

Premier Lotteries Capital UK Limited

Company Number: 07193500

Premier Lotteries Capital UK Limited

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

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Premier Lotteries Capital UK Limited

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Premier Lotteries Capital UK Limited

Strategic Report

The directors present the Strategic Report of Premier Lotteries Capital UK Limited (the 'Company') together with its subsidiaries (the 'Group') for the year ended 31 March 2017. The Company's sole objective is to provide financing to Group companies, which include the following subsidiaries: Premier Lotteries UK Limited ('PLUK'), Camelot UK Lotteries Limited ('Camelot'), Camelot Global Services Limited ('CGSL'), Camelot Commercial Services Limited ('CCSL'), Camelot Business Solutions Limited ('CBSL'), Camelot Global Lottery Solutions Limited ('CGLSL') formerly Camelot Strategic Solutions Limited and Camelot Global Services (North America) Inc. (an entity incorporated in the USA) ('CGSNA').

Strategy

The Group's principal objective is to continue to operate The UK National Lottery in a socially responsible manner for the benefit of the Good Causes. With a flourishing UK National Lottery at the heart of the business, the Group is also focused on diversifying into other industries and markets. The diversification plans include offering consultancy and operational expertise to other lotteries and offering additional services via lottery technology in the UK and abroad.

Risks and opportunities

The third operating Licence provides Camelot with significant opportunities, as well as some significant risks and uncertainties, and these have been incorporated into the Group's risk mitigation plans. 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;
- Operating in a more competitive environment – with organisations from both the gaming and gambling sectors directly challenging and impinging on The National Lottery;
- Continued pressure on household disposable income means the Group's risk relating to sales remains higher;
- 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.

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, the Group 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 £36.9m (2016: £50.7m) for the financial year and profit after income tax was £28.6m (2016: £43.5m).

Net income

Net income for the year was £667.9m (2016: £719.7m). This was mainly comprised of net income from Camelot UK Lotteries Limited, being sales disclosed net of lottery duty, prizes and contributions to Good Causes, as is consistent with the gaming industry.

Premier Lotteries Capital UK Limited

Strategic Report continued

Gaming systems and data communication costs

Gaming systems and data communication costs decreased to £114.0m for the year (2016: £120.9m).

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.

Administrative expenses

Administrative expenses were £212.6m (2016: £197.7m) and consisted of advertising and marketing expenditure, depreciation, amortisation, staff, facilities, impairment and all other administrative costs.

Finance income and expense

The Group has financing facilities consisting of the Group's term loan totalling £220.0m (2016: £265.0m). The Group also has Revolving Credit Facilities totalling £60.0m (2016: £60.0m) of which nil (2016: nil) was utilised at the end of the year.

The Group has Eurobonds of £106.3m (2016: £100.0m) of which nil (2016: nil) was utilised at the end of the year.

Net finance expense during the year amounted to £21.2m (2016: £21.9m), the average yield on investment being approximately 0.30% (2016: 0.50%). Strict controls apply to treasury operations, which are reviewed regularly. The investment policy adopted is aligned to that approved by Camelot's Audit, Risk and Security Committee and the Board. Funds are only deposited with banks which hold a strong credit rating and which meet the Group's treasury policy criteria.

The net finance expense includes loan interest charges of £6.6m (2016: £6.8m), amortisation of loan fees of £0.7m (2016: £0.7m) incurred on term loans and interest on Eurobond of £12.7m (2016: £12.5m).

Finance income of £0.1m (2016: £0.3m) arose from interest on bank deposits.

Taxation

The net corporation tax charge for the year was £8.3 (2016: £7.2m). The total tax paid by the Group amounted to £16.0m (2016: £15.1m). Further detail is provided in note 7 to the financial statements.

Dividends

Dividends of £0.3m were paid during the year (2016: £59.4m) as detailed in note 8.

Financial position at the year end

The Balance Sheet reflects the continued financial stability of the Group. The Group reports total assets of £684.1m (2016: £800.3m) and has adequate resource, including undrawn facilities, to cover its net liability position.

Of intangible assets of £221.1m (2016: £237.7m) held on the balance sheet, £169.4m (2016: £192.3m) relate to goodwill and intangible assets acquired on the acquisition of Camelot and CGSL, which is stated net of £22.8m (2016: £22.9m) amortisation charged during the year.

Non-current financial borrowings of £300.8m (2016: £346.4m) are due on the term loan, Eurobond and finance leases.

