

Camelot UK Lotteries Limited

Group and Company financial statements for the year ended 31 March 2014



Company Number: 02822203

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Strategic Report

The directors of Camelot UK Lotteries Limited (the 'Company' or 'Camelot') together with its subsidiaries (the 'Group') present the Annual Report together with the audited financial statements for the year ended 31 March 2014.

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 2019, with a possible extension for a period of up to five years. In the 2011/12 financial year, the National Lottery Commission granted an extended Licence through to 2023, a four-year extension.

Camelot continues to deliver on the exciting plans set out in the bid for the third operating Licence. These include new games, the development of existing games, new ways to play and the increase in one-to-one player communication. Over the coming year, the Company will continue to refresh the portfolio of games, focusing on giving players what they want – anytime, anywhere. This will include further building on its record as a leader in the field of digital lottery innovation as it looks to become even more cutting-edge across all of its channels.

Camelot's partners and 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 Department for Culture, Media and Sport;
- The Gambling 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; and
- The 12 lottery distribution bodies who decide which beneficiaries should receive lottery funding.

Strategy

Camelot's primary purpose is to drive sales in a socially responsible manner in order to maximise returns to the Good Causes and shareholders. The Group's strategy for the third operating Licence is centred on four key elements:

1. Strengthening The National Lottery brand and giving it universal appeal.
2. Growing the core product range and diversifying into new products to better satisfy consumer needs.
3. Giving consumers easy access to The National Lottery brand wherever they are in the UK and Isle of Man, whenever they want to play.
4. Build direct dialogue with consumers alongside traditional mass communications.

During the current year, the Company has continued to focus on refreshing the game portfolio and enhancing player accessibility, and therefore maximising returns to National Lottery Good Causes. This will continue to be the focus of the Group and is supported by the successful installation as at the end of the financial year of more than 4,000 additional Scratchcard-only terminals which is part of an overall expansion enabling players more convenient accessibility to our products.

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 and opportunities

The third operating Licence provides Camelot with significant opportunities, as well as some significant risks, and these have been incorporated into the Group'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:

- Developing and gaining regulatory approval for game ideas to ensure Camelot continues to offer a range of games which appeal to as many players as possible;
- Continuing to embed the reinvigorated Lotto game;
- Operating in a more competitive environment – with organisations from both the gaming and gambling sectors directly challenging and impinging on The National Lottery;
- Despite the improvements in the UK economy, continued pressure on household disposable income means the Group's risk relating to sales remains higher than under normal circumstances;
- Implementing and operating new and more complex technology solutions; requiring new patterns of solution design, additional requirements for maintenance and operation, and new opportunities for directly supporting the business needs in IT.

The development of new games and game enhancements follows a well-established process, from concept to execution. Camelot conducts rigorous research to ensure any game will generate strong incremental returns without targeting vulnerable players. All draw-based games require regulatory approval and, during the development phase, the views of the Gambling Commission will be taken into account in producing the final game design.

Key performance indicators (KPIs)

The Group'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.

Financial performance

The Group's profit before income tax was £76.8m (2013: £72.2m). Profit for the financial year was £58.5m (2013: £54.6m). This was driven primarily by a decrease in administrative expenses, partially offset by reduction in net income.

Sales

Gross ticket sales for the year ended 31 March 2014 were £6,730.9m (2013: £6,977.9m), the second-highest annual total since The National Lottery launched in 1994. This was driven by a strong second half of the year as a result of the changes to reinvigorate Lotto, which has succeeded in turning around the game's long-term sales decline.

Within these revenues, sales for draw-based games decreased by 6.6%, totalling £4,589.8m (2013: £4,915.9m). This decline was largely driven by EuroMillions, predominately due to the prior year's one off sales boosts not being repeated. The year saw significantly fewer EuroMillions Rollovers than the year before, with just over half as many draws offering jackpots of over £100m, and there was no extended roll series beyond 10 rolls, compared with three the previous year which, on their own, delivered almost £200m in additional sales in the prior year. EuroMillions also received a never-to-be-repeated boost in the prior year from London 2012, with the special 100 UK Millionaires Raffle held on the night of the Opening Ceremony setting a new weekly National Lottery sales record of over £200m.

In contrast, sales from Scratchcards and instant win games increased 3.8% to £2,141.1m (2013: £2,062.0m). This was driven by the launch of 73 exciting new games offering a range of different play-styles and prize points with even higher prize pay-outs.

Strategic Report continued

The year has continued to see strong performance through both of the Group's distribution channels – retail and direct. Retail continues to be the Group's largest sales channel, accounting for 82.5% of sales (2013: 83.0%). Sales through National Lottery Fast Pay cards were £1,068.0m (2013: £1,131.6m).

Within Camelot's newer channels of distribution, direct channel sales were down £9.3m from £1,186.0m to £1,176.7m, in line with the general movement on sales. Camelot operates Europe's largest online 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.

Lottery duty

Lottery duty has remained at 12% of sales, and totalled £807.7m for the year (2013: £837.3m).

Prizes

Total prizes were £3,636.6m in 2014 (2013: £3,697.6m). This represents 54.0% of sales (2013: 53.0%). The increase in the proportion of sales is primarily due to price and prize restructuring of Lotto which saw prize payouts rise from 45.0% to 47.5% of sales.

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) or the Olympic Lottery Distribution Fund (OLDF).

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 1.7% (2013: 2.6%) of sales and totalled £112.2m (2013: £180.8m). The interest earned on unclaimed prizes is also paid to the NLDF.

National and Olympic Lottery Distribution Funds

In aggregate, the total raised for the Good Causes amounted to £1,751.1m representing 26.0% of sales (2013: £1,951.4m; 28.0%) for the year, which includes £1,638.9m (2013: £1,770.6m) in returns from ticket sales and other payments due from relevant income as specified in the operating Licence, and a further £112.2m (2013: £180.8m) 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, as a result of the changing sales mix between these two products, this has caused the current year decrease in contributions to the Good Causes as a percentage of sales.

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 £6.3m (2013: £3.7m), an increase of 70.2%. 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. The OLDF is the fund which collected and managed contributions to the cost of the London 2012 Olympic Games and Paralympic Games. Contributions to the OLDF had ceased by the end of the financial year.

During the year, following full regulatory scrutiny, the Gambling Commission approved initial temporary cashflow support of up to a maximum of £80 million (£75.2 million from the NLDF and £4.8 million from Camelot) to help fund the essential promotional activity at launch needed to get the new Lotto game off to the best possible start.

The support has come from a temporary diversion of proceeds from sales to boost the Lotto prize fund at launch, with an agreed schedule for rebalancing the money used. The money has stayed in the game, in the form of a promotional prize fund for players, to provide for the additional prizes needed at launch. Of the initial cashflow support received, £18.1 million has already flowed back, resulting in net funding received this year of £58.2 million from the NLDF and £3.7 million from Camelot.

Strategic Report continued

'Retailers' and other commission

Total sales, validation and other commissions for the year totalled £309.8m representing 4.6% of sales (2013: £321.3m; 4.6%). 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 £95.2m for the year (2013: £101.5m).

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 £6.3m 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 £165.5m (2013: £177.2m) and consisted of advertising and marketing expenditure, depreciation, staff, facilities and all other administrative costs. The decrease is mainly the result of reduction in staff costs and a decrease in expenses paid to other Group companies resulting from efficiency savings within the Group.

Finance income and costs

Net finance costs during the year amounted to £0.5m (2013: £1.8m) relating to interest. Finance income grew to £1.5m in the year (2013: £0.2m) primarily due to interest receivable from a new loan of £13.0m granted to Premier Lotteries UK Limited in June 2013. The finance costs of £2.0m were in line with the prior year (2013: £2.0m).

The average yield on investment was approximately 0.73% (2013: 0.63%). Strict controls apply to treasury operations, which are reviewed regularly. The Group'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 Group's treasury policy criteria.

Taxation

The corporation tax charge of £18.3m for the year (2013: £17.6m) represents an effective tax rate of 23.8% (2013: 24.4%). 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 Group's costs and is a charge against profits. The VAT cost for the year, including that arising on capital expenditure, was £33.0m (2013: £32.8m).

