

CAMELOT

Camelot UK Lotteries Limited

**Chairman's & Chief Executive's statements for
the year ended 31 March 2017**

Company Number: 02822203

About Camelot

Camelot UK Lotteries Limited (Camelot) is the operator of the UK National Lottery. Its overarching objective is to maximise returns to National Lottery Good Causes through selling lottery products in an efficient and socially-responsible way. This involves creating, marketing and promoting new games, developing and running the lottery infrastructure, providing services for players and winners, and working in partnership with retailers. As a profit-making Company, Camelot also aims to maximise returns to its shareholder.

Camelot's partners

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 Act etc. 1993 (as amended), through the Department for Culture, Media and Sport;
- the Gambling Commission (formerly the National Lottery Commission) which, after a competition against an Invitation to Tender, awards the operating Licence to run The National Lottery. It is also responsible for regulating The National Lottery;
- the 12 lottery distribution bodies which decide which beneficiaries should receive lottery funding.

Licence facts

In May 1994, the National Lottery Commission (NLC) awarded Camelot a seven-year Licence to run The National Lottery and, on 14 November 1994, the first draw-based tickets went on sale. In December 2000, Camelot was awarded the second seven-year Licence, which commenced on 27 January 2002 and expired on 31 January 2009. In August 2007, Camelot was awarded a third Licence to operate The National Lottery, which started on 1 February 2009 and was due to run to 2019. However, in March 2012, Camelot's Licence was extended by four years, to 2023, following the NLC's agreement to Camelot's proposal to deliver around £1.7 billion in additional lottery funding to society.

Chairman's Statement



By its own high standards, it has been a disappointing year for Camelot. Despite achieving its fourth-best sales performance since The National Lottery's launch in 1994 and a record number of millionaires created, total ticket sales for the year ending 31 March 2017 were £6,925.3 million. This represented a fall of 8.8% when set against last year's record-breaking performance.

As a result, Camelot raised £1,628 million for Good Causes in the year. This was lower than in the previous year but is still the equivalent of more than £30 million every week. The National Lottery has now delivered over £37 billion in funding to Good Causes since its launch, with more than 510,000 individual awards made across the UK.

The lower revenues for 2017 were attributable to a combination of factors. As well as a continuing climate of economic uncertainty, The National Lottery faced increasing competition from the wider gambling sector, which benefits from significant taxation advantages. We therefore welcomed the Department of Culture, Media & Sport's recent consultation on prohibiting third-party betting on the outcome of EuroMillions draws. We have argued for some time that bet-on-lottery firms circumvent legislation, cause consumer confusion and divert vital money from Good Causes. While we wait for the outcome of the consultation, we will continue to press for a policy and regulatory environment that protects The National Lottery and enables it to flourish.

These factors aside, the biggest influence affecting sales during the year was the disappointing performance of The National Lottery's core draw-based games. While EuroMillions had a soft first six months before regaining some ground over the second half, Lotto had a particularly difficult 12 months with sales falling well short of expectation. There is clearly work for the company to do to re-engage players to address this shortfall and this is one key area of focus of the strategic review that we have recently announced.

This review is being led, on behalf of the Board, by Nigel Railton, the CEO of Camelot's overseas activities. Nigel took over Camelot's UK operations in May 2017 following Andy Duncan's decision to step down after nearly six years with the company. I would like to thank Andy for his contribution to Camelot in that period and wish him well for the future. As well as commercial plans to boost sales performance, Nigel is looking closely at investment in technology and systems, the current business structure and long-term succession. He will update on progress when Camelot announces its half-year sales later in the year.

Continuing doubts over the economy, coupled with the very real threat posed by the wider gambling sector, mean that I expect 2017/18 to be equally, if not more, challenging for The National Lottery,

with the prospect of a further sales decline. That said, we have made a number of changes within the business. I have every confidence that Nigel and the strengthened executive team will identify what needs to be done to put the business back on the best possible footing to return to growth. In that regard, the team will receive the full attention and support of the Camelot Board as it sets about the hugely important task of turning things around to ensure that The National Lottery continues to deliver for players, and makes a full contribution to UK society over the remainder of this licence period.



Jo Taylor
Chairman
21 June 2017

Chief Executive's Review



Having been asked by the Board to take over Camelot's UK operations at the beginning of May 2017, I don't underestimate the size of the task ahead of us following this year's disappointing sales performance.

Our sales of £6,925.3 million in 2016/17 were 8.8% lower than the previous year's record high of £7,595.2 million. As a result, we delivered £1,628.0 million for Good Causes over the period – well over £30 million every week, but down on the amount we raised in 2015/16.

Our clear focus therefore needs to be on identifying where we need to improve and what we must do to get The National Lottery back into growth and raising as much money as possible for Good Causes. To help us do this, I've started, on behalf of the Board, an in-depth review of our National Lottery strategy across four key areas – commercial plans to boost sales performance; investment in technology and systems; the current business structure; and long-term succession.

While economic uncertainty and increasing encroachment from the wider gambling sector both had an impact, the main reason for the fall in sales in 2016/17 was the poor performance of The National Lottery's key draw-based games, especially Lotto.

Although EuroMillions improved over the second half of the year following the changes we introduced in September, player confidence in Lotto is still fragile following the recent game changes. There's no doubt that we need to re-engage players and make them feel better about our draw-based games – and this is a key focus of the strategic review. I'll be providing an update when we announce our half-year sales later this year.

Coming off the back of such a challenging year and given the current trading environment, it's going to take some time – not to mention a lot of hard work – to get us back on track and I expect a further fall in sales this year before we get back into growth.

However, when looking at this year's performance in context, I strongly believe that we have a very good platform on which we can build. Although well short of where we'd like to be, we mustn't forget that 2016/17 represented our fourth-best sales performance in 23 years of operating The National Lottery. We're continuing to return around 95 pence of every single pound of revenue back to society – one of the highest percentages of any major lottery operator in the world. We've achieved total annual sales growth of more than 40% over the last

decade by selling tickets in a socially-responsible way – and it's vital that this remains the way we do business.

On top of that, we created a record 393 new National Lottery millionaires in 2016/17, taking the total number we've created to date to more than 4,600. And, most importantly of all, The National Lottery is still delivering over £30 million a week to Good Causes and has now raised over £37 billion in total. An average of 170 lottery grants have now been awarded in every neighbourhood across the UK – an achievement of which everyone associated with The National Lottery should be immensely proud.

With the support of our Chairman, Jo Taylor, and knowing how much knowledge and passion there is in the UK team, we have a fantastic opportunity to give ourselves the best platform to get The National Lottery back where it should be over the rest of this licence period – in growth, creating more winners than ever before, and delivering even more money for the millions of people and communities for whom National Lottery funding is so crucial.

A handwritten signature in black ink, appearing to read 'Nigel Railton', with a stylized, cursive script.

Nigel Railton
Chief Executive
21 June 2017