Premier Lotteries Capital UK Limited

Strategic Report continued

Trade and other payables consist mainly of the Prize liability, representing unclaimed prizes at 31 March 2017, as well as advance receipts for future draws, lottery duty and amounts payable to the National Lottery Distribution Fund (NLDF).

Our investment in technology

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

The Group is committed to delivering new games, develop existing games, including new ways to play, and increase one-to-one player communications. To meet these commitments the 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 monthly by the Group's regulator, was 99.95% (2016: 99.94%) ahead of the operating Licence target of 99.50%. In addition, system availability for playing games on the internet was 99.90% (2016: 99.71%) ahead of the operating Licence target of 99.50%.

Cash flows, cash and debt

The Group's cash flows, cash and debt are managed centrally. Net cash generated from operations was £102.7m (2016: £96.2m) which was impacted by working capital cash flows, mainly comprised of lottery ticket sales less prize payments, payments to the NLDF, and operating expenditure.

During the year, the Group made repayments of £45.0m against term loan bringing the balance to £220.0m (2016: £265m). Other financing cash outflows include finance lease principal payments of £8.3m (2016: £8.0m) and capital repayments on other loans of £16.1m (2016: nil).

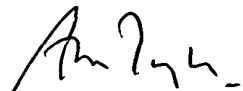
In order to protect prize winners and players, the Group has set up certain trust accounts operated by The Law Debenture Trust Corporation plc, which acts as an independent trustee. An amount equivalent to prizes is deposited into a trust account on a weekly basis, as well as monies taken in advance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

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

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

As at 31 March 2017 the Group had Revolving Credit Facilities totalling £60.0m (2016: £55.0m) of which £60.0m (2016: £55.0m) was undrawn.

The Strategic Report was approved by the Board of Directors on 13 July 2017 and was signed on its behalf by:



Jo Taylor

Director

Premier Lotteries Capital UK Limited

Company Number 07193500

Premier Lotteries Capital UK Limited

Directors' Report

The Directors present their report with the audited consolidated financial statements of the Company, together with the Group for the year ended 31 March 2017.

Principal activities

The principal activities of the Group are as follows:

- Camelot's principal activity is the operation of The UK 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'). 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 and will run to 2019, followed by a four year extension until 2023.
- The Group's Global Services (CGSL and CGSNA) companies offer consultancy and lottery-operational expertise, and look to develop other business opportunities as part of the Group's international and diversification plans.
- CBSL provides business services to other Group companies through various departments including Corporate Responsibility, Human Resources, Finance, Facilities, Legal, Procurement, Corporate Assurance and Treasury.
- CGLSL is principally focused on managing a programme of projects to generate revenue for Group companies. The company develops and delivers solutions, programmes and project-management support for the Group.
- CCSL was principally focused on offering Commercial Services, concentrating on mobile top-up, international calling cards, bill payment, chip and pin debit/credit card payments and payments through contactless technology. In the current year there were no such opportunities and the company did not trade. As at 31 March 2017 the company was wound up.

The Group expects to pursue these principal activities for the foreseeable future. The Group's performance is discussed in the Strategic Report set out on pages 3 to 5.

Shareholdings

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

	Number of 'A' shares	Number of 'B' shares	Percentage holding (%)
Premier Lotteries Investments UK Limited	990	3	99.3
Fourmoront Corporation	-	7	0.7
At 31 March 2016	990	10	100.0
Premier Lotteries Investments UK Limited	990	3	99.3
Fourmoront Corporation	-	7	0.7
At 31 March 2017	990	10	100.0

Further details of the rights and obligations of each class of share are given in note 22 to the financial statements.

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

Premier Lotteries Capital UK Limited

Directors' Report continued

Directors

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

Chairman

Lee Sienna – resigned 22 June 2016

Jo Taylor – appointed 22 June 2016

Directors

John Dillon

Iain Kennedy – appointed 22 June 2016 and resigned 21 September 2016

Alternate directors

Ilya Kachko (alternate to Lee Sienna and Jo Taylor)

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 Group 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 the Group's exposure to this increased level of risk (see 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.

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 resources on research during the year. The Group's spend totalled £2.8m in 2017 (2016: £3.2m), 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 the Group's 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's Staff Forum extends across all employees in the UK group of companies, and it continues to be consulted on all significant policy proposals and initiatives affecting staff and in turn gathers group-wide reactions to such proposals.

Directors' Report continued

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.

Employees pay contributions into the Group's Personal Pension Plan, 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.

The Group 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 Group communicates economic and financial factors which impact the Group's performance.

Financial risk management

The Group has loans and associated interest rate swaps which are used to manage interest rate risk. The Group also manages credit and foreign exchange risks that arise in the normal course of business (see note 15).