Dividends

The Group's profit for the financial year was £58.5m (2013: £54.6m), as disclosed on the Group Statement of Comprehensive Income on page 26. As detailed in note 8, total dividends paid in the year under review were £54.9m (2013: £42.4m), of which £54.9m (2013: £42.4m) was paid to the Group's parent company, Premier Lotteries UK Limited, during the year and £7,000 to Fourmoront Corporation (2013: £7,000).

Strategic Report continued

Financial position at the year end

The Balance Sheet reflects the continuing financial stability of the business. Total assets were £611.0m as at 31 March 2014 (2013: £652.4m).

The value of property, plant and equipment and intangible assets has reduced to £124.0m in the current year (2013: £127.7m), mainly due to a full year's depreciation being charged on the Altura terminals installed in the year ended 31 March 2013, offset by installation of more than 4,000 Scratchcard only terminals.

Financial assets have decreased to £343.1m from £383.6m in 2013 mainly due to additional amounts held in the EuroMillions Trust, offset by a reduction in amounts held in the Raffle Trust and Reserve Trust accounts, both of which are held to fund future prize payments. The cash and cash equivalents balance of £79.2m has increased compared to the prior year (2013: £53.8m). Non-current financial liabilities and borrowings have increased to £30.4m (2013: £29.4m) due to the increase in the level of finance leases.

Our investment in technology

During the current year Camelot has continued to invest in the infrastructure to run The National Lottery and at the end of the financial year more than 36,850 next generation 'Altura' lottery terminals were in operation (2013: 36,750), and 4,051 Scratchcard only terminals were successfully installed at retailer sites.

The Group is committed to deliver new games, develop existing games, including new ways to play, and increase one-to-one player communications. To meet these commitments the Group 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 by the Group's regulator, was 99.97% (2013: 99.96%) ahead of the operating Licence target of 99.50%. In addition, system availability for playing games on the internet was 99.84% (2013: 99.84%) ahead of the operating Licence target of 99.50%

Cash flows, cash and debt

Net cash generated from operations was £126.7m (2013: £104.0m). The increase was due to improved working capital management. Cash outflows primarily include a £13.0m (2013: £28.5m) payment relating to its loan arrangement with the Company's immediate holding company, dividend payments of £54.9m (2013: £51.3m), net taxation related payments of £19.5m (2013: £15.1m), £9.2m (2013: £7.3m) of investment in property, plant and equipment and intangible assets, repayments of the principal on finance lease arrangements of £6.1m (2013: £3.1m), as well as interest payments of £2.0m (2013: £2.0m). The closing cash balance was £79.2m (2013: £53.8m).

The net cash generated from operations represented ticket sales less prize payments, lottery duty, payments to the NLDF and OLF, 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 OLF, and payments into trust for the benefit of prize winners.

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 2014, Camelot had on deposit £7.1m (2013: £9.3m) of funds in trust accounts as an additional 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.

On 29 July 2010 the Company entered into a £55.0m committed Revolving Credit Facility which runs until 8 July 2016. The amount drawn down under this facility at 31 March 2014 was nil (2013: nil).

Camelot UK Lotteries Limited

Strategic Report continued

The Strategic Report was approved by the Board of Directors on 18 September 2014 and was signed on its behalf by:

A handwritten signature in black ink, appearing to read 'D. Thompson'.

Dianne Thompson CBE
Chief Executive

Camelot UK Lotteries Limited
Company Number 02822203

Directors' Report

Principal activities

The principal activity of the Group 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 (formerly the National Lottery Commission).

The third operating Licence was granted on 1 February 2009, to run until 2019, with a possible extension for a period of up to five years. In the 2011/12 financial year, the National Lottery Commission granted an extended Licence through to 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. In the year, additional investment expenditure was incurred to install more than 4,000 scratchcard only terminals.

The Group 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 8.

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 21 to the financial statements.

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

Executive directors
Dianne Thompson CBE (Chief Executive)

Independent non-executive directors
Sir Gerald Acher CBE LVO
Sir Patrick Brown KCB
Tony Illsley

Non-executive directors
Wayne Kozun

Directors' Report continued

Alternate directors

Ilya Kachko¹ (alternate to Lee Sienna and Wayne Kozun)

¹ appointed 5 December 2013

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 Group. However management has assessed the controls in place to minimise Camelot's exposure to this increased level of risk, which are set out in notes 15 and 16.

Therefore, after making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Corporate governance

A report on corporate governance is set out on pages 14 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 Group has continued to spend on research during the year. The Group's spend totalled £2.2m in 2014 (2013: £2.5m), primarily in the area of brand and market research.

Employees

The Group 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 Group. Camelot is a member of the Employers' Forum on Disability.

The Group established a Staff Forum in September 1999, which now 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 Group 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 were paid on two key performance criteria: sales and profitability, with a third element awarded based on performance against objectives for senior management. When reflecting on-target performance, these bonuses start from 5% of base salary, increasing for senior management.

In July 2011, the Group's historical pension scheme closed to new joiners. Since then, employees have paid contributions into the Group Personal Pension Plan, a defined contribution scheme. In line with new UK

Directors' Report continued

legislation the Group 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 Group'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 Group has a clear and specific investment policy which is followed for all cash deposits placed. It continually monitors its banking facilities and has access to a £55m revolving credit facility. During the financial year, the Company loaned £13.0m to its immediate holding company. 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 16. Camelot is therefore confident that it has appropriately mitigated the additional credit and financial risks.

The Group 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 notes 15 and 16.

Related party transactions

During the current financial year, the Group has had transactions of significance with its parent company and fellow UK group subsidiaries. Details of related party transactions are given in note 28 to the financial statements.

Suppliers

The Group'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 Group.

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 £54.9m (2013: £42.4m), of which £54.9m (2013: £42.4m) was paid to the Group's parent company, Premier Lotteries UK Limited, during the year and £7,000 to Fourmoront Corporation (2013: £7,000).

Future developments

It was announced on 29 April 2014 that the Group's Chief Executive Officer, Dianne Thompson is due to retire on 31 October 2014. The role of Chief Executive Officer will be filled by Andy Duncan, who is currently the Managing Director of Camelot UK Lotteries Limited.

Directors' Report continued

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report 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 group and parent company 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 Group and the Company and of the profit or loss of the Company and Group 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;
- 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 the group 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 the group 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 the Board requested that the Audit, Risk and Security Committee provide 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. 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.

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:

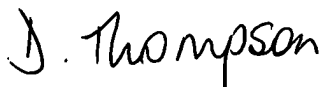
- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Group Chief Financial Officer;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of the drafts of the Report are undertaken by members of the Group Operating 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.

Camelot UK Lotteries Limited

Each of the directors in office at the date on which the financial statements were approved, whose names and functions are listed on pages 9 and 10, 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
Dianne Thompson CBE
Chief Executive
18 September 2014

Report on Corporate Governance

Whilst not required by law or regulation, 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 2012. 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 2014, the Board comprised six members; the Chairman (an officer of Teachers'), three 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 Board has appointed one of the independent, non-executive directors, Sir Gerald Acher, as Deputy Chairman. He is expected to perform all the duties of the Chairman in the latter's absence or incapacity or if the office of Chairman becomes vacant until such time as a Chairman is appointed.

The Chairman is also Vice President at Teachers', in charge of the Long Term Equities portfolio. The Board believes that his 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 15.

Immediately after 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.

The Chairman leads the assessment of the Chief Executive's performance and the Deputy Chairman conducts a review of the Chairman's performance. The annual evaluation of the Board and the Board committees involves completion by all directors of a detailed questionnaire (and an additional questionnaire by committee members), the anonymised results of which are reviewed by the Chairman and then discussed by him with each director individually.

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Attendance of directors (including alternates where they have attended in place of their principal or 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 (4 meetings) Number attended	Nominations Committee (0 meetings) Number attended	Remuneration Committee (3 meetings) Number attended
Lee Sienna	4/4	-	-	3/3
Wayne Kozun	4/4	4/4	-	3/3
Dianne Thompson CBE	4/4	4/4	-	3/3
Sir Gerald Acher CBE LVO ²	4/4	4/4	-	-
Sir Patrick Brown KCB	4/4	4/4	-	-
Tony Illsley	4/4	-	-	-
Ilya Kachko ¹	1/1	1/1	-	-

The table shows the number of meetings attended by a director as against the number of meetings he/she was entitled to attend.

