit, Risk and Security Committee and the Board. Funds are only deposited with banks which hold an investment grade credit rating by S&P, Moody's or Fitch, and which meet the Company's treasury policy criteria.

Financial performance

The Company's profit before income tax was £87.9m (2016: £96.7m). Profit for the financial year was £70.5m, 1% of revenue, (2016: £77.5m). The reduction year on year is largely attributable to the reduction in sales.

Taxation

The corporation tax charge of £17.4m for the year (2016: £19.2m) represents an effective tax rate of 19.8% (2016: 19.9%). Further detail is provided in note 7 of the financial statements.

VAT

Sales of lottery tickets are exempt from VAT. Therefore VAT is not normally recoverable on the Company's costs and is a charge against profits. The VAT cost for the year, including that arising on capital expenditure, was £36.4m (2016: £42.0m).

Dividends

The Company's profit for the financial year was £70.5 (2016: £77.5m), as disclosed on the Statement of Comprehensive Income on page 28. As detailed in note 8, total dividends paid in the year under review were £66.6m (2016: £84.2m), of which £66.6m (2016: £84.2m) was paid to the Company's parent company, Premier Lotteries UK Limited (PLUK), during the year and £7,000 to Fourmoront Corporation (2016: £7,000). The upward dividend payment is a financing mechanism to facilitate the term loan repayment from PLUK.

Financial position at the year end

The Balance Sheet reflects the continuing financial stability of the business. Total assets were £520.1m as at 31 March 2017 (2016: £627.5m).

The value of property, plant and equipment and intangible assets has decreased to £124.7m in the current year (2016: £128.3m), mainly due to a reduction in additions year on year.

Trade and other receivables have decreased to £364.2m from £437.1m in 2016 mainly due to lower amounts receivable from the Operational and Lotto Raffle Trusts, offset by a reduction in amounts held in the Euromillions Raffle Trust and Prize Reserve Trust accounts, both of which are held to fund future prize payments. The cash and cash equivalents balance of £28.1m has decreased compared to the prior year (2016: £59.5m) largely due to timing of dividend payments. Non-current financial liabilities and borrowings have decreased to £21.2m (2016: £28.8m) due to capital repayments made against finance leases partially offset by the increase in the level of finance leases. Current trade and other payables have decreased to £436.4m from £535.5m in 2016 due to a reduction in Prize Liability.

Our investment in technology

During the current year Camelot has maintained the infrastructure to run The National Lottery and at the end of the financial year 45,296 lottery terminals were in operation across the Retail estate (2016: 46,822).

The Company is committed to delivering new games, develop existing games, including new ways to play, and increase one-to-one player communications. To meet these commitments the Company continues to invest significant amounts in technology and in back office systems to support these initiatives and drive operational efficiencies.

Terminal sales availability, a key performance indicator monitored monthly by the Company's regulator, was 99.95% (2016: 99.94%) ahead of the operating Licence target of 99.50%. In addition, system availability for playing games on the internet was 99.90% (2016: 99.71%) ahead of the operating Licence target of 99.50%.

Strategic Report continued

Cash flows, cash and debt

Net cash generated from operational activities was £88.6m (2016: £100.3m). The decrease was due predominantly to a lower cash impact resulting from movements in working capital than in the prior year. Cash outflows primarily include dividend payments of £66.6m (2016: £84.2m), net taxation related payments of £18.4m (2016: £18.5m), £26.1m (2016: £26.1m) of investment in property, plant and equipment and intangible assets, repayments of the principal on finance lease arrangements of £10.5m (2016: £8.0m), as well as interest payments of £1.5m (2016: £1.9m). The closing cash balance was £28.1m (2016: £59.5m).

The net cash generated from operations represented ticket sales less prize payments, lottery duty, payments to the NLDF, and operating expenditure. Cash is received from retailers net of prizes paid by them and commission due to them. Settlement of retailers' debts is on a weekly basis, as are payments due to the NLDF, and payments into trust for the benefit of players.

In order to protect prize winners and players, Camelot has set up certain trust accounts operated by The Law Debenture Trust Corporation plc, which acts as an independent trustee. An amount equivalent to prizes is deposited into a trust account on a weekly basis, as well as monies taken in advance and money held by interactive players in their on-line wallets. This money is held in trust until paid as a prize, or entered into a draw, and is under the control of the Trustees until this time. Interest earned on these accounts is primarily for the benefit of the NLDF.

At 31 March 2017, Camelot had on deposit £7.5m (2016: £6.9m) of funds in a restricted cash trust account as a reserve for the protection of prize winners. Although Camelot cannot currently withdraw these amounts until the end of the third operating Licence extension period, the interest on these accounts accrues to Camelot.

Camelot holds a Surety Bond with HCC International Insurance Company PLC to the value of £21.0m. The provisions for Camelot to be able to satisfy its security for players' funds obligations under the Licence, by way of a Surety Bond, are set out in Condition 19.3 of the Licence.

The Company maintains a £55.0m committed Revolving Credit Facility which runs until 6 August 2019. The amount drawn down under this facility at 31 March 2017 was nil (2016: nil).

The Strategic Report was approved by the Board of Directors on June 2017 and was signed on its behalf by:

Jo Taylor
Chairman

Camelot UK Lotteries Limited
Company Number 02822203

Camelot UK Lotteries Limited

Directors' Report

The Directors present their report together with the audited financial statements of Camelot UK Lotteries Limited (the 'Company') for the year ended 31 March 2017.

Principal activities

The principal activity of the Company is the operation of The National Lottery in a socially responsible manner for the benefit of a number of good cause areas; arts, education, environment, health, heritage, sport and voluntary/charity (the 'Good Causes'). The establishment of The National Lottery was enabled by the passing of The National Lottery etc. Act 1993 (as amended). Camelot operates The National Lottery pursuant to an operating Licence granted by its regulator, the Gambling Commission.

The third operating Licence was granted on 1 February 2009, to run until 31 January 2019, with a possible extension for a period of up to five years. In the 2011/12 financial year, the National Lottery Commission, (subsequently merged with the Gambling Commission), granted an extended Licence through to 31 January 2023, a four-year extension. This had an impact on intangible assets and property, plant and equipment as economic lives have been lengthened where they previously ran to the end of the third operating Licence 31 January 2019.

The Company expects to pursue this principal activity for the foreseeable future. The Company's performance is discussed in the Strategic Report set out on pages 3 to 7.

Shareholdings

The following share structure was in place at the beginning and end of the year under review:

	Number of 'A' shares	Number of 'C' preference shares	Total % holding of shares
Premier Lotteries UK Limited	1,000	3	99.3%
Fourmoront Corporation	-	7	0.7%

Further details of the rights and obligations of each class of share are given in note 20 to the financial statements.

The Company's ultimate shareholder is Ontario Teachers' Pension Plan Board (Teachers').

Directors

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

Chairman
Lee Sienna – resigned 22 June 2016
Jo Taylor – appointed 22 June 2016

Executive directors
Andy Duncan - resigned 21 June 2017

Independent non-executive directors
Rob Rowley
Sir Patrick Brown KCB
Tony Illsley
David Kelly

Non-executive directors
Wayne Kozun – resigned 26 October 2016
Jane Rowe

Directors' Report continued

Alternate directors
Ilya Kachko – (alternate to Lee Sienna, Wayne Kozun and Jane Rowe)
(also appointed alternative to Jo Taylor)
Iain Kennedy – (alternate to Jo Taylor, Wayne Kozun and Jane Rowe)
appointed 22 June 2016 and resigned 21 September 2016

Company Secretary
John Dillon served as Company Secretary during the year.

Insurance for directors and officers

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Going concern

Management has prepared detailed budgets and cash flow forecasts which support the appropriateness of the going concern assumption.

The wider economic climate increases the credit and financial liquidity risk of the Company. However management has assessed the controls in place to minimise Camelot's exposure to this increased level of risk, which are set out in note 15.

Therefore, after making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least three years from the date of this report as disclosed in the viability assessment below. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Viability assessment

Taking account of the Company's current position and principal risks the directors have assessed the prospects of the Company for the purposes of provision C.2.2 of the UK Corporate Governance Code over the next three years. The directors have considered the period to be appropriate having considered the Company's licence to operate the National Lottery (which is expressed to expire on 31 January 2023), and its historic and expected future performance in the context of the Company's three-year strategy. The three-year strategy is reviewed and approved by the Board.

The Company's business model has proved to be strong despite a reduction in sales and profit year on year.

The Board confirms that it carries out a robust assessment of the principal risks and uncertainties facing the Company, including those that could threaten the business model, future performance, solvency and liquidity of the Company. The Board also monitors the Company's risk management and internal control systems.

The assessment and monitoring is carried out on a rolling basis, with senior management reviewing and updating the Company's key risk register quarterly, which is then reviewed by the Audit, Risk and Security Committee at every meeting. The Committee is also informed of, and considers, all material risks and internal control systems issues (including, for example, any significant control failings). Among the identified key risks are cyber security, regulation, competition and compliance with the Licence. The Company continues to invest heavily in safeguarding IT infrastructure, with the security of player information and funds being a key priority. The Chairman of the Committee reports the proceedings of the Committee to the full Board and copies of minutes of the Committee are distributed to all members of the Board who are not Committee members.

The Company is comfortably operating within the loan covenants of interest cover and gearing ratios, and the directors consider that this will continue over the review period. Revocation of the Company's licence to operate the National Lottery would clearly be catastrophic and the Company is very clearly focussed on mitigating the risks of committing any licence breach which could form the basis of such revocation.

Directors' Report continued

Taking into account the Company's current performance, the existence and unexpired period of the Company's licence to operate the National Lottery, the existence of the three-year strategy and the principal risks and uncertainties facing the Company, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 March 2020.

It is not possible to foresee all risks, and there may be risks that individually are not deemed to be material that turn out to be material particularly if manifesting over a short period of time.

Corporate governance

The report on corporate governance is set out on pages 13 to 20.

Research

To secure the long-term success of The National Lottery and to ensure continued sales growth alongside increasing returns to the Good Causes, the Company has continued to spend on research during the year. The Company's spend totalled £2.8m in 2017 (2016: £3.1m), primarily in the area of brand and market research.

Employees

The Company continues to place a high priority on ensuring that its employment policies respect the individual and offer career and personal development opportunities regardless of racial or ethnic origin, gender, age, religion, nationality, disability, sexual orientation or marital status. Full and fair consideration is given to the employment of all individuals and reasonable adjustments are made to accommodate the disabilities of Camelot employees, whether those disabilities arose before or during their employment with the Company. Camelot is a member of the Employers' Forum on Disability.

The Company's Staff Forum extends across all employees in the UK group of companies, and it continues to be consulted on all significant policy proposals and initiatives affecting staff and in turn gathers group-wide reactions to such proposals.

The Company believes that delivering consumer and player satisfaction is key to its success and strives to reward the contribution made by motivated and high performing staff. Reward mechanisms including performance related pay and an annual bonus scheme continue to support this. For the year under review, bonuses will not be paid due to failure to meet the three key performance criteria: sales, profitability and returns to Good Causes.

Employees pay contributions into the Company Personal Pension Plan, a defined contribution scheme. In line with UK legislation the Company now auto-enrols employees into the pension scheme. The first payroll deductions for automatically enrolled employees were made in January 2014.

Camelot has an extensive and well-established structure for communicating with employees through a variety of channels including internal publications, company-wide email, web casts, cascades and the Company's intranet site. This is also the medium through which the Company communicates economic and financial factors which impact the Company's performance.