Related party transactions

Details of related party transactions are provided 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.

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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group 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.

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

Each of the directors in office at the date on which the financial statements were approved, whose names and functions are listed on page 7, 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 has taken all the steps that he ought to have taken as a director in order to make himself 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 Group, together with a description of the principal risks and uncertainties that it faces.



On behalf of the Board
Jo Taylor
Director

13 July 2017

Premier Lotteries Capital UK Limited

Independent auditors' report to the members of Premier Lotteries Capital UK Limited

Report on the financial statements

Our opinion

In our opinion Premier Lotteries Capital UK Limited's Group and Company financial statements (the "financial statements"):

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

What we have audited

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

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

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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 are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

We conducted our audit in accordance with 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 the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

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



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

14 July 2017

Premier Lotteries Capital UK Limited

Group Statement of Comprehensive Income

for the year ended 31 March

	Notes	2017 £m	2016 £m
Net income	3	667.9	719.7
Retailers' and other commission	4	(299.5)	(334.6)
Gaming systems and data communication costs	4	(114.0)	(120.9)
Gross profit		254.4	264.2
Administrative expenses		(212.6)	(197.7)
Other operating income	4	16.3	6.1
Operating profit	4	58.1	72.6
Finance income	6	0.1	0.3
Finance expense	6	(21.3)	(22.2)
Profit before income tax		36.9	50.7
Income tax	7	(8.3)	(7.2)
Profit for the financial year attributable to shareholders		28.6	43.5
Other comprehensive losses:			
Foreign exchange losses		0.3	(0.1)
Fair value losses on cash flow hedges		(0.5)	(0.1)
Tax relating to components of other comprehensive income		0.1	0.0
Other comprehensive losses for the year		(0.1)	(0.2)
Total comprehensive income for the year		28.5	43.3

The notes on pages 16 to 46 are an integral part of these consolidated financial statements.

As permitted by section 408 of the Companies Act 2006, the income statement of the Company has not been presented in the financial statements. The profit for the financial year was £10.4m (2016: £43.3m).

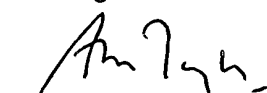
Premier Lotteries Capital UK Limited

Balance Sheet (Group and Company)

as at 31 March

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
ASSETS					
Non-current assets					
Investment in subsidiaries	21	-	-	154.0	154.0
Intangible assets	9	221.1	237.7	-	-
Property, plant and equipment	10	80.7	81.7	-	-
Trade and other receivables	12	14.8	12.2	-	-
		316.6	331.6	154.0	154.0
Current assets					
Inventories	11	0.9	1.0	-	-
Trade and other receivables	12	334.1	404.5	0.3	0.4
Current income tax asset		-	-	1.8	1.1
Cash and cash equivalents	13	32.5	63.2	3.3	3.0
		367.5	468.7	5.4	4.5
Total assets		684.1	800.3	159.4	158.5
LIABILITIES					
Current liabilities					
Financial liabilities - borrowings	17	55.1	55.9	-	16.1
Trade and other payables	18	448.1	537.1	3.4	3.1
Current income tax liability		6.2	7.8	-	-
Provisions for liabilities and other charges	20	2.6	5.3	-	-
		512.0	606.1	3.4	19.2
Non-current liabilities					
Financial liabilities - borrowings	17	300.8	346.4	106.3	100.0
Trade and other payables	18	3.1	2.3	-	-
Deferred income tax liabilities	19	20.5	27.0	-	-
Derivative financial instruments	16	0.8	0.2	-	-
Provisions for liabilities and other charges	20	20.8	20.4	-	-
		346.0	396.3	106.3	100.0
Total liabilities		858.0	1,002.4	109.7	119.2
EQUITY					
Capital and reserves					
Share capital	22	0.0	0.0	0.0	0.0
Foreign exchange reserve	23	(0.0)	(0.3)	-	-
Other reserves	23	(0.6)	(0.2)	-	-
Retained earnings	23	(173.3)	(201.6)	49.7	39.3
Total equity		(173.9)	(202.1)	49.7	39.3
Total equity and liabilities		684.1	800.3	159.4	158.5

The notes on pages 16 to 46 are an integral part of these consolidated financial statements. The financial statements including the accompanying notes were approved by the Board of Directors on 13 July 2017 and were signed on its behalf by:



Jo Taylor
Director

Premier Lotteries Capital UK Limited
Company Number 07193500

Group and Company Statement of Changes in Equity

Group	Notes	Share capital £m	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2015		0.0	(0.2)	(0.1)	(185.7)	(186.0)
Comprehensive income/ (expense)						
Profit for the financial year		-	-	-	43.5	43.5
Foreign exchange losses (net of income tax)		-	(0.1)	-	-	(0.1)
Fair value losses on cash flow hedges (net of income tax)		-	-	(0.1)	-	(0.1)
Total comprehensive income		-	(0.1)	(0.1)	43.5	43.3
Dividends paid	8	-	-	-	(59.4)	(59.4)
Balance as at 31 March 2016		-	(0.3)	(0.2)	(201.6)	(202.1)
Comprehensive income/ (expense)						
Profit for the financial year		-	-	-	28.6	28.6
Foreign exchange losses (net of income tax)		-	0.3	-	-	0.3
Fair value losses on cash flow hedges (net of income tax)		-	-	(0.5)	-	(0.5)
Tax relating to components of other comprehensive income		-	-	0.1	-	0.1
Total comprehensive income		-	0.3	(0.4)	28.6	28.4
Dividends paid	8	-	-	-	(0.3)	(0.3)
Balance as at 31 March 2017		-	-	(0.6)	(173.3)	(173.9)

Company	Notes	Retained earnings £m	Total equity £m
Balance as at 1 April 2015		54.7	54.7
Profit for the financial year		43.3	43.3
Dividends paid	8	(58.7)	(58.7)
At 31 March 2016		39.3	39.3
Profit for the financial year		10.4	45.7
Dividends paid	8	-	(66.6)
Balance as at 31 March 2017		49.7	18.4

At 31 March 2017, the Company had share capital totalling £1,000 (2016: £1,000), as disclosed in note 22 to these consolidated financial statements.

The notes on pages 16 to 46 are an integral part of these consolidated financial statements.

Statement of Cash Flows (Group and Company)

for the year ended 31 March

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities					
Cash generated from operations	24	86.6	96.2	5.7	54.5
Bank interest received		0.1	0.3	-	-
Interest paid		(14.8)	(22.2)	(6.2)	(12.5)
Income tax paid	7	(16.0)	(15.0)	-	-
Group relief receipts		-	-	0.8	1.2
Net cash from operating activities		55.9	59.3	0.3	43.2
Cash flows from investing activities					
Purchase of property, plant and equipment		(11.7)	(21.4)	-	-
Expenditure on intangible assets		(22.3)	(7.2)	-	-
Net cash used in investing activities		(33.0)	(28.6)	-	-
Cash flows from financing activities					
Dividends paid to shareholders		(0.3)	(59.4)	-	(58.7)
Loans issued to Group Companies		-	-	-	15.5
Capital repayments on term loan		(45.0)	-	-	-
Finance lease principal payments		(8.3)	(8.0)	-	-
Net cash used in financing activities		(53.6)	(67.4)	-	(43.2)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(30.7)	(36.7)	0.3	(0.0)
Cash, cash equivalents and bank overdrafts at the beginning of the year		63.2	99.9	3.0	3.0
Cash, cash equivalents and bank overdrafts at the end of the year	13	32.5	63.2	3.3	3.0

The notes on pages 16 to 46 are an integral part of these consolidated financial statements.

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

Notes to the Financial Statements

1. General Information

Premier Lotteries Capital UK Limited is a non-trading entity and its sole objective is to provide financing to Group companies, which include the following subsidiaries: Camelot, CGSL, CCSL, CBSL, CGLSL, CGSNA and PLUK.

Premier Lotteries Investments UK Limited (PLIUK) is the parent undertaking of the largest group to consolidate these financial statements reporting under IFRS as adopted by the EU.

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

2. Summary of significant accounting policies

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

a) Basis of preparation

The financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRS IC 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. After making enquiries, the directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continue to adopt the going concern basis in preparing its financial statements.

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

i) New IFRS accounting standards and interpretations adopted in 2016/17:

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

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

ii) New IFRS accounting standards and interpretations not yet adopted:

The standards, amendments and interpretations listed below were not effective for the year ended 31 March 2017.

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

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

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

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

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

b) Critical accounting assumptions, estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions, and it also requires management to exercise its judgement and to make estimates in the process of applying the 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 in note 20.

Intangible assets

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

Recognition and measurement of intangibles

Intangible assets acquired in a business combination are recognised at fair value, measured as the present value of future cash flows arising from the asset identified.

Impairment of goodwill and other intangibles

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 9).

The Group uses forecast cashflow information and estimates of future earnings to assess whether intangible assets are impaired and to assess 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.