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

¹ Appointed as a director on 5 December 2013 as alternate for each of Lee Sienna and Wayne Kozun. Attended one meeting of the Board and of the ARS Committee as a usual attendee while a director.

² Although Sir Gerald Acher has, as of September 2011, been a director of the Company for more than nine years, the Board considers that he remains independent in character and judgement for the purposes of the UK Corporate Governance Code.

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:

Sir Gerald Acher CBE LVO

Members:

Wayne Kozun

Sir Patrick Brown KCB

Usual attendees:

Dianne Thompson CBE, Andy Duncan (Managing Director), Nigel Railton (Group CFO and Strategy Director) and other functional managers for relevant sections of the meeting, and representatives of the Company's auditor and Teachers'. The composition and independence of the Board is discussed on page 20.

The Committee met four 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, 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

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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 Corporate Assurance & Compliance without any executive Board members present. The Committee is also responsible for reporting to the Board on how it has discharged its responsibilities.

Reporting of Significant Issues

As part of its work, the Committee considered the following significant accounting issues and areas of judgement in relation to the financial statements:

- **Going concern**

The Committee has considered the outcome of management's annual business plan and the five year strategic plan together with the various financing facilities available to the Group. The work undertaken and judgements formed did not give rise to any concern that Camelot has inadequate resources to continue in operational existence for at least 12 months. The Committee therefore confirmed the application of the going concern basis for the preparation of the financial statements is appropriate.

- **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 in determining occurrence probability, 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(s) to the financial statements. Provisions made and the basis on which they have been calculated are disclosed in note 20. The Committee has confirmed the appropriateness of accounting policies relating to provisions as well as those provisions held at 31 March 2014. 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.

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 digital and the growing threat of competition.

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 Group (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

Members:

Wayne Kozun

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.

Towers Watson continues to be appointed 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. Towers Watson has no other connection with the Group.

Nominations Committee

Chair:

Lee Sienna

Members:

Sir Patrick Brown KCB

Sir Gerald Acher CBE LVO

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. The Committee did not meet during the year because no new candidates were required to be selected for appointment.

Advisory Panel for Corporate Responsibility

Camelot has appointed a panel of independent experts, chaired by the Deputy Chairman, Sir Gerald Acher, which reviews the Company's Corporate Responsibility Report and advises on 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'. The Group maintains close links with Teachers' who have representatives on the Board and also have direct lines of access to the Chairman, the Executive Director, the Independent Non-Executive Directors and the Company Secretary.

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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 Corporate Assurance & Compliance. Internal audits and reviews by the Corporate Assurance department (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 Group have a firm understanding of risk, the Corporate Assurance 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 Group'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 Group'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 Group control environment.
2. The Audit, Risk and Security Committee, which considers the Group'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 Group. The risk management process and systems of internal control are designed to manage rather than eliminate risk and to ensure that the Group'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 Corporate Assurance & Compliance, reports to the Audit, Risk and Security Committee. The Head of Corporate Assurance & Compliance assists management to identify the risks inherent in the Group'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 Corporate Assurance & Compliance 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 Group 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.

Having reviewed its effectiveness, the directors are not aware of any significant weakness or deficiency in the Group's system of internal controls during the period covered by this report and financial statements. There were no changes in the Group's internal control over financial reporting that occurred during the year ended 31 March 2014 that have materially affected, or are reasonably likely to materially affect, the Group's internal control over financial reporting.

Compliance

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 Group 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 Group'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 Group and it believes that robust governance has been 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.6.2 requires that the evaluation of the Board of FTSE 350 companies should be externally facilitated at least every three years. Whilst the Company will continue to conduct a formal and rigorous annual evaluation of its own performance and that of its Committees and Board directors (except in relation to the Chairman – see above on provisions A.4.2 and B.6.3), in the light of the limited size of the Board, the fact that the C preference shareholders have the exclusive right to appoint or remove all directors, and that the Company is not a FTSE 350 company, this provision is not appropriate.
- 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.

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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 of 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 two independent non-executive directors and one non-executive director who is not deemed to be independent under the terms of the Code; he 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.

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 now specifies for the first time that FTSE 350 companies should put the external audit contract out to tender at least every ten years. 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 to 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 auditor's report to the Members of Camelot UK Lotteries Limited

Report on the financial statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2014 and of the Group's profit and of the Group's and Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Company financial statements (the "financial statements"), which are prepared by Camelot UK Lotteries Limited, comprise:

- the Group and Company Balance Sheet as at 31 March 2014;
- the Group Statement of Comprehensive Income for the year then ended;
- the Group and Company Statements of Changes in Equity and Statements 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 their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Act 2006.

What an audit of financial statements involves

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

In addition, we read all the financial and non-financial information in the Group and Company Financial Statements for the year ended 31 March 2014 (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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £6.5m. This has been determined with reference to a benchmark of net income (of which it represents approximately 1%) which we consider to be one of the principal measures for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit, Risk & Security Committee that we would report to them misstatements identified during our audit above £325,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

As explained in note 2 to the financial statements, the Group financial statements are a consolidation of the Company and certain trust accounts which are considered to be special purpose entities under the control of the Company. The trust accounts are treated as financial assets in both the Group and Company financial statements and are therefore included directly within the results of the Company. As such, for the purposes of the Group and Company audit there is one component which is audited in the UK.

In establishing the overall approach to the audit, we assessed the risks of material misstatement, both in the Company and certain trust accounts, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements to give us the evidence we needed for our opinion on the financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit, Risk & Security Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 16.

<i>Area of focus</i>	<i>How the scope of our audit addressed the area of focus</i>
<i>Fraud in revenue recognition</i> ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on whether transactions have been recorded in the period in which the Group becomes entitled to record revenue, based on the point at which the draw takes place for draw-based games or at the point of sale by the retailer for Scratchcards. (Refer also to note 2 (d) to the financial statements.)	We confirmed the appropriateness of management's revenue recognition policies, particularly regarding the appropriate recording of sales around the year end date. We performed audit procedures on revenue recognised around the year end date to determine whether those recorded sales corresponded to transactions that had occurred in that period, for example if the associated lottery draw had taken place. We also tested significant manual journal entries impacting revenue, including understanding the rationale for the entry and obtaining appropriate evidence to support both the basis for and the amount of the journal.

<i>Risk of management override of internal controls</i> ISAs (UK & Ireland) require that we consider this.	We tested the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. Furthermore, we assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We also tested key reconciliations and manual journal entries.
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Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) and provided a statement in relation to going concern, set out on page 10, required for companies with a premium listing on the London Stock Exchange.

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

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group's and Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them 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 Group's and the Company's ability to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Opinion on additional disclosure

Corporate Governance Statement

The Company voluntarily prepares a Corporate Governance statement in accordance with the provisions of the UK Corporate Governance Code (the "Code"). The Directors have requested that we report on the consistency of specified information within the Corporate Governance Statement with the financial statements as if the parent company were a premium listed company.

In our opinion the information given in the Corporate Governance Statement set out on pages 14 to 20 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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 have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

The Directors have chosen to voluntarily comply with the Code as if the Company were a premium listed company. In doing so, the Directors have made a statement, required by Code provision C.1.1, on page 12 of the Annual Report, 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 Group's performance, business model and strategy. In addition, the Audit, Risk & Security Committee has voluntarily complied with Code provision C.3.8 of the Code and has set out, on page 16, the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit, Risk & Security Committee does not appropriately address matters communicated by us to the Audit, Risk & Security Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

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 Group and Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Matters on which we have agreed to report by exception

The Company's voluntary Corporate Governance Statement includes details of the Company's compliance with the Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 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

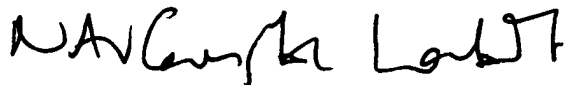
Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 12 and 13, the Directors are responsible for the preparation of the Group and Company 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 Group and Company 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.

Camelot UK Lotteries Limited

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.