Financial risk management

The Company has a clear and specific investment policy which is followed for all cash deposits placed to mitigate against short and long term cash flow risk. It continually monitors its banking facilities and has access to a £55m revolving credit facility. During the next financial year, the cash flow forecasts anticipate utilising a minimum level of available facilities whilst ensuring that sufficient headroom is maintained and ensuring all interest and loan liabilities are met. Camelot has a contingency financing arrangement with its ultimate controlling party, Teachers', which, in aggregate with its parent company Premier Lotteries UK Limited (PLUK), makes further funding of £30m available. In addition, Camelot has an established process, set out in The National Lottery Retailer Agreement, which ensures exposure to retailer bad debt is minimised as detailed in note 15. Camelot is therefore confident that it has appropriately mitigated the additional credit and financial risks.

The Company is exposed to certain levels of credit, interest rate, foreign exchange and liquidity risks that arise in the normal course of business. Details of these risks are disclosed in note 15.

Directors' Report continued

Related party transactions

During the current financial year, the Company has had transactions of significance with its parent company and fellow UK group entities. Details of related party transactions are given in note 27 to the financial statements.

Suppliers

The Company's policy is to pay suppliers 30 days after the end of the month in which their invoice is received or within such other credit period as agreed between the parties, providing the obligations of those suppliers are met. These terms are stated on all purchase orders issued by the Company.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office.

Dividends

As detailed in note 8, total dividends paid in the year under review were £66.6m (2016: £84.2m), of which £66.6m (2016: £84.2m) was paid to the Company's parent company, Premier Lotteries UK Limited, during the year and £7,000 to Fourmoront Corporation (2016: £7,000).

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Director's Report and the Report on Corporate Governance and the 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 the directors have prepared the company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Following the publication of the revised version of the UK Corporate Governance Code in September 2014 the Board requested that the Audit, Risk and Security Committee provide advice on whether the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee's terms of reference have been amended to reflect this.

The directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit, Risk and Security Committee, the Board considers the report and accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors' Report continued

Statement of Directors' Responsibilities continued

Arriving at a position where initially the Audit, Risk and Security Committee, and then the Board, are satisfied with the overall fairness, balance and clarity of the document is underpinned by the following:

- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Company's Chief Financial Officer;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of the drafts of the Report are undertaken by members of the Company Operating Board and other senior management where appropriate; and
- the draft Annual Report and Accounts are reviewed by the Audit, Risk and Security Committee prior to consideration by the Board.

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

Each of the directors in office at the date on which the financial statements were approved, whose names and functions are listed on pages 8 and 9, confirm that, to the best of their knowledge:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
Jo Taylor
Chairman
June 2017

Report on Corporate Governance

Whilst not required by law, Camelot UK Lotteries Limited has undertaken, so far as it is practical having regard to its corporate structure, to comply with the principles of good governance and code of best practice as set out in 'The UK Corporate Governance Code' published by the Financial Reporting Council (the 'Code') in September 2014. (The revised version of the Code published in April 2016 applies to accounting periods beginning on or after 17 June 2016.) The Board's commitment to business integrity, high ethical values, corporate responsibility and professionalism in all its activities remains undiminished following the Company's transition from plc to limited company status in July 2010.

This report outlines the approach adopted to the principles contained within the Code and provides an explanation of any current departure from the provisions of the Code.

Board of Directors

At 31 March 2017, the Board comprised seven members: the Chairman (an officer of Teachers'), four independent non-executive directors, one non-executive director (an officer of Teachers') and one executive director (the Chief Executive).

There is a clear delineation of responsibility between the Chairman and the Chief Executive which is set out formally in a written description of the role of the Board and the job descriptions for the Chairman's and the Chief Executive's roles. The Chairman leads the Board, ensuring that each director, particularly the non-executive directors, is able to make an effective contribution. He monitors, with assistance from the Company Secretary, the information distributed to the Board to ensure that it is sufficient, accurate, timely and clear. Board papers are sent to directors in good time before Board meetings. These cover key areas of the Company's affairs including overall strategy, key commercial partnerships, approval of budgets, major capital expenditure programmes, significant transactions and financing issues. The Board approves all major capital and revenue expenditure over specified amounts which vary depending on the nature of the expenditure. The Chief Executive maintains day-to-day management responsibility for the Company's operations, implementing Company strategies and policies agreed by the Board.

The Chairman Lee Sienna (until his retirement from the Board) was also Vice President at Teachers', in charge of the Long Term Equities portfolio. Mr Sienna retired from Teachers' in the current financial year and stood down from the Board at the end of its meeting on 22 June 2016. The new Chairman is Jo Taylor, who is also Teachers' Regional Managing Director for Europe, the Middle East and Africa. The Board believes that Lee Sienna's role did not, and that Jo Taylor's role does not, prevent the Chairman from spending sufficient time on Camelot matters. In addition, the Chairman's role at Teachers' ensures that the Board members (and in particular the independent non-executive directors) are regularly informed of Teachers' views about the Company.

Regular Board meetings were held during the year under review. Board meetings follow a formal agenda covering regular reports from the Chief Executive. The attendance of directors (including alternates) at the Board and Committee meetings during the year is detailed in the table on page 14.

At the end of each Board meeting the Chairman meets with the non-executive directors for a discussion, in the absence of the executive director and other senior management. A formal document sets out matters specifically reserved for decision by the Board, but all Board members are free to raise other issues at the Board meetings. Where directors have concerns that cannot be resolved about the running of the Company, or a proposed action, these are recorded in the Board minutes. Upon resignation a non-executive director with any such concerns can circulate them to the Board via a written statement to the Chairman.

The Board has delegated certain functions to committees, as set out below. However, the Board takes direct responsibility for the review and monitoring of key areas such as risk management. All directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed. There is a procedure in place enabling any director, in the furtherance of his or her duties, to seek independent professional advice at the Company's expense.

Andy Duncan resigned as Chief Executive on 21 June 2017.

Report on Corporate Governance continued

Attendance of directors (including alternates where they have attended in place of their principal and including attendance as a usual attendee while a director) at Board and Committee meetings (in their capacity as members or usual attendees while a director) during the year was as follows:

	Board (4 meetings) Number attended	Audit, Risk & Security Committee (5 meetings) Number attended	Remuneration Committee (3 meetings) Number attended
Lee Sienna	1/1	-	1/1
Jo Taylor	3/3	-	2/2
Wayne Kozun	2/2	2/2	1/1
Andy Duncan	4/4	5/5	3/3
Sir Patrick Brown KCB	4/4	5/5	-
Tony Illsley	4/4	-	2/3
David Kelly	4/4	3/3	-
Jane Rowe	4/4	3/3	2/2
Rob Rowley	4/4	5/5	-

The table shows the number of meetings attended by a director as against the number of meetings he/she was entitled to attend. The Nomination Committee did not meet in the year.

- Indicates that the named individual is not appointed to or invited to attend the Committee shown.

All directors have to be security vetted before they can be formally appointed to the Board. This is a requirement of the Gambling Commission (the Regulator). Pending this clearance, those to be appointed are permitted to attend Board and Committee meetings as observers.

During the year under review, the Board delegated its authority to the following committees:

Audit, Risk and Security Committee

Chair:
Rob Rowley

Members:
Rob Rowley
Wayne Kozun – resigned 26 October 2016
Sir Patrick Brown KCB
David Kelly – appointed 1 December 2016
Jane Rowe – appointed 1 December 2016

Usual attendees:

The Chief Executive and other functional managers for relevant sections of the meeting, and representatives of the Company's auditors and Teachers'. The composition and independence of the Board is discussed on page 13.

The Committee met five times in the year under review. Its duties are as follows:

Audit

The Committee is responsible for ensuring that the system and standards of internal control within the Company and in particular of the financial reporting are to the highest standards, and for ensuring that the interests of the Company's shareholders are safeguarded. The Committee is also responsible for considering how the Company should apply its financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditor. It also reviews the Company's financial and accounting policies, financially relevant press releases, final financial statements and Annual Report prior to their submission to the Board, together with management reports on accounting and internal control matters. Where requested by the Board, the Committee provides advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

It also reviews the appointment and terms of reference of the external auditor, and its management representation letter, and considers any other matters raised by the auditor. In respect of non-audit services, the Committee reviews auditor objectivity by reviewing the scope of work for such services to ensure that its independence is safeguarded. It monitors the effectiveness of the internal audit function. At least once a year, the Committee meets separately with the external auditor and, if considered appropriate by the Committee, the Head of Risk and Internal Audit without any executive Board members present. The Committee is also responsible for reporting to the Board on how it has discharged its responsibilities.

PricewaterhouseCoopers ('PwC') has been the Company's external auditor since 1993. The Committee considers the relationship with its auditor is working well and remains satisfied with its effectiveness. The audit partner is rotated every seven years and the current partner is in his seventh year and is preparing to handover to his successor. The external auditor attends all audit committee meetings, of which there were five in the financial year ended 31 March 2017 and the Committee assesses its effectiveness through this regular interaction.

Reporting of Significant Issues

As part of its work, the Committee focused on the following significant accounting areas in relation to the financial statements:

- **Revenue recognition**

  The Camelot revenue recognition policy set out in note 2(d) to the financial statements is reviewed annually, to ensure it properly reflects the nature of transactions and is in accordance with accounting standards. Internal controls are designed to mitigate against revenue being recorded in the incorrect period. PwC performed detailed audit procedures on revenue recognition and the relevant internal controls and reported their findings to the Committee. Having reviewed the policy and considered the controls in place, the Committee has concluded that the timing of revenue recognition continues to be in line with IFRS requirements.

- **Provisions**

  In accounting for provisions, judgement is required to assess the probability of outcome, maturity and level of risk. Judgement and estimation is required in the provision methodology and for certain provisions, consideration of external information on which to base the provision. Details of the accounting policy relating to provisions are set out in note 2(r) to the financial statements. Provisions made and the basis on which they have been calculated are disclosed in note 19. The Committee has confirmed the appropriateness of accounting policies relating to provisions as well as those provisions held at 31 March 2017 in particular those relating to long term incentive plans. PwC performed detailed audit procedures on provisions including the appropriateness of any assumptions and reliance on external information and reported their findings to the Committee.

- **Capitalised assets**

  The Company continues to make significant investment in capital assets. The Committee has reviewed the appropriateness of capitalisation decisions adopted by management and concluded that current processes are sufficient to ensure capitalised assets are correctly captured and reported. Assets are capitalised in accordance with IFRS, as set out in the accounting policies disclosed in note 2 to the financial statements.

Report on Corporate Governance continued

The Committee has also considered the controls surrounding compliance with the operating Licence granted by the Gambling Commission and has concluded that improvement is required. This has driven a significant investment in improving controls across the business. The Company has put in place a programme of work to improve the operational control and change management environment. Progress of the programme will be closely monitored by the Committee.

Risk

The Committee assists the Board in fulfilling its responsibilities for managing the risk associated with the business and markets within which the Company operates. The two core responsibilities of the Committee in respect of risk are to ensure an appropriate framework is provided for managing risks throughout the Company, and to provide an appropriate forum through which the detailed status of risk management is reported to the Board.

During the year the Committee spent time discussing the risks associated with the various on-going major change projects and programmes; in particular emerging risks including the challenges represented by the continuing rapid growth of digital and the mounting threat of competition. The Committee discusses significant issues with management both independently and as a result of external audit procedures.

Security

The Committee is responsible for approving and ensuring adherence to a set of security policies for the implementation and operation of the National Lottery. The Committee is regularly apprised of any potential security issues within the Company (including physical, logical and personnel security and disaster planning). Any major security breaches are brought to the attention of the Chairman of the Committee immediately once they are identified.

Remuneration Committee

Chair:
Lee Sienna – resigned 22 June 2016
Jo Taylor – appointed 22 June 2016

Members:
Wayne Kozun – resigned 26 October 2016
Jane Rowe – appointed 1 December 2016

The Committee is responsible for establishing the framework and broad policy for the remuneration of the Company's Chief Executive, independent non-executive directors and employees in management with a senior role in the Company. The Committee is responsible for reviewing its own performance, constitution and terms of reference at least once a year to ensure that it is operating at maximum effectiveness, and recommend any changes it considers necessary to the Board for approval.