Long term incentive plans

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

c) Basis of consolidation

These financial statements comprise the consolidated and Company financial statements of PLCUK and its subsidiaries.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

The Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the fair value of the acquiree's net assets.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated.

Investments in subsidiary companies

Investments in subsidiaries are stated at cost less provision for impairment.

The Group also owns the entire share capital of four dormant subsidiaries which have share capital equal to net assets of £6 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).

d) 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.

e) Net income

The Group earns income across a portfolio of games that includes draw-based games, Scratchcards and interactive Instant Win Games.

Group income is predominately 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 payouts and amounts due to the National Lottery Distribution Fund.

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

The Group also earns income from consultancy services provided by CGSL which is presented in other net income. Income from the BBC in relation to live draw-show broadcasts when the programmes are aired, and operating fee income from retailers who lease Scratchcard only terminals is presented within other operating income.

f) Retailers' and other commission

Amounts charged to the Statement of Comprehensive Income represent commissions arising due to retailers based on sales and in-store prize payments to date; 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 UK National Lottery using the interactive channel; and other sales-related commissions.

g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition and in accordance with IFRS 3 is not amortised.

Goodwill is tested for impairment annually, or at any other time that there is an indication of impairment, and is carried at cost less accumulated impairment losses. Impairment losses would be charged to the Statement of Comprehensive Income.

Goodwill is allocated to cash generating units for the purpose of impairment testing, and the allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

h) Other intangible assets

All intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination (including brands and licences) are recognised at fair value at the acquisition date. The assets acquired have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of assets acquired on business combinations over their useful lives.

Internally generated intangibles

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 intangibles

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 Section 5 Licence Period throughout which benefit is anticipated to be derived from the asset. The third operating Licence extension runs to 2023.

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

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

Notes to the Financial Statements continued

i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated 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, at such rates as to write off the cost of these assets in equal instalments either over their expected useful lives or the third Licence extension period throughout which benefit is anticipated to be derived from the asset. Assets under construction are not depreciated until they are brought into use.

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

Short leasehold improvements

- | | |
|--------------------------------|--|
| - Short leasehold improvements | The shorter of the lease period and the period to the end of the third operating Licence extension |
|--------------------------------|--|

Plant, equipment and motor vehicles

- | | |
|--|---|
| - Computer hardware
(excluding central gaming) | The shorter of four years, or in the case of leased assets the lease period, and the period to the end of the third operating Licence extension |
| - Central gaming systems, Interactive hardware and Enterprise Resource Planning hardware | The period to the end of the third operating Licence extension or planned replacement date if earlier, or the lease term for leased assets and associated costs |
| - Fixtures and fittings | 5 years |
| - Media screens | 3 years |
| - Lottery terminals | The period to the end of the third operating Licence extension or the lease term 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.

j) 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 property 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. The liability is discounted where the difference between the values of minimum lease payments and the present value of those payments is material.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

k) 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.

l) Inventories

Inventories are valued at the lower of cost calculated on the first-in first-out basis, and net realisable value. Provisions are made for obsolete or slow moving stock.

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.

m) 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. A provision is raised if future cash flows are not estimated to match the asset's carrying value. 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 within one year or less they are classified as current assets, or non-current assets if expected after more than one year.

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

n) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are classified as current liabilities if payment is due within one year or less, or non-current liabilities if expected after more than one year.

o) Financial instruments

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.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

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.

Derivative financial instruments and hedging activities

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

The Group uses interest rate swap contracts to manage its exposures to fluctuations in interest rates. These instruments are accounted for as hedges when designated as such at the inception of the contract. The Group does not hold or issue derivative financial instruments for financial trading purposes.

All derivative financial instruments are recognised at fair value in the balance sheet. The fair values of interest rate swap contracts are calculated by reference to current forward interest rates for contracts with similar maturity profiles.

The designation of derivative financial instruments as hedges is carried out according to the Group's risk management policies. All of the Group's hedges are cash flow hedges, which mitigate against risks associated with a recognised asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in other comprehensive income are shown in note 23. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives are classified as a current asset or liability.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion including any accumulated in equity is recognised immediately in the Statement of Comprehensive Income. When hedging a non-financial asset, gains and losses are transferred from equity to be recognised against the cost of the asset. When a hedging instrument expires, is sold, the forecast transaction is no longer expected to occur, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is immediately transferred to the Statement of Comprehensive Income.

p) 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 discounted when the effect of the time value of money is material.

Decommissioning

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.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

Dilapidations

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.

Restructuring

Provisions for restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of a past event, 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.