Nicholas Campbell-Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditor
London
18 September 2014

Group Statement of Comprehensive Income

for the year ended 31 March

	Notes	2014 £m	2013 £m
Gross ticket sales	3	6,730.9	6,977.9
Lottery duty		(807.7)	(837.3)
Prizes		(3,636.6)	(3,697.6)
National and Olympic Lottery Distribution Funds		(1,638.9)	(1,770.6)
Net income		647.7	672.4
Retailers' and other commission	4	(309.8)	(321.3)
Gaming systems and data communication costs	4	(95.2)	(101.5)
Gross profit		242.7	249.6
Administrative expenses	4	(165.5)	(177.2)
Other operating income	4	0.1	1.6
Operating profit	4	77.3	74.0
Finance income	6	1.5	0.2
Finance costs	6	(2.0)	(2.0)
Profit before income tax		76.8	72.2
Income tax	7	(18.3)	(17.6)
Profit for the financial year and total comprehensive income attributable to shareholders		58.5	54.6

The results detailed above are all derived from continuing operations.

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

The total comprehensive income of the Company is equal to that of the Group.

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

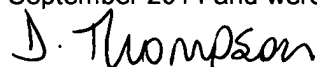
Group and Company Balance Sheet

as at 31 March

	Notes	2014 £m	2013 £m
ASSETS			
Non-current assets			
Intangible assets	9	36.3	29.2
Property, plant and equipment	10	87.7	98.5
Deferred income tax assets	19	1.8	2.1
Trade and other receivables	12	15.8	2.7
Financial assets	13	7.1	9.3
		148.7	141.8
Current assets			
Inventories	11	1.0	1.3
Trade and other receivables	12	46.1	81.2
Financial assets	13	336.0	374.3
Cash and cash equivalents	14	79.2	53.8
		462.3	510.6
Total assets		611.0	652.4
LIABILITIES			
Non-current liabilities			
Financial liabilities – borrowings	17	30.4	29.4
Trade and other payables	18	3.0	3.7
Provisions for liabilities and other charges	20	18.3	18.0
		51.7	51.1
Current liabilities			
Financial liabilities – borrowings	17	7.9	6.0
Trade and other payables	18	526.0	571.5
Current income tax liability		9.1	10.6
Provisions for liabilities and other charges	20	0.3	0.8
		543.3	588.9
Total liabilities		595.0	640.0
EQUITY			
Capital and reserves			
Share capital	21	0.0	0.0
Retained earnings	22	16.0	12.4
Total equity		16.0	12.4
Total equity and liabilities		611.0	652.4

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

The financial statements including the accompanying notes were approved by the Board of Directors on 18 September 2014 and were signed on its behalf by:



Dianne Thompson CBE
Chief Executive

Camelot UK Lotteries Limited
Company Number 02822203

Group and Company Statement of Changes in Equity

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance as at 31 March 2012		0.0	0.2	0.2
Comprehensive income				
Profit for the financial year		-	54.6	54.6
Total Comprehensive Income		-	54.6	54.6
Transactions with owners				
Dividends paid	8	-	(42.4)	(42.4)
Total transactions with owners		-	(42.4)	(42.4)
Balance as at 31 March 2013		0.0	12.4	12.4
Comprehensive income				
Profit for the financial year		-	58.5	58.5
Total Comprehensive Income		-	58.5	58.5
Transactions with owners				
Dividends paid	8	-	(54.9)	(54.9)
Total transactions with owners		-	(54.9)	(54.9)
Balance as at 31 March 2014		0.0	16.0	16.0

At 31 March 2014, the Company has share capital totalling £1,010, as disclosed in note 21 to these consolidated financial statements.

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

Group and Company Statement of Cash Flows

for the year ended 31 March

	Notes	2014 Total £m	2013 Total £m
Cash flows from operating activities			
Cash generated from operations	23	126.7	104.0
Interest received		1.2	0.2
Interest paid		(2.0)	(2.0)
Income tax paid		(9.4)	(6.9)
Consortium relief payments		-	(0.8)
Group relief payments		(10.1)	(7.4)
Net cash from operating activities		106.4	87.1
Cash flows from investing activities			
Release of funds held as non-current financial assets		2.2	17.1
Proceeds from sale of property, plant and equipment		0.0	0.0
Purchase of property, plant and equipment		(3.4)	(4.9)
Expenditure on intangible assets		(5.8)	(2.4)
Net cash generated (used in)/from investing activities		(7.0)	9.8
Cash flows from financing activities			
Dividends paid to shareholders - interim		(54.9)	(42.4)
- final in respect of prior year		-	(8.9)
Capital repayments of borrowings		-	(28.5)
Loan granted to parent		(13.0)	-
Finance lease principal payments		(6.1)	(3.1)
Net cash used in financing activities		(74.0)	(82.9)
Net increase in cash, cash equivalents and bank overdrafts		25.4	14.0
Cash, cash equivalents and bank overdrafts at the beginning of the year		53.8	39.8
Cash, cash equivalents and bank overdrafts at the end of the year	14	79.2	53.8

The notes on pages 30 to 56 are an integral part of these consolidated financial statements.

Other significant transactions include the addition of £8.7m property, plant and equipment and intangible assets under finance lease arrangements (2013: £31.4m). By the year-end, £3.2m (2013: £3.1m) had been repaid against these borrowings.

Camelot UK Lotteries Limited

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 are available from Magdalen House, Tolpits Lane, Watford, Hertfordshire, WD18 9RN, United Kingdom.

The Group's ultimate parent undertaking and controlling party is Teachers'. The financial statements of Teachers' are publicly available at www.otpp.com. The Group maintains close links with Teachers' who have representatives on the Board and also have direct lines of access to the Chairman, the Executive Director, 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 2014 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 the Group and Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations 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.

The Company's and Group's accounting policies were selected by management considering all applicable IFRS issued by the International Accounting Standards Board (IASB) by 31 March 2014.

i) New IFRS accounting standards and interpretations adopted in 2013/14:

During the year ended 31 March 2014, 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 consolidated results or assets and liabilities.

- IFRS 13 on fair value measurements
- IAS 19 on employee benefits
- IAS 28 (revised) on investments in associates and joint ventures
- Amendment to IFRS 7 on asset and liability offsetting
- Amendment to IFRS 1 First time adoption on government grants
- Amendment to IAS 12 Income taxes on deferred tax

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 2014.

Camelot UK Lotteries Limited

None of the other standards and interpretations listed below are expected to have a material impact on the Company's consolidated results or assets and liabilities.

- Improvements to IFRS 2012
- Improvements to IFRS 2013
- Amendments to IAS 32 on asset and liability offsetting
- Amendment to IAS 36 on recoverable amount disclosures
- IFRS 9 on financial instruments
- IFRS 10 on consolidated financial statements
- IFRS 11 on joint arrangements
- IFRS 12 on disclosure of interests in other entities
- IFRS 14 on regulatory deferral accounts
- Amendments to IFRS 10, 11 and 12 on transition guidance
- IAS 27 (revised) on separate financial statements
- Amendment to IFRS 1 First time adoption on hyperinflation and fixed dates
- Amendment to IAS 19 Employee benefits on defined benefit plans
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities
- Amendment to IAS 39 Financial instruments: Recognition and measurement on novation of derivatives and hedge accounting
- Amendment to IFRS 9 Financial instruments on general hedge accounting
- IFRIC 21 on Levies

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 Group'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 Group uses forecast cash flow information and estimates of future earnings 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 Group's long term incentive plan (bonus scheme for senior management) (LTIP) in line with the Group's performance criteria when the Group has a present legal or constructive obligation to incur this cost.

b) Basis of consolidation

These financial statements comprise the consolidated and Company financial statements of Camelot UK Lotteries Limited. Certain trust accounts established to provide protection to players are consolidated. Under IFRS the trusts are considered to be special purpose entities (SPEs) under the control of Camelot UK Lotteries Limited. As such IAS 27 'Consolidated and Separate Financial Statements', requires that consolidated financial statements are prepared. Details of the trust accounts are provided in note 2(n) and note 13.

There are no other transactions within the SPEs other than those relating to the trust accounts. There is no difference between the presentation of the Balance Sheet and Statement of Comprehensive Income for the Group compared to that of the Company because the applicable trust accounts are treated as financial assets in both the Group and Company financial statements.

The profit for the financial year, and profits available for distribution, of the Company is equal to the profit for the Group shown on page 55.