Willis Towers Watson, formerly Towers Watson continues as formal advisor to the Remuneration Committee and in the course of the year advised the Company in relation to staff remuneration and ad-hoc support to the HR team. Willis PMI Group (now part of Willis Towers Watson) Act as the Company's brokers for its Employee Assistance Programme, Life Assurance, PHI and PMI benefits, as well as the provider of the Company's occupational health/managed care service (the support link between PHI and PMI claims).

Nominations Committee

Chair:
Lee Sienna – resigned 22 June 2016
Jo Taylor – appointed 22 June 2016

Report on Corporate Governance continued

Members:
Sir Patrick Brown KCB
Tony Illsley

Camelot recognises the vital role that non-executive directors play in ensuring high governance standards. The Committee is responsible for adopting a formal, rigorous and transparent procedure for the recommendation of new directors, and for considering and recommending suitable candidates for appointment by the C preference shareholders. The Committee is required to consider candidates from a wide range of backgrounds, paying due regard to the Board's diversity policy. The Board's diversity policy recognises the importance of diversity; records the Company's commitment to promoting equality of opportunity within its organisation, as well as for its players, retailers and wider society; and also confirms the Company's commitment to have due regard to the benefits of diversity on the board, and the making of appointments based on merit, measured against objective criteria and the aptitude, skills and ability individuals can bring to the business. The Committee is comprised exclusively of non-executive directors, under the chairmanship of the Chairman of the Board.

Board Effectiveness Review

In addition to a review conducted by the Chairman during the course of the year, a formal externally facilitated annual evaluation of the Board and the Board committees is being conducted in the during 2017.

Advisory Panel for Corporate Responsibility

Camelot has appointed a panel of independent experts and members of the Company's leadership team, chaired by the Chief Executive, which meets three times a year to discuss continuous improvement in the area of corporate responsibility.

Independent Non-Executive Directors

The independent Non-Executive Directors are independent of both management and the shareholders, and are initially appointed for a three-year term. Thereafter, whilst not automatic, their appointment may be extended for further terms, subject to mutual agreement and shareholder approval. The non-executive directors have full access to management and are encouraged to stay fully abreast of the Company's business through site visits and meetings with senior management.

Appropriate induction briefings are available to all directors on appointment and subsequent training is offered, as necessary, taking into account qualifications and experience.

Relations with shareholders

The Group's ultimate parent undertaking and controlling party is Teachers' (note 1). The Company maintains close links with Teachers' who have representatives on the Board and also have direct lines of access to the Chairman, the Chief Executive, the Independent Non-Executive Directors and the Company Secretary.

Licence compliance

The directors are responsible for establishing an adequate system of control so that assurance is provided over compliance with the provisions of the third operating Licence and Section 6 game licences and any other provisions imposed by or under any statute which relate to the running of The National Lottery or the promotion of any constituent lottery. The system of internal control includes the reporting of regulatory matters to the Audit, Risk and Security Committee by the Head of Internal Audit and Risk. Internal audits and reviews by the Internal Audit function (which sits in Camelot Business Solutions Limited) also provide assurance.

Risk Management and Internal Control

Camelot's risk management framework assists management to identify, assess and manage business risk. To ensure all areas of the Company have a firm understanding of risk, the Internal Audit and Risk team lead risk workshops to seek input from Board directors as appropriate and other managers on perceived risks. This enables risks to be prioritised with action plans to mitigate them. Camelot's directors acknowledge that they are responsible for the Company's systems of risk management and internal control and for reviewing their effectiveness. Within Camelot the review of risk and internal controls has become an integrated, embedded management process rather than an isolated year end exercise, and is designed to support management's decision-making.

Camelot operates under a system of controls which are communicated through various mechanisms, including, but not limited to:

1. The Risk Management Committee, which meets prior to each Audit, Risk and Security Committee meeting to review and assess the Company's key risks for communication to the Audit, Risk and Security Committee. This Committee also provides a forum for sharing strategic decisions that could impact risk management, and for improving the overall Company control environment.

2. The Audit, Risk and Security Committee, which considers the Company's key risk profile and the actions taken and controls in place or planned to mitigate exposures. At the Board meeting following an Audit, Risk and Security Committee meeting, the Chairman of the Committee presents key risks to the Board which reviews how these risks are being controlled and monitored, if those directors who are not members of the Committee have not attended the Committee meeting.

3. A practical process, which identifies, evaluates and manages all types of risk faced by the Company. The risk management process and systems of internal control are designed to manage rather than eliminate risk and to ensure that the Company's strategic objectives are achieved. It should be recognised that such systems can only provide reasonable and not absolute assurance against material misstatement or loss.

4. The risk department, managed by the Head of Internal Audit and Risk, reports to the Audit, Risk and Security Committee. The Head of Internal Audit and Risk assists management to identify the risks inherent in the Company's achievement of its strategic objectives. Each identified risk is recorded in a risk mitigation plan and assessed for impact on the organisation and likelihood of occurrence. The Audit, Risk and Security Committee receives a full report from the Head of Risk and Internal Audit at each of its meetings and examines key risks, changes to the risk mitigation plan since the last committee meeting, and risks removed since the last meeting. Security is a key consideration for Camelot and is demonstrated by the rigorous application of security procedures throughout the organisation. The Board is regularly apprised of any potential security issues within the Company through the relevant section of the Audit, Risk and Security Committee.

The high level of risk awareness in Camelot, together with risk reporting to the Board, allows the Board to ensure that focused steps are taken to address risk exposures.

The overall risk profile for the business has increased over the period and management are focussed on mitigation plans to reduce the level of risk exposure.

The Committee has also considered the controls surrounding compliance with the operating Licence granted by the Gambling Commission and has concluded that improvement is required. This is due to a number of issues experienced in relation to the Company's system of internal controls during the period covered by this report, mainly relating to draw results publication and data protection. This has driven a significant investment in improving controls across the business. The Company has put in place a programme of work to improve the operational control and change management environment. Progress of the programme will be closely monitored by the Committee. There were no changes in the Company's internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Board of Camelot is committed to the principles of good governance set out in the UK Corporate Governance Code and has voluntarily adopted those that are relevant to its circumstances. In doing so the Board has been mindful of the broad stakeholder responsibilities of the Company arising from the operation and promotion of The National Lottery alongside its responsibility to its shareholders. More details of how Camelot consults with its stakeholders are set out in the separate Corporate Responsibility Report, which is available on Camelot's website. In adopting the principles and practice of the Code, the Board has taken account of the fact that the Company's principal shareholder is represented on the Board. Accordingly the Board considers that many of the Code's provisions relating to a public company's responsibilities to protect shareholders' interests and to communicate to shareholders are not relevant to the Company and it believes that robust governance has been

Report on Corporate Governance continued

maintained appropriately in the context of its ownership. Those areas where the Board has chosen to depart from the provisions of the Code are set out below.

- Provision A.3.1 requires that the Chairman is independent. Under the Company's Articles of Association, the Chairman is appointed by the C preference shareholders and is therefore not considered to be independent under the terms of the Code. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with this provision of the Code.

- Provision A.4.1 requires one of the independent non-executive directors to be the senior independent director. Due to the limited size of the Board it has not been deemed necessary to appoint a senior independent director. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with this provision of the Code.

- Provisions A.4.2 and B.6.3 require the non-executive directors, at least annually and on such other occasions as are deemed appropriate, led by the senior independent director (see above on provision A.4.1), to be responsible for the performance evaluation of the Chairman, taking into account the views of the executive directors. Because Camelot's C preference shareholders have the exclusive right to appoint or remove the Chairman, and otherwise have sufficient means to evaluate his performance, these provisions are not appropriate. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with provisions A.4.2 and B.6.3 of the Code.

- Provision B.7.1 states that all directors of FTSE 350 companies are to be subject to annual election by shareholders, and all other directors should be subject to re-election by the shareholders at the first AGM after their appointment and at three-yearly intervals thereafter. Because Camelot's C preference shareholders have the exclusive right to appoint or remove each of the Company's directors and (in the case of the requirement in relation to annual election) is not a FTSE 350 company, these provisions are not appropriate. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with provision B.7.1 of the Code.

- Provision C.1.3 requires directors to report in annual and half-yearly financial statements that the business is a going concern. Given the Company's existing reporting obligations, it being owned ultimately by a single shareholder and the high degree of oversight of its operations by the Gambling Commission, it is not appropriate for the directors to report on a half-yearly basis. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with provision C.1.3 of the Code.

- Provisions E.2.1 to E.2.4 state that the Board should hold an AGM to communicate with investors and to encourage their participation. The Company is effectively owned by one shareholder, which has determined that the Company will not hold an AGM. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with these provisions of the Code.

- Provisions D.2.1 and C.3.1 relate to the composition of the Remuneration and Audit Committees respectively. The provisions set out that the Remuneration and Audit Committees should comprise independent non-executive directors only. The Remuneration Committee comprises the Chairman and a non-executive director, neither of whom is deemed to be independent under the terms of the Code. Under the Company's Articles of Association, the right to appoint the members of the Remuneration Committee is reserved exclusively to the C preference shareholders and so provision D.2.1 is not relevant to the Company.

The Audit, Risk and Security Committee comprises three independent non-executive directors and one non-executive director who is not deemed to be independent under the terms of the Code; she is, however, independent of management. Neither the executive director nor any other member of Camelot staff is a member of these committees. This structure has been agreed by the Board as a whole which believes that the Remuneration and Audit Committees are appropriately resourced. The Gambling Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with these two provisions of the Code.

Report on Corporate Governance continued

In addition, provision D.2.2 requires the Remuneration Committee to have delegated responsibility for setting remuneration for all executive directors and the Chairman. The terms of reference of the Remuneration Committee prevent the Chairman, who is a member of the committee as appointed by the C preference shareholders, from setting his own remuneration, which is a matter for discussion by the Board. The Gambling

Commission has waived the requirement of condition 14.2 of the third operating Licence that the Company should comply with provision D.2.2 of the Code with respect to setting the Chairman's remuneration.

The Gambling Commission's waivers referred to above are subject to two conditions:

- The Commission must be promptly notified by the Chairman, or his nominee, if a Board decision is taken which is voted against by two or more of the independent non-executive directors; and
- Any proposed changes to the Company's Board structure require the Commission's prior written consent.

Furthermore, the Chairman meets the Chair of the Gambling Commission twice a year to discuss performance.

Provision C.3.7 of the Code specifies that FTSE 350 companies should put the external audit contract out to tender at least every ten years (although it is noted that provision C.3.7 of the revised version of the Code published in April 2016 which will apply for the financial year beginning 1 April 2017 omits that requirement). The Company has not put the external audit contract out to tender to date.

The Board retains the ability to do so at any time, taking due account of any recommendation by the Audit, Risk and Security Committee, and the Company will consider whether or not do so in respect of future financial years in the light of provision C.3.7 (notwithstanding that the Company is not a FTSE 350 company).