Long term incentive plans

Provisions are made for the Group's LTIP in line with the Group's performance criteria when the Group has a present legal or constructive obligation to incur this cost.

q) Pensions

The Group operates a defined contribution scheme. The cost of contributions is charged to the Statement of Comprehensive Income in the year to which it relates.

r) 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.

Income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

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

s) Value added tax

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

t) Share capital and dividend recognition

Ordinary shares are shown within equity. Final dividends to the Company's shareholders are recognised as a liability and deducted from shareholders' equity when the dividend is approved by the Company's shareholders, and for an interim dividend when the dividend is paid.

u) Foreign currency translation

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.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

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 administrative expenses.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets are included in the foreign exchange reserve in equity.

3. Net income (Group)

The Group is operated and managed as separate businesses. The Group predominantly operates in the United Kingdom and the Isle of Man with the exception of CGSNA which operates in the United States of America.

	2017 £m	2016 £m
Gross ticket sales	6,925.3	7,595.2
Lottery duty	(831.0)	(911.5)
Prizes	(3,943.2)	(4,198.9)
National Lottery Distribution Fund	(1,496.1)	(1,772.3)
Net income arising from Lottery sales	655.0	712.5
Other revenue	12.9	7.2
	667.9	719.7

4. Operating profit (Group)

	2017 £m	2016 £m
Net income	667.9	719.7
Other operating income ¹	16.3	6.1
Retailers' and other commission	(299.5)	(334.6)
Gaming systems and data communication costs ²	(114.0)	(120.9)
Employee expenses (note 5)	(47.2)	(47.8)
Marketing expenses	(94.5)	(87.2)
Research	(2.8)	(3.2)
Amortisation of intangible assets ²	(22.8)	(24.5)
Depreciation on tangible assets ²	(1.4)	(0.3)
Impairment of trade receivables (note 12)	(0.9)	(0.6)
Operating lease rentals - property	(4.0)	(6.8)
Auditors' remuneration - fees payable for the audit of the Group and Company financial statements	(0.8)	(0.8)
Other expenses	(38.2)	(26.5)
Total expenses	(626.1)	(653.2)
Operating profit	58.1	72.6

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

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

operating lease. Income is only recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. In addition £6.6m (2016: £3.2m) income from the NLDF has been received in respect of Lotto marketing investment. Also included in other operating income are 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 £14.2m (2016: £14.5m) depreciation on owned assets, £11.5m (2016: £6.6m) amortisation of intangible assets and £9.3m (2016: £9.1m) operating lease rental costs on plant and equipment.

5. Employee expenses and numbers (Group)

The following information relates to the Group.

Employee expenses	2017 £m	2016 £m
Wages and salaries	39.1	39.8
Social security costs	5.5	5.6
Other pension costs	2.6	2.4
	47.2	47.8

Monthly average number of Group employees	2017 Number	2016 Number
Retailer and consumer services	108	205
Sales and marketing	336	312
Information technology	272	217
Finance, administration and other	48	109
	764	843

Key management personnel compensation	2017 £m	2016 £m
Salaries and other employee benefits	3.7	6.1
Other long term benefits	0.2	2.6
Other pension costs	0.4	0.6
	4.3	9.3

Key management is considered to be the UK Executive Board and those members of the Global Operating Board who make key operating decisions in the Group.

The UK Executive Board and Global Operating Boards consist of department directors who meet regularly to discuss group performance and make key operating decisions.

The amounts above include compensation for all members of the UK Executive Board and key management in the Global Operating Boards who were employed by Group companies during the reporting period.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

6. Finance income and expense (Group)

	2017 £m	2016 £m
Interest receivable from bank deposits	0.1	0.3
Finance income	0.1	0.3
Interest payable on Term and other loans	(6.6)	(6.8)
Interest payable on finance leases	(1.1)	(1.3)
Interest expense on Eurobonds	(12.7)	(12.5)
Amortisation of loan fees	(0.7)	(0.7)
Interest rate swaps: cash flow hedges	(0.0)	(0.2)
Other interest expense	(0.2)	(0.7)
Finance expense	(21.3)	(22.2)
Net finance expense	(21.2)	(21.9)

7. Income tax (Group)

a) Corporation tax

	2017 £m	2016 £m
Current income tax charge ¹	14.6	15.7
Deferred income tax credit ²	(6.3)	(8.5)
Income tax charge	8.3	7.2

¹ Includes a prior year adjustment of £0.0m credit (2016: £0.4m credit)

² Includes a prior year adjustment of £0.4m credit (2016: £0.2m credit)