Camelot UK Lotteries Limited

The Group transacts with its fellow UK group subsidiary companies, Camelot Business Solutions Limited (CBSL), Camelot Strategic Solutions Limited (CSSL), Camelot Global Services Limited (CGSL), Camelot Commercial Services Limited (CCSL), and Premier Lotteries Capital UK Limited (PLC), which are incorporated in the UK. CBSL, CSSL, CGSL, CCSL and Camelot UK Lotteries Limited have the same shareholder and are therefore related parties. These entities' results are consolidated and presented in the consolidated financial statements of PLUK.

The Group also owns the entire share capital of three dormant subsidiaries which have share capital equal to net assets of £5 in total. These investments are not considered material for the purpose of giving a true and fair view of these financial statements and therefore have not been consolidated (see note 29).

c) Segmental reporting

The Group 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 Group 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 sale by retailers. The Group's retailer systems provide information when a new pack of tickets is opened and when prizes are validated on individual tickets, but not on the sale of individual tickets. Recognition at the point of sale by retailers is therefore achieved using an average ticket approach and the Group recognises the income from any ticket pack when the median ticket is sold. This is identified as being approximately when 60% of the lower value prizes have been claimed with a cut off of 30 days for any open pack.

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 Group 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 or Olympic 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 account balance, the account in which money in respect of prizes is held and from which the payment for unclaimed prizes is made.

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g) National and Olympic Lottery Distribution Funds

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. The Olympic Lottery Distribution Fund (OLDF) was the body established to collect lottery money raised for the London 2012 Olympic Games and Paralympic Games.

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 Group has operated during the year; and
- The profits to be shared with the NLDF and OLDF 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 and Olympic Lottery Distribution Funds.

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 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.

Camelot UK Lotteries Limited

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 Group 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 |
| - 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.

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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 Group. 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) Financial assets: trust accounts

In order to protect the interests of prize winners and players, Camelot has established trust accounts operated by an independent trustee, The Law Debenture Trust Corporation plc. There are a number of trust accounts operated in order to separate funds of an equivalent amount to the amounts to be paid for prizes, amounts received from players in respect of future draws and amounts held in players' interactive accounts.

Funds are transferred to the Operational, EuroMillions, Raffle and Prize Reserve Trusts to ensure funds are ring-fenced in relation to the Group's liabilities to pay prizes. In addition, funds are transferred to the Advance Sales Trust in respect of funds received from players relating to future draws, and to the Interactive Trust in respect of funds held in players' interactive wallets which have not yet been utilised by way of sales placed via the interactive channels, and also prizes held in those wallets that a player has not withdrawn.

These trusts are disclosed as current financial assets as the principal benefit, being the right to receive cash from the trusts, rests with the Group. Amounts are recovered from the trusts into Camelot bank accounts once the related liability has been settled or the sales earned and after receipt of regulatory approval. Both transfers to and from the trusts typically take place on a weekly basis, or daily in the case of interactive liability and reimbursement for prize payments.

In addition, the Reserve Trust and EuroMillions deposit are disclosed as non-current financial assets. These trusts represent additional security for prizes during and at the end of the third operating Licence extension period. This amount (or the relevant part) will be repayable to Camelot in accordance with the Trust Deed at the end of the extension of the third operating Licence term.

o) 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.

p) 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 Group 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.

Camelot UK Lotteries Limited

q) 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.

r) Financial instruments

Exposure to credit, interest rate, currency and liquidity risks that arise in the normal course of the Group's business are minimised by Camelot's policies and controls, as disclosed in note 16.

The following policies for financial instruments have been applied in the preparation of the Group'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 Group'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 Group'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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

s) Provisions

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

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

t) Pensions

The Group operates the Group 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. The Group's historical defined contribution scheme was closed to new joiners in July 2011.

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u) 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.

v) Value added tax

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

w) 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.

x) 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 consolidated financial statements are presented in GBP sterling (£m), which is the Company's functional and the Group'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 Group Statement of Comprehensive Income. All other foreign exchange gains and losses are presented in the Group Statement of Comprehensive Income within 'finance income or expense'. All other foreign exchange gains and losses are presented in the Group Statement of Comprehensive Income within administrative expenses.

3. Gross ticket sales

The Group 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:

	2014 £m	2013 £m
Draw-based games	4,589.8	4,915.9
Scratchcards and interactive Instant Win Games	2,141.1	2,062.0
	6,730.9	6,977.9

4. Operating profit

	2014 £m	2013 £m
Net income	647.7	672.4
Other operating income ¹	0.1	1.6
Retailers' and other commissions	(309.8)	(321.3)
Gaming systems and data communication costs ²	(95.2)	(101.5)
Employee expenses (note 5)	(33.3)	(38.1)
Marketing expenses	(81.2)	(80.4)
Research	(2.2)	(2.5)
Amortisation on intangible assets	(1.3)	(1.6)
Depreciation on tangible assets	(3.8)	(4.3)
Impairment of trade receivables	(1.4)	(1.3)
Operating lease rentals - property	(3.0)	(2.8)
Auditor's remuneration - fees payable for the audit of the Group and Company financial statements	(0.5)	(0.4)
Other expenses	(38.8)	(45.8)
Total expenses	(570.5)	(600.0)
Operating profit	77.3	74.0

¹ Other operating income primarily comprises an operating fee receivable from retailers who lease Scratchcard only 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 Group and the revenue can be reliably measured. In the prior year, other operating income primarily comprised amounts receivable from the BBC in relation to the live draw-show broadcast agreement.

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 £11.5m (2013: £11.3m) depreciation on owned assets, £4.2m (2013: £4.1m) amortisation on intangible assets and £9.7m (2013: £7.2m) operating lease rental costs on plant and equipment.

5. Employee expenses and numbers

Employee expenses	2014 £m	2013 £m
Wages and salaries	28.3	32.6
Social security costs	3.3	4.0
Restructuring costs	0.3	0.3
Other pension costs	1.4	1.2
	33.3	38.1

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Monthly average number Camelot employees	2014 Number	2013 Number
Retailer and consumer services	225	224
Sales and marketing	248	254
Information technology	119	116
Finance, administration and other	36	38
	628	632

Key management personnel compensation	2014 £m	2013 £m
Salaries and short term employee benefits	2.0	1.2
Long term incentive plans	0.7	0.9
Compensation for loss of office	0.1	-
Other pension costs	0.2	0.1
	3.0	2.2

Key management is considered to be the Group Operating Board for all UK group companies and the individual Company Operating Boards for each UK group company.

The Group Operating Board consists of department directors who meet regularly to discuss UK Group performance and make key operating decisions. As at the year end, the Board comprises six individuals, of which one is employed by Camelot and the remaining five are employees of other Group companies. There are nine additional individuals who are members of the Company Operating Boards, of which four are employed by Camelot.

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

Directors' emoluments	2014 £m	2013 £m
Salaries and short term employee benefits	0.7	0.2
Long term incentive plans	0.5	-
Other pension costs	0.1	-
	1.3	0.2

Highest paid director's emoluments	2014 £m	2013 £m
Salaries and short term employee benefits	0.5	0.1
Long term incentive plans	0.5	-
Other pension costs	0.1	-
Salaries and other employee benefits	1.1	0.1

One of the directors, Dianne Thompson, is remunerated by Camelot Business Solutions Limited. She is not a director of CBSL, but in her role as Group CEO she is deemed to act in the capacity of a director and details of her emoluments and pension payments are disclosed in the financial statements of that company. The highest paid director's emoluments note to the CBSL accounts details total salary and other employee benefits received by Dianne Thompson of £2.1m (2013: £2.1m). CUKL contributes to her salary as part of the agreed cost recharge structure set up between Group companies which is not directly attributable to individuals.

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Dianne Thompson is due to retire on 31 October 2014, with the role of Chief Executive Officer to be filled by Andy Duncan, who is currently the Managing Director of the company. Andy Duncan is not a director of the company, but in his role as Managing Director, and in light of the announcement and impending changes, he is deemed to act in the capacity of a director and has been included in the current year emoluments disclosure above. Andy Duncan is also disclosed as the highest paid director in the current year.

The prior year disclosure did not include Andy Duncan, but instead presented the emoluments for only those directors remunerated by CUKL, being the independent non-executive directors listed on page 9. Total emoluments received by Andy Duncan in the prior year ended 31 March 2013 amounted to £1.0m.