Independent auditors' report to the members of Camelot UK Lotteries Limited

Report on the financial statements

Our opinion

In our opinion, Camelot UK Lotteries Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 March 2017;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Materiality	• Overall materiality: £6.6 million which represents 1% of net income.
Areas of focus	• Capitalisation of internally generated and acquired intangible assets. • Compliance with National Lottery Licence requirements. • Provisions in respect of long term incentive plans.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Capitalisation of internally generated and acquired intangible assets *Refer to page 15 (Audit, Risk and Security Committee report) and page 33 (Note 2 – Summary of significant accounting policies and note 9 intangible assets)* There has been ongoing significant investment by the Company in the infrastructure to run The National Lottery, including spend on technology and back office systems to support gaming. During the year £15.0m was capitalised as intangible assets. We focused on this area given the significance of the amounts and the judgement which is involved in assessing whether the criteria for the capitalisation of the assets has been met.	We obtained a detailed list of internally generated and acquired intangible assets capitalised during the year and agreed this to amounts recorded in the general ledger, confirming that there were no reconciling items. We tested a sample of capitalised additions, agreeing the amounts capitalised to supporting documentation, such as invoices, and considered whether the capital nature of spend was supported. We discussed the sample with management, obtaining further explanations as to the nature of the project and their assessment of the capitalisation principles against IAS 38. We did not identify any adjustments as a result of our testing.
Compliance with National Lottery Licence requirements *Refer to page 16 (Audit, Risk and Security Committee report) and page 17 (Compliance)* The Company operates The UK National Lottery pursuant to an operating Licence granted by its regulator, the Gambling Commission. This Licence requires the Company to comply with its terms and confirm a number of statements to the Gambling Commission as part of its regulatory reporting. We focused on this area because non-compliance with the Licence terms could result in legal action, reputational damage, penalties or loss of the Licence to operate, all of which would have an adverse impact on the Company.	We evaluated how management monitors the Company's ongoing compliance with the requirements of the Licence and inquired with Internal Audit and in house legal counsel as to any significant matters arising. We have discussed with management the draw results publication and data protection issues which have occurred during the year. The Company is engaged in ongoing discussions with the Gambling Commission, and we have considered throughout the course of our audit whether there is any material exposure as a result of these matters. We are satisfied that there is no material impact to the financial statements. We read the regulatory reporting from the Company to the Gambling Commission during the year for evidence of penalties or other issues. We agreed the information in the regulatory reporting back to the Company's systems and, where relevant, underlying accounting records. Our procedures did not identify any matters requiring further investigation.
Provisions in respect of long term incentive plans *Refer to page 15 (Audit, Risk and Security Committee report) and 33 (Note 2 – Summary of significant accounting policies)* The Company operates various long term incentive plans (LTIP) for senior management which give rise to a provision for future cash payments under the plans. The closing provision at 31 March 2017 is £9.6m.	We obtained management's calculation of the provision and agreed the closing provision to the general ledger. We also tested the arithmetical accuracy within the provision calculation. We tested the reconciliation of the movements in the provision. The current year charge was agreed to the underlying calculation supporting the provision. For historic plans, we agreed the inputs as accurate, whilst for new plans, the key features such as salary

Area of focus	How our audit addressed the area of focus
We focused on this area because measurement of the provision requires judgement when determining appropriate assumptions, including the probability of meeting performance targets and the level of expected forfeitures. We also considered the financial statement disclosures as part of our audit.	and performance measures were agreed back to the plan rules and employee agreements. We agreed the utilisation of the provision to bank payments made during the year. We tested the reasonableness of key assumptions in the provision calculation including: • The expected achievement of performance vesting conditions, which we agreed to management's internal forecasts and plans. Furthermore, we obtained evidence to confirm adequate historical accuracy in management's forecasting process; and • The expected forfeitures, which we found to be appropriate based on historical levels of management turnover. We found the judgements made by management to be reasonable and the disclosures to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£6.6 million (2016: £7.1 million).
How we determined it	1% of net income.
Rationale for benchmark applied	We have applied this benchmark as it is our understanding that net income is the principal measure monitored by the Company's shareholder in assessing the financial performance of the Company.

We agreed that we would report misstatements identified during our audit above £328,000 (2016: £356,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 9, required for companies with a premium listing on the London Stock Exchange.

The directors have requested that we review the statement on going concern as if the Company were a premium listed company. We have nothing to report having performed our review.

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or - otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on pages 11 and 12, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 14 and 15, as required by provision C.3.8 of the Code, describing the work of the Audit, Risk & Security Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 18 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 9 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

The directors have requested that we review and report on the statement that they have carried out a robust assessment of the principal risks facing the Company and the statement in relation to the longer-term viability of the Company, as required under the Listing Rules for companies with a premium listing on the London Stock Exchange.

Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinion on additional disclosures

Corporate Governance Statement

The Company voluntarily prepares a corporate governance statement that includes the information with respect to internal control and risk management systems and about share capital structures required by the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority. The directors have requested that we report on the consistency of that information with the financial statements.

In our opinion the information given in the Corporate Governance Statement set out on pages 13 to 20 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matter on which we have agreed to report by exception

Corporate Governance Statement

The Company's voluntary Corporate Governance Statement includes details of the Company's compliance with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 11 and 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Nicholas Campbell-Lambert (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 June 2017

Camelot UK Lotteries Limited

Statement of Comprehensive Income

for the year ended 31 March

	Notes	2017 £m	2016 £m
Gross ticket sales	3	**6,925.3**	7,595.2
Lottery duty		**(831.0)**	(911.5)
Prizes		**(3,943.2)**	(4,198.9)
National Lottery Distribution Funds		**(1,496.1)**	(1,772.3)
Net income		**655.0**	712.5
Retailers' and other commission	4	**(299.5)**	(333.8)
Gaming systems and data communication costs	4	**(114.0)**	(119.6)
Gross profit		**241.5**	259.1
Administrative expenses		**(168.4)**	(169.1)
Other operating income	4	**13.2**	6.0
Operating profit	4	**86.3**	96.0
Finance income	6	**3.1**	2.6
Finance costs	6	**(1.5)**	(1.9)
Profit before income tax		**87.9**	96.7
Income tax	7	**(17.4)**	(19.2)
Profit for the financial year and total comprehensive income attributable to owners of the Company		**70.5**	77.5

The results detailed above are all derived from continuing operations.

The Company has no recognised income or expense other than that shown above and therefore no other comprehensive income is presented.

The notes on pages 32 to 60 are an integral part of these financial statements.

Camelot UK Lotteries Limited

Balance Sheet

as at 31 March

	Notes	2017 £m	2016 £m
ASSETS			
Non-current assets			
Intangible assets	9	**44.8**	47.0
Property, plant and equipment	10	**79.9**	81.3
Deferred income tax assets	18	**2.2**	1.6
Trade and other receivables	12	**34.5**	31.2
		161.4	161.1
Current assets			
Inventories	11	**0.9**	1.0
Trade and other receivables	12	**329.7**	405.9
Cash and cash equivalents	13	**28.1**	59.5
		358.7	466.4
Total assets		**520.1**	627.5
LIABILITIES			
Non-current liabilities			
Financial liabilities – borrowings	16	**21.2**	28.8
Trade and other payables	17	**1.4**	2.1
Provisions for liabilities and other charges	19	**20.5**	20.3
		43.1	51.2
Current liabilities			
Financial liabilities – borrowings	16	**10.8**	11.6
Trade and other payables	17	**436.4**	535.5
Current income tax liability		**9.2**	9.9
Provisions for liabilities and other charges	19	**2.3**	4.9
		458.7	561.9
Total liabilities		**501.8**	613.1
EQUITY			
Capital and reserves			
Share capital	20	**0.0**	0.0
Retained earnings	21	**18.3**	14.4
Total equity		**18.3**	14.4
Total equity and liabilities		**520.1**	627.5

The notes on pages 32 to 60 are an integral part of these financial statements.

The financial statements on pages 28 to 31 including the accompanying notes were approved by the Board of Directors on June 2017 and were signed on its behalf by:

Jo Taylor
Chairman

Camelot UK Lotteries Limited
Company Number 02822203

Statement of Changes in Equity

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance as at 31 March 2015		**0.0**	**21.1**	**21.1**
Comprehensive income				
Profit for the financial year		**0.0**	**77.5**	**77.5**
Total Comprehensive Income		**0.0**	**77.5**	**77.5**
Transactions with owners				
Dividends paid	8	**0.0**	**(84.2)**	**(84.2)**
Total transactions with owners		**0.0**	**(84.2)**	**(84.2)**
Balance as at 31 March 2016		**0.0**	**14.4**	**14.4**
Comprehensive income				
Profit for the financial year		**0.0**	**70.5**	**70.5**
Total Comprehensive Income		**0.0**	**70.5**	**70.5**
Transactions with owners				
Dividends paid	8	**0.0**	**(66.6)**	**(66.6)**
Total transactions with owners		**0.0**	**(66.6)**	**(66.6)**
Balance as at 31 March 2017		**0.0**	**18.3**	**18.3**

At 31 March 2017, the Company has share capital totalling £1,010 (2016: £1,010), as disclosed in note 20 to these financial statements.

The notes on pages 32 to 60 are an integral part of these financial statements.

Camelot UK Lotteries Limited

Statement of Cash Flows

for the year ended 31 March

	Notes	2017 Total £m	2016 Total £m
Cash flows from operating activities			
Cash generated from operations	22	**88.6**	100.3
Interest received		**3.1**	2.6
Interest paid		**(1.5)**	(1.9)
Income tax paid		**(16.0)**	(15.0)
Group relief payments		**(2.4)**	(3.5)
Net cash from operating activities		**71.8**	82.5
Cash flows from investing activities			
Purchase of property, plant and equipment		**(11.1)**	(21.3)
Expenditure on intangible assets		**(15.0)**	(4.8)
Net cash used in investing activities		**(26.1)**	(26.1)
Cash flows from financing activities			
Dividends paid to shareholders - interim		**(66.6)**	(84.2)
Finance lease principal payments		**(10.5)**	(8.0)
Net cash used in financing activities		**(77.1)**	(92.2)
Net (decrease) in cash, cash equivalents and bank overdrafts		**(31.4)**	(35.8)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**59.5**	95.3
Cash, cash equivalents and bank overdrafts at the end of the year	13	**28.1**	59.5

The notes on pages 32 to 60 are an integral part of these financial statements.

Other significant transactions include the addition of £0.9m property, plant and equipment and intangible assets under finance lease arrangements (2016: £10.4m). During the year, £nil (2016: £nil) was repaid against these borrowings.

Notes to the Financial Statements

1. General information

Camelot UK Lotteries Limited ('the Company') operates and promotes The United Kingdom National Lottery. The Company principally operates in the United Kingdom and Isle of Man.

The Company is a private limited company incorporated and domiciled in the UK. The address of its registered office is Camelot UK Lotteries Limited, Magdalen House, Tolpits Lane, Watford, Hertfordshire, WD18 9RN, United Kingdom.

Its immediate parent is PLUK, a subsidiary of Premier Lotteries Capital UK Limited, itself a subsidiary of Premier Lotteries Investments UK Limited (PLIUK). PLUK is the parent undertaking of the smallest group to consolidate these financial statements reporting under IFRS as adopted by the EU. PLIUK is the parent undertaking of the largest group to consolidate these financial statements reporting under IFRS as adopted by the EU. The financial statements of PLUK and PLIUK are available from Magdalen House, Tolpits Lane, Watford, Hertfordshire, WD18 9RN, United Kingdom.

The Company's ultimate parent undertaking and controlling party is Teachers'. The financial statements of Teachers' are publicly available at www.otpp.com. The Company maintains close links with Teachers' who have representatives on the Board and also have direct lines of access to the Chairman, the Chief Executive, the Independent Non-executive Directors and the Company Secretary.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements for the year ended 31 March 2017 are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

The financial statements of Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Company's financial risk management is given in note 15.

The Company's accounting policies were selected by management considering all applicable IFRS issued by the International Accounting Standards Board (IASB) by 31 March 2017.

i) New IFRS accounting standards and interpretations adopted in 2016/17:
During the year ended 31 March 2017, the Company adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments, and interpretations by the IFRS Interpretations Committee. None of the pronouncements had a material impact on the Company's results or assets and liabilities.

- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to IAS 1

2. Summary of significant accounting policies continued

ii) New IFRS accounting standards and interpretations not yet adopted:
The standards, amendments and interpretations listed below were not effective for the year ended 31 March 2017.

With the exception of IFRS 16 Leases, none of the standards and interpretations listed below are expected to have a material impact on the Company's results or assets and liabilities.