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

b) Reconciliation of tax charge

	2017 £m	2016 £m
Profit before income tax	36.9	50.7
Charge on profit on ordinary activities at the standard rate of 20% (2016: 20%)	7.4	10.2
Factors affecting charge:		
Expenses not deductible for tax purposes	1.9	0.6
Prior year adjustments	(0.4)	(0.6)
Effect of changes in rate of deferred tax	(0.6)	(3.0)
Income tax charge	8.3	7.2

The tax charge for the year ended 31 March 2017 represents a tax charge of £8.9m on ordinary activities and a £0.6m credit in respect of a deferred tax items previously recognised at 18% reversing in the current year.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

7. Income tax (Group) continued

The tax charge for the year ended 31 March 2016 represents a tax charge of £9.1m on ordinary activities and a tax charge of £0.4m in respect of a deferred tax item previously recognised and subsequently reversed in the current year.

For the period ended 31 March 2017, the Group is expected to make a cash payment to the UK Tax Authorities of £14.5m which arises on the taxable profits made by the Group offset by the availability of losses within the Group. Of the cash payment due to the UK Tax Authorities of £14.5m, £8.3m was paid by instalments during the year with the remainder of £6.2m due to be settled by instalments following the year.

For the period ended 31 March 2016, the Group made a cash payment to the UK Tax Authorities of £16.4m which arose due to the taxable profits made by the group offset by the availability of losses. Of the cash payment due to the UK Tax Authorities of £16.4m, £8.0m was paid by instalments during the year ended 31 March 2016, with the remainder of £8.1m settled by instalments in the year ended 31 March 2017.

Therefore, in the period ended 31 March 2017, the Group made total cash corporation tax payments to the UK Tax Authorities of £16.0m which comprised of £8.3m payable in respect of the period ended 31 March 2017 and £8.1m payable in respect of the period ended 31 March 2016, with the balance of £0.4m relating to a refund of tax overpaid in respect of earlier years.

8. Dividends (Group and Company)

The Group paid a dividend of £0.3m (2016: £59.4m) to its shareholders of which £0.3m was paid outside the Group (2016: £0.7m). Dividends per share in the year were £303 (2016: £59,400).

The Company paid a dividend of £nil (2016: £58.7m) to its shareholders. Dividends per share were £nil (2016: £58,700).

9. Intangible assets (Group)

	Internally generated assets £m	Separately acquired assets £m	Acquired intangible assets £m	Goodwill £m	Total £m
Cost					
At 1 April 2015	14.4	39.4	308.9	37.0	399.7
Additions	2.1	13.9	-	-	16.0
At 31 March 2016	16.5	53.3	308.9	37.0	415.7
Accumulated amortisation and impairment					
At 1 April 2015	2.9	13.3	130.0	0.7	146.9
Charge for the year	1.4	6.8	22.9	-	31.1
At 31 March 2016	4.3	20.1	152.9	0.7	178.0
Net book value					
At 31 March 2016	12.2	33.2	156.0	36.3	237.7

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

9. Intangible assets (Group) continued

	Internally generated assets £m	Separately acquired assets £m	Acquired intangible assets £m	Goodwill £m	Total £m
Cost					
At 1 April 2016	16.5	53.3	308.9	37.0	415.7
Additions	9.2	13.5	-	-	22.7
Disposal	-	(0.8)	-	-	(0.8)
At 31 March 2017	25.7	66.0	308.9	37.0	437.6
Accumulated amortisation and impairment					
At 1 April 2016	4.3	20.1	152.9	0.7	178.0
Charge for the year	4.6	11.0	22.9	-	38.5
At 31 March 2017	8.9	31.1	175.8	0.7	216.5
Net book value					
At 31 March 2017	16.8	34.9	133.1	36.3	221.1

The £0.7m balance of goodwill relating to the acquisition of CCSL was previously impaired as the value of this subsidiary's fixed assets was written down to a nil net book value due to a lack of existing business opportunities at the present time.

Intangible assets include £8.0m (2016: £5.5m) of assets which are under construction and £nil of borrowing costs arising from finance lease interest (2016: £nil) on developing The National Lottery Website.

Acquired intangible assets relate to the benefits arising from operating under the Third Licence for the National Lottery and the value inherent in the Camelot brand as acquired by PLUK on acquisition of Camelot and CGSL. All intangible assets are held by subsidiaries of the Group or arise on acquisition, and no such assets are held directly by the Company.

The goodwill arising on acquisition is primarily attributable to the knowledge and experience of the workforce built up over many years of operating under a lottery licence in the UK.