At the end of the financial year no directors (2013: none) were members of the Group money purchase pension scheme.

A Long Term Incentive Plan (LTIP) has been in place since 2009 and runs through to 2019. Both Dianne Thompson and Andy Duncan received their second payment under this scheme in the year ended 31 March 2014. Both short term and long term incentive plans follow industry best practice with stretching targets and measurable performance.

6. Finance income and costs

	2014 £m	2013 £m
Interest receivable from bank deposits	0.2	0.2
Interest receivable on loan due from PLUK (note 28)	1.3	-
Finance income	1.5	0.2
Bank interest payable	(0.0)	(0.0)
Interest payable on loan due to PLUK (note 28)	-	(0.8)
Interest payable on other loans	(0.7)	(0.1)
Interest payable on finance leases	(1.3)	(1.1)
Finance costs	(2.0)	(2.0)
Net finance costs	(0.5)	(1.8)

7. Income tax

a) UK corporation tax

	2014 £m	2013 £m
Current income tax for the year	17.8	18.6
Prior period adjustments	0.2	0.2
Total current tax	18.0	18.8
Deferred income tax credit for the year	0.0	(1.0)
Prior period adjustments	0.3	(0.2)
Total deferred tax	0.3	(1.2)
Income tax expense	18.3	17.6

The income tax charge is based on a corporation tax rate of 23% for the year ended 31 March 2014 (2013: 24%). All taxable temporary differences have been recognised and are reflected in the deferred taxation balance.

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The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from April 2014 and from 21% to 20% from 1 April 2015. As a result the Company's deferred tax balances which were previously provided for at 23% have been remeasured at the rate of 20%.

b) Reconciliation of tax expense

	2014 £m	2013 £m
Profit before income tax	76.8	72.2
Income tax on profit on ordinary activities at the standard rate	17.6	17.3
Non-deductible expenses	(0.1)	0.2
Prior year adjustments	0.5	-
Effect of rate change	0.3	0.1
Income tax expense	18.3	17.6

8. Dividends

	2014 £m	2013 £m
Interim dividends paid to shareholders for aggregate ordinary class 'A' shares and class 'C' preference shares	54.9	42.4
	54.9	42.4

Dividend per share for the year was £54,356 (2013: £41,980).

9. Intangible assets (Group and Company)

	Internally generated £m	Separately acquired £m	Total £m
Cost			
At 1 April 2012	7.4	38.3	45.7
Additions	0.4	5.8	6.2
Disposals	(1.4)	(1.9)	(3.3)
At 31 March 2013	6.4	42.2	48.6
Accumulated amortisation			
At 1 April 2012	3.2	13.8	17.0
Charge for the year	0.8	4.9	5.7
Disposals	(1.4)	(1.9)	(3.3)
At 31 March 2013	2.6	16.8	19.4
Net book value			
At 31 March 2012	4.2	24.5	28.7
At 31 March 2013	3.8	25.4	29.2

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	Internally generated £m	Separately acquired £m	Total £m
Cost			
At 1 April 2013	6.4	42.2	48.6
Additions	0.8	11.8	12.6
Disposals	(0.1)	(6.7)	(6.8)
At 31 March 2014	7.1	47.3	54.4
Accumulated amortisation			
At 1 April 2013	2.6	16.8	19.4
Charge for the year	0.5	5.0	5.5
Disposals	(0.1)	(6.7)	(6.8)
At 31 March 2014	3.0	15.1	18.1
Net book value			
At 31 March 2014	4.1	32.2	36.3

The intangible assets balance represents internally generated assets relating to the development of software and The National Lottery website, including design and content development, and also assets purchased separately, such as software licences that do not form an integral part of related hardware. The net book value of assets held under finance leases is £3.3m (2013: £4.1m) after depreciation charges of £0.8m (2013: £1.9m).

Intangible assets include £14.4m (2013: £4.2m) of assets which are under construction.

10. Property, plant and equipment (Group and Company)

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	Total £m
Cost				
At 1 April 2012	1.2	11.2	178.6	191.0
Additions	34.0	-	0.1	34.1
Transfers	(32.0)	-	32.0	-
Disposals	-	(8.0)	(0.5)	(8.5)
At 31 March 2013	3.2	3.2	210.2	216.6
Accumulated depreciation				
At 1 April 2012	-	9.3	101.7	111.0
Charge for the year	-	0.3	15.3	15.6
Disposals	-	(8.0)	(0.5)	(8.5)
At 31 March 2013	-	1.6	116.5	118.1
Net book value				
At 31 March 2012	1.2	1.9	76.9	80.0
At 31 March 2013	3.2	1.6	93.7	98.5

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	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	Total £m
Cost				
At 1 April 2013	3.2	3.2	210.2	216.6
Additions	4.6	-	0.0	4.6
Transfers	(5.4)	-	5.4	-
Disposals	-	(0.0)	(16.6)	(16.6)
At 31 March 2014	2.4	3.2	199.0	204.6
Accumulated depreciation				
At 1 April 2013	-	1.6	116.5	118.1
Charge for the year	-	0.3	15.0	15.3
Disposals	-	(0.0)	(16.5)	(16.5)
At 31 March 2014	-	1.9	115.0	116.9
Net book value				
At 31 March 2014	2.4	1.3	84.0	87.7

The net book value of plant and equipment and motor vehicles held under finance leases is £25.5m (2013: £26.9m). Depreciation charged in the year in respect of these assets was £3.8m (2013: £2.2m).

11. Inventories (Group and Company)

	2014 £m	2013 £m
Scratchcard tickets	0.5	0.4
Playslips, terminal rolls and other consumables	0.5	0.9
At 31 March	1.0	1.3

Inventory consumed during the year amounted to £19.3m (2013: £24.1m). No provision has been raised against the inventory balance in the current year (2013: nil).

12. Trade and other receivables (Group and Company)

a) Non-current assets

	£m	£m
Other receivables and prepayments	2.8	2.7
Loan due from Group companies	13.0	-
At 31 March	15.8	2.7

The loan due from Group companies relates to a £13.0m loan granted to the Company's parent during the year. The loan incurs interest at 12.5% and is repayable at the end of the Licence extension period.

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 £0.1m (2013: £0.1m) in respect of amounts receivable from Services aux Lotteries en Europe SCRL ('SLE'). Further information on SLE is provided in note 28.

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b) Current assets

	2014 £m	2013 £m
Trade receivables	26.9	71.5
Prepayments and accrued income	15.8	8.0
Amounts due from related parties	3.4	1.7
At 31 March	46.1	81.2

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 2014, trade receivables of £19.0m (2013: £71.5m) were not yet due for payment in accordance with the normal payment cycle, and retail trade receivables of £1.2m (2013: £2.1m) were impaired and provided for. The recoverability of trade receivables held with multiple retailers is assessed on the retailers' level of credit risk and impaired accordingly. Balances due from independent retailers are impaired when the debt becomes more than one week 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 2014, 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:

	2014 £m	2013 £m
1 to 3 months	4.0	0.2
3 to 6 months	0.0	-
More than 6 months	0.0	0.0
At 31 March	4.0	0.2

The credit risk policy that the Group operates means that Camelot minimises its exposure to past due debt. Details of the credit risk policy are provided in note 15 and note 16.

The carrying amounts of the Group'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 Group provision for impairment of trade receivables are as follows:

	2014 £m	2013 £m
At 1 April	2.1	0.9
Provision for impairment of trade receivables	0.0	1.3
Unused amounts reversed	(0.9)	(0.1)
At 31 March	1.2	2.1

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 £6.0m (2013: £5.1m) in retailer bonds, the Group and Company do not hold any collateral as security.

13. Financial assets: Trust accounts (Group and Company)

The Law Debenture Trust Corporation plc is the independent trustee which operates trust accounts established by Camelot to protect the interests of prize winners and players. There are a number of trust accounts operated in order to separate funds of an equivalent amount to the amounts to be paid for prizes, amounts received from players in respect of future draws and amounts held in players' interactive accounts.

The trust accounts and interest received thereon are subject to first fixed and floating charges in favour of the Trustee. The monies held in the trust accounts are managed by the Trustee in line with the investment guidelines issued by the Gambling Commission.

a) Non-current: Financial assets

	2014 £m	2013 £m
EuroMillions deposit	7.1	9.3

Non-current financial assets represent cash held in trust as detailed below. The amounts are stated at fair value, being the actual cash amounts held in the accounts at the end of the financial year.