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases

It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed. The Company has not yet completed a detailed review of the impact of these standards. However, our preliminary assessment is that:

- Adoption of IFRS 16 is likely to result in certain arrangements currently treated as operating leases being accounted for in the future in a manner similar to the current treatment for finance leases.

b) Critical accounting assumptions, estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions, and it also requires management to exercise its judgement and to make estimates in the process of applying the Company's accounting policies. The areas requiring a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are discussed below and in the provisions section on page 53.

Intangible assets

The Company capitalises intangible assets in line with IAS 38. Forecast cash flow information and estimates of future earnings are used to assess whether intangible assets are impaired and to assess useful economic lives. If the results of operations in future periods are less than those used in impairment testing, an impairment may be triggered, or the useful economic life of an asset may be reduced. All impairment charges are recognised in the Statement of Comprehensive Income.

Long term incentive plans

Provisions are made for the Company's long term incentive plan (bonus scheme for senior management) (LTIP) in line with the Company's performance criteria when the Company has a present legal or constructive obligation to incur this cost.

2. Summary of significant accounting policies continued

c) Segmental reporting

The Company does not publicly trade its equity or debt securities and is not in the process of issuing equity or debt securities in public securities markets. The Company is therefore outside the scope of IFRS 8 'Operating Segments' and as such has not presented operating segment disclosures.

d) Gross ticket sales

Gross ticket sales comprise the wagers placed across a portfolio of games that include draw-based games, Scratchcards and interactive Instant Win Games.

For draw-based games, income is recognised on a draw-by-draw basis, at the point the draw takes place. Where players wager in advance, this income is deferred and only recognised in the Statement of Comprehensive Income once the draw has taken place.

Scratchcards ticket income is recognised at the point of settlement by the retailer with the retailer having the option to pay Camelot for the pack upon the point the pack is opened or they can opt to settle the pack using an average ticket approach. Therefore settlement is deemed to be the earlier of:

- Payment by the retailer,
- When 60% of the lower value prizes have been claimed; or
- 30 days from the opening of a pack of tickets.

Interactive Instant Win games income is derived from wagers placed on The National Lottery website and is recognised on the date of purchase as the game is played instantly.

e) Lottery duty

Lottery duty is 12% of gross ticket sales.

f) Prizes

The draw-based games developed and managed by the Company operate under a prize pool mechanism under which a predetermined percentage of the ticket sales is allocated to prizes. The liability for prizes won is recognised in full at the time of the draw.

To the extent that the actual prizes won on the Lotto and EuroMillions draws vary from the predetermined prize percentage, the relevant prize is carried forward under a roll-over to subsequent draws.

Scratchcard prizes are recognised as a percentage of ticket sales in line with the theoretical prize pay-out for that game.

Interactive Instant Win Game prizes are based on the actual prizes won for each individual game, at the point at which the sale occurs.

If prizes remain unclaimed for 180 days from either the draw date for draw-based games or the close of a Scratchcard or interactive Instant Win game, they are paid to the National Lottery Distribution Fund. These payments are not charged to the Statement of Comprehensive Income as they are already included as a prize liability. The payment causes a reduction in the prize liability on the balance sheet. There is also an equal reduction in the Operational Trust receivable balance, the account in which money in respect of prizes is held and from which the payment for unclaimed prizes is made.

2. Summary of significant accounting policies continued

g) National Lottery Distribution Fund

The National Lottery Distribution Fund (NLDF) is the central fund from which the National Lottery Distribution bodies draw down funds for distributing to the Good Causes.

Amounts charged to the Statement of Comprehensive Income represent:

- The amounts arising due to the respective bodies based on cumulative accounting sales less lottery duty, prizes and commissions. The amounts recognised are calculated in line with the method set out in the third operating Licence under which the Company has operated during the year; and
- The profits to be shared with the NLDF as a result of Camelot achieving certain profit targets. This distribution of profits is known as Secondary Contributions and the payments to be made are as set out in the third operating Licence.

h) Net income

Income arises across a portfolio of games that includes draw-based games, Scratchcards and interactive Instant Win Games.

All income is derived from and originates in the United Kingdom and the Isle of Man. The presentation of net income is consistent with common practice within the gaming industry; ticket sales are accounted for under IAS 39 'Financial Instruments: Recognition and Measurement'. Net income is recorded and disclosed net of lottery duty, prize costs and amounts due to the National Lottery Distribution Fund.

Other operating income primarily comprises an operating fee receivable from retailers who lease terminals in the estate. The operating fee income is recognised on a straight-line basis over the term of the operating lease. Income is only recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

i) Retailers' and other commissions

The commission rate paid for Scratchcard sales is 6% and 5% for draw-based games. In addition, retailers receive 1% commission for prizes paid out above £10 for Scratchcards and £25 for draw-based games, both up to and including £500. The Post Office is able to validate prizes between £500 and £50,000 for which it continues to receive an annual payment.

Amounts charged to the Statement of Comprehensive Income represent commissions arising due to:
- retailers based on sales and in-store prize payments to date
- our agent in respect of fees paid for the processing of debit card payments which arise when players load or unload money to and from their interactive wallet to enable them to participate in The National Lottery using the interactive channel; and
- other sales-related commissions.

j) Intangible assets

All intangible assets are stated at cost less any accumulated amortisation and impairment losses.

Internally generated intangible assets

Costs relating to the development of software and The National Lottery website, including design and content development, are capitalised as intangible assets only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the Statement of Comprehensive Income as incurred. Capitalised development costs are amortised on a straight line basis over the period gaining economic benefit from the expenditure once the related product is available for use. Research costs are charged to the Statement of Comprehensive Income as incurred. Interactive

2. Summary of significant accounting policies continued

development costs that relate to channels other than the website are also capitalised on the same basis. Assets under construction are not amortised until they are brought into use

Separately acquired intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised as intangible assets at cost and amortised over their useful economic life. Costs associated with maintaining software are charged to the Statement of Comprehensive Income as incurred. Amortisation is provided on all intangible assets at such rates as to write off the cost of these assets in equal instalments, either over their expected useful lives or the remaining third operating Licence period throughout which benefit is anticipated to be derived from the asset. The third operating Licence extension runs to 2023.

The value of separately acquired and internally generated intangible assets is amortised in equal instalments as follows:

- Central gaming software, Interactive software and Enterprise Resource Planning software	The period to the end of the third operating Licence extension or planned replacement date if earlier
- Other software	The shorter of four years and the period to the end of the third Licence extension

Impairment of intangible assets

The Company uses forecast cash flow information and estimates of future earnings to assess whether intangible assets are impaired with reference to their useful economic lives. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. All impairment charges are recognised in the Statement of Comprehensive Income.

k) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. The cost of property, plant and equipment includes the estimated cost of removing and disposing of the terminal assets held at retailer sites. Assets under construction are not depreciated until they are brought into use.

Depreciation is provided on all property, plant and equipment on a straight line basis to write off the cost of these assets in equal instalments either over their expected useful lives or the third Licence extension period which runs to 2023 and has been applied prospectively.

The depreciation basis for the principal asset categories are as follows:

Short leasehold improvements	The shorter of the lease period and the period to the end of the third operating Licence extension
Plant and equipment and motor vehicles	
- Computer hardware (excluding central gaming)	The shorter of four years, or in the case of leased assets the lease period, and the period to the end of the third operating Licence extension
- Central gaming systems, Interactive hardware and Enterprise Resource Planning hardware	The period to the end of the third operating Licence extension or planned replacement date if earlier, or the lease term for leased assets and associated costs

- Fixtures and fittings	5 years
- Media screens	3 years
- Lottery terminals	The period to the end of the third operating Licence extension, the lease term, or planned replacement date if earlier
- Permanent point-of-sale equipment (PPOS)	The shorter of 2 – 5 years and the period to the end of the third operating Licence extension
- Other plant and equipment	Between 2 – 5 years, or planned replacement date
- Motor vehicles	The lease term

The residual values and useful economic lives of property, plant and equipment are reviewed annually. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is immediately written-down.

l) Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases.

Separately acquired software and property, plant and equipment acquired under finance leases are included in the balance sheet at their equivalent capital value, which is defined as the lower of the fair value of the asset and the present value of minimum lease payments, and are depreciated in accordance with the policy for the class of asset concerned. The resulting lease obligations are recorded as a creditor and the interest element of the finance lease rentals is charged to the Statement of Comprehensive Income.

m) **Operating leases**

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

n) Inventories

Inventories consist of Scratchcards and consumables (i.e. terminal rolls, playslips and ribbons). Scratchcards are carried on a unit cost basis and are expensed when Camelot recognises the revenue for that stock. Consumables are valued at the lower of cost, calculated on the first-in first-out basis, or net realisable value. Provisions are made for obsolete or slow moving stock.

o) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a doubtful debtor account, and the amount of the loss is recognised in the Statement of Comprehensive Income within 'administrative expenses'. When a trade receivable subsequently becomes uncollectible, it is written off against the doubtful debt provision, in the period in which the bad debt is identified. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the Statement of Comprehensive Income. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Amounts held in Trust represent unpaid prizes. When a player claims a prize from the trust, the prize payment is made by Camelot and then claimed back from the Trust. This is deemed to be a third party transaction between Camelot and the Trust. As such amounts reflect a receivable due from the Trust.

2. Summary of significant accounting policies continued

p) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

q) Financial instruments

Exposure to credit, interest rate, currency and liquidity risks that arise in the normal course of the Company's business are minimised by Camelot's policies and controls, as disclosed in note 15.

The following policies for financial instruments have been applied in the preparation of the Company's financial statements.

Cash and cash equivalents

For the purpose of preparation of the Statement of Cash Flows, cash and cash equivalents includes cash at bank and in hand, short-term deposits with an original maturity period of three months or less and certain amounts classified as borrowings, as detailed below.

Bank overdrafts that are an integral part of the Company's cash management are included in cash and cash equivalents where they have a legal right of set-off against positive cash balances. If the cash position after the set-off of the overdrafts amounts to a net overdraft, these amounts are classified as borrowings, but are still classified as cash and cash equivalents for the purposes of the Statement of Cash Flows.

Borrowings

Borrowings comprise amounts drawn down against the Company's bank facilities, amounts (other than trade payables) due to parent undertakings and any bank overdrafts as defined above. They are recognised initially at fair value, net of transactions costs incurred. Transaction costs are charged to operating profit in the period incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

r) Provisions

Provisions are recognised where the Company has legal or constructive present obligations as a result of past events, that will probably require an outflow of resources to settle, and this outflow can be reliably measured, as detailed below.

Provisions are made for the cost of decommissioning terminals and communications equipment held at retailer sites, and the disposal of these assets. A further provision comprises amounts in respect of lost or destroyed terminals.

The dilapidation provision is the current best estimate of the cost of bringing certain premises, held under operating leases, back to their original state as required by the lease agreement.

Provisions for restructuring costs are recognised where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be readily estimated. Provisions are not recognised for future operating losses.

Provisions are made for the Company's long term incentive plan (bonus scheme for senior management) (LTIP) in line with the Company's performance criteria.

Provisions are discounted when the effect of the time value of money is material.

2. Summary of significant accounting policies continued

s) Pensions

The Company operates the Company Personal Pension Plan, a defined contribution scheme. The cost of contributions is charged to the Statement of Comprehensive Income in the year to which it relates.

t) Current and deferred income tax

Current income tax is recognised based on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences that arise between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding tax base. A temporary difference is a taxable temporary difference if it will give rise to taxable amounts in the future when the asset or liability is settled. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be offset. Deferred income tax assets and liabilities recognised are not discounted. Deferred income tax liabilities and assets are classified as non-current irrespective of the expected timing of the reversal of the underlying taxable temporary difference. Current income tax assets and liabilities are shown separately on the face of the Balance Sheet.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets with current taxation liabilities.

u) Value added tax

All costs include the attributable value added tax to the extent that it is not recoverable.

v) Share capital and dividend recognition

Ordinary shares, ordinary preference shares and ordinary redeemable shares are shown as equity. Final dividends to the Company's shareholders are recognised when the dividend is approved by the Company's shareholder, and for an interim dividend when the dividend is paid.

w) Foreign currency

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in GBP sterling (£m), rounded to £0.1m, which is the Company's functional and the Company's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the trading are recognised in the Statement of Comprehensive Income. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'finance income or expense'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within administrative expenses.

3. Gross ticket sales

The Company is operated and managed as a single business segment in one geographical area, the United Kingdom and Isle of Man, across a portfolio of games aimed to maximise the reach of The National Lottery. Gross ticket sales by type of game are analysed as follows:

	2017 £m	2016 £m
Draw-based games	**4,023.2**	4,642.9
Scratchcards & interactive Instant Win Games (Gamestore)	**2,902.1**	2,952.3
	6,925.3	7,595.2

4. Operating profit

	2017 £m	2016 £m
Net income	**655.0**	712.5
Other operating income [1]	**13.2**	6.0
Retailers' and other commissions	**(299.5)**	(333.8)
Gaming systems & data communication [2]	**(114.0)**	(119.6)
Employee expenses (note 5)	**(37.0)**	(36.7)
Marketing expenses	**(90.6)**	(87.2)
Research	**(2.8)**	(3.1)
Amortisation of intangible assets (note 9) [2]	**(4.9)**	(4.9)
Depreciation on tangible assets (note 10) [2]	**(0.3)**	(0.3)
Impairment of trade receivables	**(0.9)**	(0.6)
Operating lease rentals - property	**(4.0)**	(5.7)
Auditors' remuneration - fees payable for the audit of the Company's financial statements	**(0.6)**	(0.5)
Other expenses	**(27.2)**	(30.1)
Total expenses	**(581.9)**	(622.5)
Operating profit	**86.3**	96.0

[1] Other operating income primarily comprises an operating fee receivable from retailers who lease Compact Lottery Terminals (CLT) in the estate. The operating fee income is recognised on a straight-line basis over the term of the operating lease. Income is only recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. In addition £6.6m (2016:£3.2m) income from the NLDF has been received in respect of Lotto marketing investment and £1.9m (2016: nil) in respect of Euromillions marketing investments

[2] Gaming systems and data communication costs includes the cost of maintaining software, terminals and the communications network, costs associated with the purchase of Scratchcard tickets and consumables, together with the depreciation of gaming systems and terminal and data communications equipment. Included within gaming systems and data communication costs are £12.0m (2016: £14.5m) depreciation on owned assets, £11.5m (2016: £6.6m) amortisation of intangible assets and £9.3m (2016: £9.1m) operating lease rental costs on plant and equipment.

5. Employee expenses and numbers

Employee expenses	2017 £m	2016 £m
Wages and salaries	**25.9**	31.5
Social security costs	**9.6**	3.7
Other pension costs	**1.5**	1.5
	37.0	36.7

Monthly average number Camelot employees	2017 Number	2016 Number
Retailer and consumer services	**108**	205
Sales and marketing	**320**	289
Information technology	**131**	122
Finance, administration and other	**40**	28
	599	644

Key management personnel compensation	2017 £m	2016 £m
Short term employee benefits	**2.0**	2.2
Other long term benefits	**0.1**	1.3
Post employment benefits	**0.2**	0.2
	2.3	3.7

At 31 March 2017, the Board comprised seven members: the Chairman (an officer of Teachers'), four independent non-executive directors, one non-executive director (an officer of Teachers') and one executive director (the Chief Executive).

The amounts above include compensation for members of the UK Executive Board who were employed by Camelot during the reporting period. The remuneration of any remaining members is disclosed in the financial statements of the company that employs those individuals. An agreed costs recharge structure has been set up between group companies which is not directly attributable to individuals.

Included in short term employee benefits are termination benefits in respect of one individual.

Directors' emoluments	2017 £m	2016 £m
Salaries and short term employee benefits	**1.0**	0.9
Long term incentive plans	**0.1**	0.8
Other pension costs	**0.1**	0.1
Aggregate emoluments	**1.2**	1.8

Highest paid director's emoluments	2017 £m	2016 £m
Salaries and short term employee benefits	**0.8**	0.7
Long term incentive plans	**0.1**	0.8
Other pension costs	**0.1**	0.1
Aggregate emoluments	**1.0**	1.6

Andy Duncan is the highest paid director in both years.

5. Employee expenses and numbers continued

At the end of the financial year no directors (2016: none) were members of the Group money purchase pension scheme.

During the year Dianne Thompson received Long Term Incentive Plan payments which are paid by and disclosed in the financial statements of Camelot Business Solutions Limited. She did not act as a director of CBSL nor of CUKL during the year.

Long Term Incentive Plans (LTIP) have been in place since 2009 and run through to 2022. Andy Duncan received his fourth payment under this scheme in the year ended 31 March 2017. Both short term and long term incentive plans follow industry best practice with stretching targets and measurable performance.

6. Finance income and costs

	2017 £m	2016 £m
Interest receivable from bank deposits	**0.1**	0.2
Interest receivable on loan due from PLUK	**3.0**	2.4
Finance income	**3.1**	2.6
Interest payable on other loans	**(0.4)**	(0.6)
Interest payable on finance leases	**(1.1)**	(1.3)
Finance costs	**(1.5)**	(1.9)
Net finance income	**1.6**	0.7

7. Income tax

a) UK corporation tax

	2017 £m	2016 £m
Current income tax for the year	**18.2**	19.3
Adjustments in respect of prior periods	**(0.2)**	(0.2)
Total current tax	**18.0**	19.1
Deferred income tax (charge)/ credit for the year	**(0.4)**	0.1
Adjustments in respect of prior periods	**(0.2)**	-
Total deferred tax	**(0.6)**	0.1
Income tax expense	**17.4**	19.2

The income tax charge is based on a corporation tax rate of 20% for the year ended 31 March 2017 (2016: 20%). All taxable temporary differences have been recognised and are reflected in the deferred taxation balance.

A reduction in the UK Corporation Tax Rate to 17% (effective from 1 April 2020) were substantially enacted on 7 September 2016. These changes will reduce the Company's future tax and deferred tax charges / credits accordingly. The deferred tax asset has been calculated based on the rate of 17% substantially enacted at the balance sheet date.

7. Income tax (continued)

b) Reconciliation of tax expense

	2017 £m	2016 £m
Profit before income tax	**87.8**	96.7
Income tax on profit on ordinary activities at the standard rate of 20% (2016: 20%)	**17.6**	19.3
Non-deductible expenses	**0.1**	(0.1)
Adjustments in respect of prior periods	**(0.4)**	(0.2)
Effect of rate change	**0.1**	0.2
Income tax expense	**17.4**	19.2

8. Dividends

	2017 £m	2016 £m
Interim dividends paid to shareholders for aggregate ordinary class 'A' shares and class 'C' preference shares	**66.6**	84.2
	66.6	84.2

Dividend per share for the year was £65,941 (2016: £83,366).

9. Intangible assets

	Internally generated £m	Separately acquired £m	Total £m
Cost			
At 1 April 2015	8.2	59.7	**67.9**
Additions	1.4	12.6	**14.0**
At 31 March 2016	9.6	72.3	**81.9**
Accumulated amortisation			
At 1 April 2015	3.5	19.9	**23.4**
Charge for the year	0.9	10.6	**11.5**
At 31 March 2016	4.4	30.5	**34.9**
Net book value	**5.2**	**41.8**	**47.0**

	Internally generated £m	Separately acquired £m	Total £m
Cost			
At 1 April 2016	9.6	72.3	**81.9**
Additions	1.1	13.9	**15.0**
Disposals	-	(0.8)	**(0.8)**
At 31 March 2017	10.7	85.4	**96.1**
Accumulated amortisation			
At 1 April 2016	4.4	30.5	**34.9**
Charge for the year	2.3	14.1	**16.4**
Disposals	-	-	**0.0**
At 31 March 2017	6.7	44.6	**51.3**
Net book value			
At 31 March 2017	**4.0**	**40.8**	**44.8**

The intangible assets balance represents internally generated and separately acquired assets relating to the development of software and assets purchased separately, such as software licences that do not form an integral part of related hardware. Amortisation is charged to administrative expenses.

Intangible assets include £8.7m (2016: £3.7m) of assets which are under construction and £nil of borrowing costs arising from finance lease interest (2016: £nil) on developing The National Lottery Website.

Notes to the Financial Statements

10. Property, plant and equipment

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	**Total £m**
Cost				
At 1 April 2015	2.1	3.2	196.6	**201.9**
Additions	21.3	-	-	**21.3**
Transfers	(23.2)	-	23.2	**-**
At 31 March 2016	0.2	3.2	219.8	**223.2**
Accumulated depreciation				
At 1 April 2015	-	2.2	124.9	**127.1**
Charge for the year	-	0.3	14.5	**14.8**
At 31 March 2016	-	2.5	139.4	**141.9**
Net book value				
At 31 March 2016	**0.2**	**0.7**	**80.4**	**81.3**

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	**Total £m**
Cost				
At 1 April 2016	0.2	3.2	219.8	**223.2**
Additions	11.1	-	-	**11.1**
Transfers	(9.3)	-	9.3	**-**
Disposals	-	-	(3.2)	**(3.2)**
At 31 March 2017	2.0	3.2	225.9	**231.1**
Accumulated depreciation				
At 1 April 2016	-	2.5	139.4	**141.9**
Charge for the year	-	0.3	12.0	**12.3**
Disposals	-	-	(3.0)	**(3.0)**
At 31 March 2017	-	2.8	148.4	**151.2**
Net book value				
At 31 March 2017	**2.0**	**0.4**	**77.5**	**79.9**

The net book value of plant and equipment and motor vehicles held under finance leases is £24.4m (2016: £29.8m). Depreciation charged in the year in respect of these assets was £6.1m (2016: £4.1m).

11. Inventories

	2017 £m	2016 £m
Scratchcard tickets	**0.3**	0.6
Playslips, terminal rolls and other consumables	**0.6**	0.4
At 31 March	**0.9**	1.0

Inventory consumed during the year amounted to £23.7m (2016: £24.9m). No provision has been raised against the inventory balance in the current year (2016: nil).

12. Trade and other receivables

a) Non-current assets

	2017 £m	2016 £m
Other receivables and prepayments	**0.2**	5.3
Loan due from Group companies	**26.8**	19.0
Euromillions Deposit	**7.5**	6.9
At 31 March	**34.5**	31.2

Other receivables and prepayments primarily relate to amounts paid in advance with respect to maintenance contracts and operating leases for plant and machinery.

Included in other receivables and prepayments is £nil (2016: £0.1m) in respect of amounts receivable from Services aux Lotteries en Europe SCRL ('SLE'). Further information on SLE is provided in note 27.

The loan due from the Company's parent increased to £26.8m at 31 March 2017 (2016:19.0m). The loan incurs interest at 12.5% and is repayable at the end of the Licence extension period.

The Euromillions deposit provides security to other Euromillions participants for Camelot's Euromillions prize payment obligations. This amount (of the relevant part) will be repayable to Camelot in accordance with the Trust Deed and will remain on deposit until the end of the third operating License term. At 31 March 2017, Camelot had on deposit £7.5m (2016: £6.9m) of funds in a restricted cash trust account as a reserve for the protection of Euromillions prize winners. Although Camelot cannot currently withdraw these amounts until the end of the third operating Licence extension period, the interest on these accounts accrues to Camelot.

b) Current assets

	2017 £m	2016 £m
Trust receivables	**280.5**	357.7
Trade receivables	**35.4**	24.1
Accrued income	**8.6**	6.6
Prepayments	**4.7**	7.6
Amounts due from related parties	**0.5**	9.9
At 31 March	**329.7**	405.9

Notes to the Financial Statements

12. Trade and other receivables continued

Trust receivables comprise the amounts due from the Trusts to Camelot for unpaid prizes of £215.4m (2016: £291.4m), together with amounts held in respect of future draws both in the form of advance sales and interactive wallet balances of £65.1m (2016: £66.3m).