EuroMillions deposit

The purpose of the EuroMillions deposit is to provide security to other EuroMillions participants for Camelot's EuroMillions prize payment obligations. This amount (or the relevant part) will be repayable to Camelot in accordance with the Trust Deed and will remain on deposit until the end of the extension of the third operating Licence term.

b) Current: Financial assets

	2014 £m	2013 £m
Amounts held in respect of prizes		
- Operational Trust	138.6	117.5
- EuroMillions Trust	29.3	79.3
- EuroMillions Raffle Trust	73.0	105.7
- Lotto Raffle Trust	23.6	-
- Prize Reserve Trust	4.4	7.9
Amounts held in respect of future draws		
- Advance Sales Trust	37.9	36.7
Amounts held in the Interactive Trust account	29.2	27.2
	336.0	374.3

Operational Trust

Amounts equivalent to prizes payable in respect of sales made are placed into the Operational Trust account, Camelot pays the prizes and is then reimbursed retrospectively from this account. The balance of any interest arising on this account (after expenses of the trust) is for the benefit of the National and Olympic Lottery Distribution Funds.

EuroMillions Trust

Camelot and the other participating lotteries in the EuroMillions game have each established a EuroMillions Trust account. This is used for the settlement of all amounts due and for holding amounts in respect of future prizes. The interest on Camelot's EuroMillions Trust account is for the benefit of the NLDF and OLDF. At the end of the third operating Licence extension period, any monies remaining in this account will pass over to a successor or, in the event that no successor is appointed, to the NLDF and OLDF.

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EuroMillions Raffle Trust

The EuroMillions Raffle Trust comprises the Raffle Trust account and Prize Reserve Trust No 4 account. The amount held represents the difference between the guaranteed prize fund and actual prizes paid for the EuroMillions Raffle game. The amount held will be used to fund one-off prize payments for future EuroMillions Raffle prizes. All interest income arising on these accounts is for the benefit of the NLDF and OLDF.

Lotto Raffle Trust

The Lotto Raffle Trust represents amounts held in the Prize Reserve Trust No 5 account. Similar to the EuroMillions equivalent, the amount held represents the difference between the theoretical prize fund and actual prizes paid for the Lotto Raffle game as well as amounts funded into the account for promotional support in respect of the Lotto game. The amount held will be used to fund future Lotto Raffle prizes or promotional events. All interest income arising on these accounts is for the benefit of the NLDF and OLDF.

Prize Reserve Trust

The Prize Reserve Trust accounts represent Camelot cash held in trust in respect of guaranteed prize funding, promotions, vouchers and amounts held in respect of breakage, being the amount that arises as a result of applying rounding rules to prize amounts, as detailed in the third operating Licence. All interest income arising on these accounts is for the benefit of the Company.

Advance Sales Trust

The Advance Sales Trust account is maintained to safeguard an amount equivalent to monies received from players in respect of future draws, whether by subscription or by using the advanced play facility. Interest earned from the Advance Sales Trust account in the current operating Licence period is split 5% to Camelot and the remaining 95% for the benefit of the NLDF and OLDF.

Interactive Trust

Players who register for Camelot's interactive service have an online wallet into which they deposit funds which they may then utilise to place wagers. All low tier prizes are paid directly into the player's wallet. Players may withdraw funds from their wallet. The Interactive Trust account represents an amount equivalent to the aggregate of all players' wallet balances at the balance sheet date. Interest earned from the Interactive Trust account is for the benefit of the NLDF and OLDF.

During the year, the rate of interest earned on amounts held in trust ranged from 0.10% to 0.35% (2013: 0.00% to 0.50%), for the benefit of the NLDF and OLDF or the Company, as detailed above.

14. Cash and cash equivalents (Group and Company)

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:

	2014 £m	2013 £m
Cash at bank and in hand	55.3	13.0
Short term bank deposits	23.9	40.8
At 31 March	79.2	53.8

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 2014 of 0.37% to 0.90% (2013: 0.27% to 0.75%). 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 8 July 2016 with the option (at no cost) to extend maturity for a further two years. The amount drawn under this facility at 31 March 2014 was nil (2013: nil).

15. Credit quality of financial assets (Group and Company)

External credit ratings are obtained for each trade receivable counterparty at the point the Group starts to trade with that retailer to confirm the creditworthiness of the retailer. See note 16 for details on the Group's credit control policy for trade receivables.

External credit ratings are obtained for banks where the Group holds cash and short-term bank deposits. At 31 March 2014, the credit ratings for the banks where financial assets totalling £23.9m (2013: £40.8m) are held in deposit accounts with banks which have Moody's short-term credit ratings of P1. 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 credit rating of Baa1.

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.

16. Financial risk management

Exposure to credit, interest rate, currency, liquidity and capital risks arise in the normal course of the Group'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 Group'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 Group starts to trade with that retailer. If the uninsured credit risk 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 Group'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 Groups 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 Group 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 Group's £55.0m Revolving Credit Facility allows short term borrowings at floating rates of interest.

During the year the Group was party to a loan agreement with its immediate holding company, Premier Lotteries UK Limited. In the prior year, the outstanding balance loan of £28.5m from the immediate holding company was repaid. During the current year, the company paid an additional £13.0m to the immediate holding company in the form of a new loan. Interest on the loans was charged at a fixed rate and therefore there was no exposure to changes in interest rates. Restrictive covenants on the level of leverage and interest cover exist on this facility.

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Investments are predominately in fixed-rate deposit accounts which are redeemable on demand. The average rate of return on Money Market Funds used by the Group during the year was 0.37% (2013: rates earned between 0.27% and 0.75%).

All investments in 2014 and 2013 were denominated in GBP Sterling.

c) Foreign exchange risk

The Group 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 Group 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(x).

Included within Administrative expenses in the Statement of Comprehensive Income are £0.0m net foreign exchange gains (2013: £0.0m losses).

d) Liquidity risk

Liquidity risk is the risk that the Group 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 Group together with a prudent level of headroom to allow for cash flow variations.

In addition to its own free cash flow, the Group has a £55.0m syndicated Revolving Credit Facility disclosed in note 14. This facility, which was undrawn at 31 March 2014, contains covenants including a maximum level of leverage and a minimum level of interest cover, both of which the Group has met. The undrawn level of this facility together with the Group's cash balances are the key measures of the Group's liquidity.

The Group'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 Group'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 Group'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 2013				
Finance lease obligations	6.0	5.7	5.9	17.8
Trade and other payables	571.5	0.6	1.7	1.4
At 31 March 2014				
Finance lease obligations	7.9	7.3	19.6	3.5
Trade and other payables	526.0	0.5	2.0	0.5

e) Capital risk

The Group has had significant borrowing requirements during the year. At 31 March 2014, the Group has finance lease agreements in place, of which £38.3m (2013: £35.4m) is outstanding at the end of the year. The Company has secured adequate capital resources through its trading and banking facilities to continue in operational existence for the foreseeable future (note 27).

17. Financial liabilities – borrowings (Group and Company)

a) Current liabilities: amounts falling due within one year

	2014 £m	2013 £m
Finance lease obligations	7.9	6.0

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

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

	2014 £m	2013 £m
Finance lease obligations	30.4	29.4

Of the finance lease obligations held in non-current liabilities, £26.9m (2013: £11.6m) fall due after one year, but in not more than five years, with the remaining £3.5m (2013: £17.8m) of finance lease obligations falling due after 5 years.

Finance leases primarily relate to National Lottery terminals and software.

18. Trade and other payables (Group and Company)

a) Current liabilities

	2014 £m	2013 £m
Trade payables	9.3	10.0
Other payables	27.4	16.8
Lottery duty payable	80.7	78.6
Amounts payable to the NLDF	46.5	55.1
Prize liability	287.9	342.0
Accruals	18.9	27.6
Advance receipts for future draws	47.0	36.1
Amounts due to related parties	8.3	5.3
As at 31 March	526.0	571.5

Other payables represent deposits received from, and prizes won by players which are held in their interactive wallets. The Group holds an amount in the respect of this balance in the Interactive Trust account (see note 13).