Trade receivables primarily represent amounts due from retailers. Amounts due from related parties are unsecured, interest-free and repayable on demand.

As of 31 March 2017, trade receivables of £39.3m (2016: £21.7m) were not yet due for payment in accordance with the normal payment cycle, and retail trade receivables of £0.1m (2016: £0.3m) were impaired and provided for. The recoverability of trade receivables held with multiple retailers is impaired when debt becomes more than 90 days past due. Balances due from independent retailers are impaired when a retailer's terminal status is either terminated or deleted. Impairment is also made against retailers which have inactive terminal status when debt becomes more than 30 days past due.

Other trade receivable balances that are past due are considered impaired when it is deemed uneconomical to pursue recoverability of the debt. At 31 March 2017, no other trade receivables were considered impaired or provided for.

The ageing analysis of past due but not impaired or provided for trade receivables is as follows:

	2017 **£m**	2016 £m
7 days to 3 months	**0.1**	0.2
3 to 6 months	-	0.1
More than 6 months	-	-
At 31 March	**0.1**	0.3

The credit risk policy that the Company operates means that Camelot minimises its exposure to past due debt. Details of the credit risk policy are provided in notes 14 and 15.

The carrying amounts of the Company's trade and other receivables are denominated in GBP sterling. Amounts due from fellow subsidiaries are interest-free and repayable on demand.

Movements on the Company provision for impairment of trade receivables are as follows:

	2017 **£m**	2016 £m
At 1 April	**0.3**	1.2
Provision for impairment of trade receivables	**0.2**	0.3
Utilised	**(0.1)**	(0.6)
Unused amounts reversed	**(0.1)**	(0.6)
At 31 March	**0.3**	0.3

All movements in the provision for impaired receivables have been included in administrative expenses in the Statement of Comprehensive Income.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. With the exception of £6.3m (2016: £5.7m) in retailer bonds, the Company does not hold any collateral as security.

13. Cash and cash equivalents

Cash at bank and in hand comprise Camelot bank accounts and short-term deposits. Fixed and floating charges have been given in respect of certain Camelot assets to the Trustee and to Camelot's syndicated lenders. Camelot's cash balances can be analysed as follows:

	2017 £m	2016 £m
Cash at bank and in hand	**12.2**	16.2
Short term bank deposits	**15.9**	43.3
At 31 March	**28.1**	59.5

Amounts held in short-term bank deposits comprise amounts held in either deposit accounts or Money Market Funds with interest earned rates at 31 March 2017 of 0.40% to 0.80% (2016: 0.40% to 0.80%). Both types of deposit are redeemable on demand.

On 8 July 2010 the Company entered into a £55.0m committed Revolving Credit Facility which runs until 6 August 2019. The amount drawn under this facility at 31 March 2017 was £nil (2016: £nil).

14. Credit quality of financial assets

External credit ratings are obtained for each trade receivable counterparty at the point the Company starts to trade with that retailer to confirm the creditworthiness of the retailer. See note 15 for details on the Company's credit control policy for trade receivables.

External credit ratings are obtained for banks where the Company holds cash and short-term bank deposits. At 31 March 2017, financial assets totalling £15.0m (2016: £41.2m) are held in deposit accounts with banks which have Moody's short-term credit rating of P1 and £0.9m (2016: £2.1m) was held in deposit accounts with banks which have a Moody's short-term credit rating of P2. Money Market Funds used during this and the preceding year each have Moody's credit ratings of AAA. Cash at bank and the trust accounts are held with Royal Bank of Scotland plc which has a Moody's short and long term rating of P2 and A3 respectively.

None of the financial assets that are not yet due have been renegotiated in the last year.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned above.

15. Financial risk management

Exposure to credit, interest rate, currency, liquidity and capital risks arise in the normal course of the Company's business. The likely impact of these risks on the Company's performance is deemed to be immaterial and therefore no sensitivity analysis has been presented in these financial statements:

a) Credit risk

Credit insurance is held for the vast majority of the Company's multiple store retailers and management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers at the point at which the Company starts to trade with that retailer. If the uninsured credit risk

15. Financial risk management continued

exposure is significant, Camelot will request a bond as collateral to protect against any future payment default. This is held for a minimum of two years, during which period payment patterns are monitored. Amounts invoiced to retailers are collected within three working days. If a retailer fails to make payment on the due date, the retailer's terminal is suspended until the debt is cleared. Retailer agreements set out the Company's credit policy for late payments.

Camelot has reviewed its established credit policy and debt collection processes to ensure they are appropriate and address the additional exposures to increased credit risk the current economic climate brings. Management is confident that the current arrangements minimise the Company's exposure in this area, however this continues to be closely monitored.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each class of financial assets in the balance sheet.

The Company investment policy restricts investment to short-term money market deposits or Money Market Fund deposits and only with counterparties that have strong credit quality and a strong capacity for timely payment of short-term deposit obligations.

The carrying value of financial assets approximates to fair value.

b) Interest rate risk

The Company's £55.0m Revolving Credit Facility allows short term borrowings at floating rates of interest. Restrictive covenants on the level of leverage and interest cover exist on this facility.

At the 31 March 2017, the value of the loan receivable from the Company's immediate holding company, PLUK was £26.8m (2016: £19.0m). Interest on the loans was charged at a fixed rate of 12.5% and therefore there was no exposure to changes in interest rates.

Investments are predominately in fixed-rate deposit accounts which are redeemable on demand. The average rate of return on deposit accounts used by the Company during the year was 0.3% (2016: 0.42%).

All investments in 2017 and 2016 were denominated in GBP Sterling.

c) Foreign exchange risk

The Company is exposed to foreign exchange risk on purchases that are denominated in a currency other than Sterling (£). The currencies giving rise to this risk are primarily U.S. Dollars ($) and Euros (€). During the year, the Company did not participate in any derivative or hedging contracts due to the minimal volume and value of foreign transactions. Transactions denominated in foreign currencies are accounted for in line with our accounting policy detailed in note 2(w).

Included within Administrative expenses in the Statement of Comprehensive Income are £0.1m net foreign exchange gains (2016: £0.0m losses).

d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. This risk is managed to ensure that sufficient funding and liquidity is available to meet the expected needs of the Company together with a prudent level of headroom to allow for cash flow variations.

In addition to its own free cash flow, the Company has a £55.0m syndicated Revolving Credit Facility disclosed in note 13. This facility, which was undrawn at 31 March 2017, contains covenants including a maximum level of

15. Financial risk management continued

leverage and a minimum level of interest cover, both of which the Company has met. The undrawn level of this facility together with the Company's cash balances are the key measures of the Company's liquidity. The Company's cash is subject to regular daily, weekly and monthly cycles that are factored into long-range cashflow forecasts which are regularly updated and reviewed by management.

These forecasts determine adequacy of the Company's liquidity facilities and the timing of drawings and repayments under the above facilities.

Liquidity is centralised through cash pooling arrangements and any surplus cash is deposited with well rated banks or Money Market Funds, typically for a term of between one day and three months depending on projected cashflow requirements.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Mature in less than 1 year £m	Mature between 1 and 2 years £m	Mature between 2 and 5 years £m	Mature in greater than 5 years £m
At 31 March 2016				
Finance lease obligations	11.6	10.3	18.5	0.0
Trade and other payables	535.5	0.6	1.2	0.3
At 31 March 2017				
Finance lease obligations	**10.8**	**18.1**	**3.1**	**0.0**
Trade and other payables	**436.4**	**1.4**	**-**	**-**

e) Capital risk

The Company has had significant borrowing requirements during the year. At 31 March 2017, the Company has finance lease agreements in place, of which £32.0m (2016: £40.4m) is outstanding at the end of the year. The Company has in place sufficient capital resources through its trading and banking facilities to continue in operational existence for the foreseeable future (note 26).

16. Financial liabilities – borrowings

a) Current liabilities: amounts falling due within one year

	2017 £m	2016 £m
Finance lease obligations	**10.8**	11.6

The carrying value of current financial liabilities approximates to fair value.

b) Non-current liabilities: amounts falling due after one year

	2017 £m	2016 £m
Finance lease obligations	**21.2**	28.8

16. Financial liabilities – borrowings continued

Of the finance lease obligations held in non-current liabilities, £21.2m (2016: £28.8m) fall due after one year, but in not more than five years. No finance lease obligations fall due after 5 years (2016: nil).

Finance leases primarily relate to National Lottery terminals and software.

17. Trade and other payables

a) Current liabilities

	2017 £m	2016 £m
Prize liability	**227.0**	297.1
Lottery duty payable	**73.2**	73.8
Amounts payable to the NLDF	**29.8**	27.3
Advance receipts for future draws	**45.4**	50.4
Accruals	**18.7**	23.5
Other payables	**22.0**	26.9
Trade payables	**18.6**	24.5
Amounts due to related parties	**1.7**	12.0
As at 31 March	**436.4**	535.5

Other payables represent deposits received from, and prizes won by players which are held in their interactive wallets.

The Prize liability represents both unclaimed prizes and amounts planned for future prize payments at 31 March 2017, and the Company had transferred £213.6m into the relevant trust accounts to meet these liabilities (2016: £289.8m). Advance receipts for future draws represent the multi-draw and subscription payments relating to future draws.

Amounts due to related parties are unsecured, interest-free and repayable on demand.

b) Non-current liabilities

	2017 £m	2016 £m
Accruals	**1.4**	2.1

Non-current accruals represent the effect of spreading rent free periods over the term of the rental period. The liability will be released over the lease term.

Notes to the Financial Statements

18. Deferred income tax assets

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets with current taxation liabilities. At 31 March 2017 the offset amounts are as follows:

	2017 £m	2016 £m
Deferred tax assets:		
To be recovered after more than 12 months	**3.7**	3.5
To be recovered within 12 months	-	0.2
Deferred tax assets	**3.7**	3.7

	2017 £m	2016 £m
Deferred tax liabilities:		
To be recovered after more than 12 months	**(1.5)**	(1.2)
To be recovered within 12 months	-	(0.9)
Deferred tax liabilities	**(1.5)**	(2.1)
Deferred tax assets (net)	**2.2**	1.6

The gross movement on deferred tax is as follows:

	Accelerated capital allowances £m	Provisions and accruals £m	**Total £m**
At 1 April 2015	(2.2)	4.0	1.8
Credit/(charge) to the Statement of Comprehensive Income			
- effect of changes in the rate of taxation	0.1	-	0.1
- current year credit/(credit)	0.2	(0.4)	(0.2)
At 31 March 2016	**(1.9)**	**3.6**	**1.7**

	Accelerated capital allowances £m	Provisions and accruals £m	**Total £m**
At 1 April 2016	(1.9)	3.6	1.7
Credit/(charge) to the Statement of Comprehensive Income			
- effect of changes in the rate of taxation	0.1	(0.2)	(0.1)
- current year credit/(charge)	0.3	0.3	0.6
At 31 March 2017	**(1.5)**	**3.7**	**2.2**

Notes to the Financial Statements

19. Provisions for liabilities and other charges

	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	**Total £m**
At 1 April 2015	7.1	2.5	0.2	9.7	**19.5**
Charge to Statement of Comprehensive Income	1.2	1.9	3.3	3.2	9.6
Utilised in the year	-	-	(0.2)	(3.7)	(3.9)
At 31 March 2016	**8.3**	**4.4**	**3.3**	**9.2**	**25.2**

	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	**Total £m**
At 1 April 2016	8.3	4.4	3.3	9.2	**25.2**
Charge to Statement of Comprehensive Income	0.4	0.1	-	1.3	1.8
Utilised in the year	-	-	(3.3)	(0.9)	(4.2)
At 31 March 2017	**8.7**	**4.5**	**-**	**9.6**	**22.8**

Provisions have been classified between current and non-current as follows:

	2017 £m	2016 £m
Current	**2.3**	4.9
Non-current	**20.5**	20.3
	22.8	25.2

Terminal and data communications related provisions include:

- A provision for the cost of decommissioning existing terminals and communications equipment held at retailer sites, and disposing of these assets at the end of the third Licence extension period.
- Amounts in respect of lost or destroyed terminals and associated contractual costs. This provision will be fully utilised by the end of the third Licence extension period.