The Prize liability represents both unclaimed prizes and amounts planned for future prize payments at 31 March 2014, and the Group had transferred £267.3m into the relevant trust accounts to meet these liabilities (2013: £308.7m). 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

	2014 £m	2013 £m
Accruals	3.0	3.7

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.

19.Deferred taxation (Group and Company)

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 2014 the offset amounts are as follows:

	2014 £m	2013 £m
Deferred tax assets:		
To be recovered after more than 12 months	3.8	4.4
To be recovered within 12 months	-	-
Deferred tax assets	3.8	4.4
	2014 £m	2013 £m
Deferred tax liabilities:		
To be settled after more than 12 months	(2.0)	(2.3)
To be settled within 12 months	-	-
Deferred tax liabilities	(2.0)	(2.3)
Deferred tax assets (net)	1.8	2.1

The gross movement on deferred tax is as follows:

	Accelerated capital allowances £m	Provisions and accruals £m	Total £m
At 1 April 2012	(2.3)	3.2	0.9
Credit/(charge) to the Statement of Comprehensive Income			
- effect of changes in the rate of taxation	0.1	(0.2)	(0.1)
- current year (charge)/credit	(0.1)	1.4	1.3
At 31 March 2013	(2.3)	4.4	2.1
	Accelerated capital allowances £m	Provisions and accruals £m	Total £m
At 1 April 2013	(2.3)	4.4	2.1
Credit/(charge) to the Statement of Comprehensive Income			
- effect of changes in the rate of taxation	0.3	(0.6)	(0.3)
- current year credit/(charge)	(0.1)	0.1	(0.0)
At 31 March 2014	(2.1)	3.9	1.8

20. Provisions for liabilities and other charges (Group and Company)

	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	Total £m
At 1 April 2012	5.9	2.3	0.1	6.6	14.9
Charge to Statement of Comprehensive Income	0.2	0.1	-	5.2	5.5
Recognition of decommissioning asset	1.2	-	-	-	1.2
Utilised in the year	-	-	(0.1)	(2.7)	(2.8)
At 31 March 2013	7.3	2.4	0.0	9.1	18.8

	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	Total £m
At 1 April 2013	7.3	2.4	0.0	9.1	18.8
Charge to Statement of Comprehensive Income	0.3	0.1	0.1	3.1	3.6
Utilised in the year	(0.4)	-	-	(3.4)	(3.8)
At 31 March 2014	7.2	2.5	0.1	8.8	18.6

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

	2014 £m	2013 £m
Current	0.3	0.8
Non-current	18.3	18.0
	18.6	18.8

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.

The restructuring provision relates to future severance costs resulting from the internal restructuring.

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

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21. Share capital

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

Authorised	2014 £	2013 £
1,000 ordinary 'A' shares of £1 each	1,000	1,000
10 preference 'C' shares of £1 each	10	10
	1,010	1,010

Allotted, issued and fully paid	2014 £	2013 £
1,000 ordinary 'A' shares of £1 each	1,000	1,000
10 preference 'C' shares of £1 each	10	10
	1,010	1,010

b) Analysis of shareholding at 31 March 2014 and 31 March 2013

	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 (2013: £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.

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

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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.

22. Reserves (Group and Company)

	Notes	Retained earnings £m	Total £m
At 1 April 2012		0.2	0.2
Profit for the financial year		54.6	54.6
Dividends paid	8	(42.4)	(42.4)
Net decrease in shareholder equity		12.2	12.2
At 31 March 2013		12.4	12.4

	Notes	Retained earnings £m	Total £m
At 1 April 2013		12.4	12.4
Profit for the financial year		58.5	58.5
Dividends paid	8	(54.9)	(54.9)
Net increase in shareholder equity		3.6	3.6
At 31 March 2014		16.0	16.0

23. Cash generated from operations

	2014 £m	2013 £m
Profit for the financial year	58.5	54.6
Adjustments for:		
- Income tax	18.3	17.6
- Depreciation and amortisation	20.8	21.3
- Loss on disposal of non-current fixed assets	0.1	-
- Interest income	(1.5)	(0.2)
- Interest expense	2.0	2.0
- Provisions for other liabilities and charges	(0.2)	2.6
	39.5	43.3
Changes in working capital:		
- Inventories	0.2	(0.2)
- Trade and other receivables	35.4	(15.8)
- Short term financial assets	38.5	(45.5)
- Trade and other payables	(45.4)	67.6
	28.7	6.1
Cash generated from operations	126.7	104.0

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24. Financial commitments and contingent liabilities (Group and Company)

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 (2013: £0.8m).

Fixed and floating charges have been given on certain assets to the Trustee and to The Royal Bank of Scotland plc. See notes 13 and 14 for details.

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

25. Operating leases (Group and Company)

At the balance sheet date, the Group has commitments under non-cancellable operating leases that fall due as follows:

	2014 Land and buildings £m	2014 Plant and machinery £m	2013 Land and buildings £m	2013 Plant and machinery £m
- Within one year	5.2	10.1	4.4	9.1
- Between two and five years	15.5	36.1	16.1	34.5
- After five-years	2.8	33.3	4.0	41.6
	23.5	79.5	24.5	85.2

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

26. Pension arrangements (Group and Company)

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 new UK legislation the Group 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 £1.4m in the current year (2013: £1.2m).

27. Contingency financing (Group and Company)

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.

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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.

28. Related party transactions (Group and Company)

The Group is controlled by PLUK (incorporated in the UK), which owns 99.3% of the Company's shares. The Group's ultimate UK parent is PLIUK. The Group'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.

	2014 £m	2013 £m
Purchases	0.8	0.8
Amounts due to SLE	0.1	0.1
Sales	0.1	0.1
Amounts due from SLE	0.0	0.0

Camelot transacted with fellow subsidiary related parties, CGSL, CCSL, CBSL, and CSSL 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. CSSL 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 they have assigned the software developed within the Group under this arrangement.

All amounts due to and from related parties are unsecured in nature, bear no interest and are due on demand.

	2014 Sale of services £m	2014 Amounts due from related party £m	2013 Sale of services £m	2013 Amounts due from related party £m
Camelot Global Services Limited	0.2	0.1	0.2	0.0
Camelot Commercial Services Limited	-	-	-	0.0
Camelot Business Solutions Limited	2.2	3.1	2.8	1.5
Camelot Strategic Solutions Limited	0.9	0.3	0.8	0.1
Premier Lotteries UK Limited	0.0	13.0	-	0.0

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	2014 Purchase of services £m	2014 Amounts due to related party £m	2013 Purchase of services £m	2013 Amounts due to related party £m
Camelot Global Services Limited	0.0	0.1	0.0	0.2
Camelot Commercial Services Limited	-	-	0.0	0.0
Camelot Business Solutions Limited	33.0	5.4	35.0	2.7
Camelot Strategic Solutions Limited	5.7	2.8	7.9	1.9
Premier Lotteries Capital UK Limited	-	-	-	0.2
Premier Lotteries UK Limited	-	0.0	0.0	0.3

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

During the year the Company also paid dividends totalling £54.9m (2013: £42.4m).

In addition, the following cash payments were made in respect of group taxation relief during the year:

	2014 £m	2013 £m
Premier Lotteries UK Limited	4.8	4.7
Premier Lotteries Capital UK Limited	1.1	-
Camelot Commercial Services Limited	1.4	1.0
Camelot Global Services Limited	1.5	1.0
Camelot Strategic Solutions Limited	1.3	0.7
	10.1	7.4

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

29. 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.393. The registered office for these companies is Magdalen House, Tolpits Lane, Watford, WD18 9RN, United Kingdom.

30. Subsequent events

It was announced on 29 April 2014 that the Group's Chief Executive Officer, Dianne Thompson is due to retire on 31 October 2014. The role of Chief Executive Officer will be filled by Andy Duncan, who is currently the Managing Director of Camelot UK Lotteries Limited.

An interim dividend of £18.5m in respect of the 3 month period ended 24 May 2014 was declared by the Board in June 2014.

Camelot UK Lotteries Limited

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0845 278 8000
Minicom facility

National Lottery Interactive

Channels 0845 278 8000

National Lottery Direct Debit

0845 912 5000

Retailer Hotline

0800 064 9649

Under-16s sales prevention

Hotline 0870 160 0016