Property provisions comprise the dilapidation provision which is the current best estimate of the cost of bringing certain premises, held under operating leases, back to their original state as required by the lease agreements. The provision will be utilised as these lease agreements terminate.

19. Provisions for liabilities and other charges continued

During prior year it was identified that an element of two lease obligations had become onerous. In accordance with IAS 37, Camelot has fully provided for the onerous lease obligation within the 31 March 2017 financial statements. The onerous lease contracts extend until 2018 and 2023.

The restructuring provision relates to future severance costs resulting from the internal restructuring which are expected to be paid within 12 months of the balance sheet date.

The long term incentive plan provision relates to future amounts payable to senior management in line with the Company's performance criteria when the Company has a present legal or constructive obligation to incur this cost.

20. Share capital

a) Authorised and allotted share capital as at 31 March:

Authorised	**2017 £**	2016 £
1,000 (2016: 1,000) ordinary 'A' shares of £1 each	**1,000**	1,000
10 (2016: 10) preference 'C' shares of £1 each	**10**	10
	1,010	1,010

Allotted, issued and fully paid	**2017 £**	2016 £
1,000 (2016: 1,000) ordinary 'A' shares of £1 each	**1,000**	1,000
10 (2016: 10) preference 'C' shares of £1 each	10	10
	1,010	1,010

b) Analysis of shareholding at 31 March 2017 and 31 March 2016

	Number of 'A' shares	Number of 'C' preference shares	Percentage holding
Premier Lotteries UK Limited	1,000	3	99.3%
Fourmoront Corporation	-	7	0.7%
	1,000	**10**	**100.0%**

c) Rights and obligations

Income:

In the current year, a fixed dividend of £1,000 per share (2016: £1,000 per share) was distributed to the holders of the 'C' preference shares. The remainder is distributable pro rata amongst the ordinary 'A' shareholders.

20. Share Capital continued

Capital:

On a return of assets on liquidation, reduction of capital or otherwise, the surplus assets of the Company remaining after payment of its liabilities shall be distributed:

(a) first in paying to the holders of 'C' preference shares, the sum of £1 in respect of each 'C' Preference share.

(b) second, to the holders of 'A' ordinary shares pro rata amongst them.

Class consents:

Except with the prior consent or approval in writing of the holders of all of the relevant class of shares, the Company shall not modify or vary the rights attaching to any class of its shares (unless the modification or variation affects all classes of shares similarly).

Voting and other rights:

In respect of the election of directors, the holders of 'C' preference shares are entitled to receive notice of and to attend, speak and vote at all general meetings of the Company at which a director is to be elected and shall have one vote per 'C' preference share held with respect to the election of any director. In respect of any other general meeting of the Company, the 'C' preference shares are entitled to receive notice of and to attend and speak but not vote.

The holders of 'A' ordinary shares are entitled to receive notice of and to attend, speak and vote at all general meetings of the Company save that, in respect of a general meeting which a director is to be elected the 'A' ordinary shareholders shall not be entitled to participate in such part of the meeting as relates to the election of a director and shall have no right to vote on such election.

21. Reserves

	Notes	Retained earnings £m	**Total £m**
At 1 April 2015		21.1	**21.1**
Profit for the financial year		77.5	**77.5**
Dividends paid	8	(84.2)	**(84.2)**
Net increase in shareholder equity		(6.7)	**(6.7)**
At 31 March 2016		**14.4**	**14.4**

	Notes	Retained earnings £m	**Total £m**
At 1 April 2016		14.4	**14.4**
Profit for the financial year		70.5	**70.5**
Dividends paid	8	(66.6)	**(66.6)**
Net increase in shareholder equity		3.9	**3.9**
At 31 March 2017		**18.3**	**18.3**

22. Cash generated from operations

	2017 £m	2016 £m
Profit for the financial year	**70.5**	77.5
Adjustments for:		
- Income tax	**17.4**	19.2
- Depreciation and amortisation	**28.7**	26.3
- (Gain)/loss on disposal of non-current fixed assets	**1.0**	-
- Interest income	**(3.1)**	(2.6)
- Interest expense	**1.5**	1.9
	45.5	44.8
Changes in working capital:		
- Inventories	**0.1**	(0.1)
- Trade and other receivables	**76.2**	(14.5)
- Trade and other payables	**(101.3)**	(13.1)
- Provisions for other liabilities and charges	**(2.4)**	5.7
	(27.4)	(22.0)
Cash generated from operations	**88.6**	100.3

23. Financial commitments and contingent liabilities

At the year end, capital expenditure relating to purchase of property, plant and equipment totalling £1.2m (inclusive of VAT) was contracted for in the year but not yet incurred (2016: £0.3m).

Other than those noted above, there are no significant contingent liabilities pertaining to the Company.

24. Operating leases

At the balance sheet date, the Company has future aggregate minimum lease payments under non-cancellable operating leases that fall due as follows:

	2017 Land and buildings £m	**2017 Plant and machinery £m**	2016 Land and buildings £m	2016 Plant and machinery £m
- Within one year	**5.3**	**7.1**	4.4	9.8
- Between one and five years	**19.3**	**6.5**	13.7	16.7
- After five years	**7.9**	**-**	4.0	-
	32.5	**13.6**	22.1	26.5

Operating leases primarily relate to building leases and use of third party satellite communications network contracts.

25. Pension arrangements

The Company's historical pension scheme closed to new members in July 2011, and employees began making contributions to the new Group Personal Pension Plan in August 2011, which is accounted for as a defined contribution scheme. In line with UK legislation the Company now auto-enrols employees into the pension scheme. The first payroll deductions for automatically enrolled employees were made in January 2014. All amounts payable under these schemes are charged to the Statement of Comprehensive Income as they fall due, and totalled £1.5m in the current year (2016: £1.5m).

26. Contingency financing

Camelot has a contingency financing arrangement with its ultimate controlling party, Ontario Teachers' Pension Plan Board (Teachers'). Teachers' have made available to the Company, in aggregate with its parent company PLUK, further funding up to £30.0m in one amount or in a series of amounts which may, at their option be (in each case) either in the form of equity, loans or other instruments or securities.

An obligation to make such contribution only exists where:
- the continued operation of Camelot's business and/or the financial soundness of its parent is threatened;
- provided that the Company can demonstrate that the underperformance is not attributable to regulatory change;
- no default whatsoever is continuing, or forecast to continue or occur for the balance of the term of any of the financing arrangements to which its parent and/or the Company is a party to, other than a default which would be remedied by the receipt and application of the contribution.

Since the aggregate of the commitment became available, there is no obligation or liability to provide any further contribution to either company. Furthermore, obligations under this arrangement will terminate upon termination of the third operating Licence extension period.

27. Related party transactions

The Company is controlled by PLUK (incorporated in the UK), which owns 99.3% of the Company's shares. The Company's ultimate UK parent is PLIUK. The Company's ultimate controlling party is the Ontario Teachers' Pension Plan Board.

During the course of the year, Camelot entered into the following transactions with 'Services aux Loteries en Europe SCRL' (SLE), a société cooperative à responsabilité limitée incorporated in Belgium. Camelot has an investment in SLE (see note 12). The main purpose of SLE is to provide services to lotteries in Europe which participate in the EuroMillions game. The head office is located in Belgium at the address Avenue de Terveuren 448, Bruxelles, Belgium, 1150.

	2017 **£m**	2016 £m
Purchases	**1.0**	0.9
Amounts due to SLE	**-**	0.2
Sales	**0.1**	0.1
Amounts due from SLE	**-**	-

Camelot transacted with fellow subsidiary related parties, CGSL, CCSL, CBSL, and CGLSL during the year. CGSL provides consultancy advice to international lottery operators, while CCSL provides commercial services solutions. CBSL provides business services to other Group companies through various departments. CGLSL is principally focused on managing a programme of projects to generate revenue for group companies. Camelot has a finance lease arrangement with a third party to whom it has assigned its software to use developed within the Group under this arrangement.

27. Related party transactions continued

Amounts due to and from related parties are unsecured in nature and are due on demand. Amounts due from related parties below include the £26.8m (2016: £19.0m) loan to PLUK (note 12).

	2017 Sale of services £m	**2017 Amounts due from related party £m**	2016 Sale of services £m	2016 Amounts due from related party £m
Camelot Global Services Limited	-	-	0.2	1.1
Camelot Business Solutions Limited	**0.6**	-	0.8	7.0
Camelot Global Lottery Solutions Limited	-	-	0.7	1.0
Premier Lotteries UK Limited	**0.2**	**27.3**	-	19.8

	2017 Purchase of services £m	**2017 Amounts due to related party £m**	2016 Purchase of services £m	2016 Amounts due to related party £m
Camelot Global Services Limited	-	-	-	-
Camelot Business Solutions Limited	**17.7**	**0.9**	19.8	9.8
Camelot Global Lottery Solutions Limited	**13.5**	**0.8**	11.0	2.2
Premier Lotteries UK Limited	-	-	-	-

The value of sales and purchases in the table above includes operating expenses allocated between group companies.

In addition to the Sale and Purchase of Services identified above further intercompany recharges have arisen in relation to the settlement of group-wide costs (mainly payroll related transactions).

	2017 Recharges to the Company £m	**2017 Recharges from the Company £m**	**2016 Recharges to the Company £m**	**2016 Recharges from the Company £m**
Camelot Global Services Limited	**0.5**	**2.9**	0.2	1.7
Camelot Business Solutions Limited	-	**0.5**	1.8	1.8
Camelot Global Lottery Solutions Limited	-	-	0.4	1.0
Premier Lotteries UK Limited	**0.1**	**0.1**	0.1	0.1

27. Related party transactions continued

During the year the Company also paid dividends totalling £66.6m (2016: £84.2m). In addition, the following cash payments were made in respect of group taxation relief during the year:

	2017 £m	2016 £m
Premier Lotteries UK Limited	**1.3**	1.5
Premier Lotteries Capital UK Limited	**0.6**	0.7
Camelot Commercial Services Limited	**0.1**	0.1
Camelot Global Services Limited	**0.2**	0.7
Camelot Global Lottery Solutions Limited	**0.2**	0.5
	2.4	3.5

Information regarding compensation paid to key management is disclosed in note 5. All related party transactions are based on normal financial terms.

28. Subsidiary undertakings

Camelot owns the entire equity share capital of the following dormant companies all incorporated in the UK:

Camelot Lotteries Limited
National Lottery Enterprises Limited
CISL Limited

These subsidiaries have share capital, equal to the net assets, of £5 in total. This amount represents Camelot's cost of investment in these subsidiaries. They are not material for the purpose of giving a true and fair view for these financial statements and therefore have not been consolidated in accordance with Companies Act 2006 s.405. These companies are exempt from individual filing with the registrar by virtue of s.448A of the Companies Act 2006. The registered office for these companies is Magdalen House, Tolpits Lane, Watford, WD18 9RN, United Kingdom.

Camelot UK Lotteries Limited

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National Lottery Interactive Channels 0333 234 4433

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