Impairment tests for goodwill

Goodwill is tested for impairment by allocating its carrying amount to cash generating units (CGUs). If the recoverable amount of a CGU exceeds its carrying amount, the CGU and any goodwill allocated to it would be regarded as not impaired. The £36.3m of goodwill as at 31 March 2017 is allocated between Camelot (£35.0m) and CGSL (£1.3m).

The goodwill of £0.7m relating to the acquisition of CCSL has previously been written down to a nil net book value due to a lack of existing business opportunities.

9. Intangible assets (Group) continued

Basis on which recoverable amount has been determined

The recoverable amounts of the CGUs are determined from value in use calculations.

- For the Camelot CGU, this is based on the annual budget for the financial year ended 31 March 2017 and the three year strategic plan, both approved by the Directors of Camelot. Camelot will continue to generate returns beyond the assessment period through to the end of the current Licence. These future returns are assumed to remain at the level achieved in the final year of the strategic plan, with no growth rate applied; and
- For the CGSL CGU, the calculation is based on the proposed annual budget for the financial year ended 31 March 2017 and the three year strategic plan approved by the Directors of CGSL. No further returns are forecast beyond the strategic plan period.

No impairment of goodwill was required as a result of the assessment performed.

Key assumptions used in value in use calculations

When performing the value in use calculation, the level of sales and operating profit forecast are based upon historic experience, management's best estimate of future trends and performance taking account of industry comparable data.

The post-tax discount rate applied to cash flow projections for the assessment is 4.50% (2016: 4.50%).

The recoverable amount of the Camelot and CGSL CGUs is sensitive to changes in cash flows. No change in key assumptions that could be reasonably expected would result in an impairment.

10. Property, plant and equipment (Group)

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	Total £m
Cost				
At 1 April 2015	2.2	2.5	126.0	130.7
Additions	21.3	-	0.1	21.4
Transfers	(23.2)	-	23.2	-
At 31 March 2016	0.3	2.5	149.3	152.1
Accumulated depreciation and impairment				
At 1 April 2016	0.1	1.4	54.1	55.6
Charge for the year	-	0.3	14.5	14.8
At 31 March 2016	0.1	1.7	68.6	70.4
Net book value				
At 31 March 2016	0.2	0.8	80.7	81.7

Notes to the Financial Statements continued

10. Property, plant and equipment (Group) continued

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment and motor vehicles £m	Total £m
Cost				
At 1 April 2016	0.3	2.5	149.3	152.1
Additions	11.1	-	0.6	11.7
Transfers	(9.3)	-	9.3	-
Disposals	-	-	(3.2)	(3.2)
At 31 March 2017	2.1	2.5	156.0	160.6
Accumulated depreciation and impairment				
At 1 April 2016	0.1	1.7	68.6	70.4
Charge for the year	-	0.3	12.2	12.5
Disposals	-	-	(3.0)	(3.0)
At 31 March 2017	0.1	2.0	77.8	79.9
Net book value				
At 31 March 2017	2.0	0.5	78.2	80.7

The net book value of plant and equipment and motor vehicles held under finance leases is £24.5m (2016: £29.8m). Depreciation charged in the year in respect of these assets was £4.6m (2016: £4.1m).

11. Inventories (Group)

	Group 2017 £m	Group 2016 £m
Scratchcard tickets	0.3	0.5
Playslips, terminal rolls and other consumables	0.6	0.5
At 31 March	0.9	1.0

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

12. Trade and other receivables (Group and Company)**a) Non-current assets**

	Group 2017	Group 2016 restated	Company 2017	Company 2016
	£m	£m	£m	£m
Euromillions deposit	7.5	6.9	-	-
Other receivables and prepayments	7.3	5.3	-	-
At 31 March	14.8	12.2	-	-

The Euromillions deposit provides security to other Euromillions participants for the Group's Euromillions prize payment obligations. This amount (of the relevant part) will be repayable to the Group in accordance with the Trust Deed and will remain on deposit until the end of the third operating Licence term.

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

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

b) Current assets

	Group 2017	Group 2016	Company 2017	Company 2016
	£m	£m	£m	£m
Trust receivables	280.5	357.7	-	-
Trade receivables	36.6	27.8	-	-
Amounts receivable from related parties	-	-	0.3	0.4
Accrued Income	12.3	8.3	-	-
Prepayments	4.7	10.7	-	-
At 31 March	334.1	404.5	0.3	0.4

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

Trade receivables of the Group primarily represent amounts due from retailers. As of 31 March 2017, the Group's trade receivables from retailers of 31.1m (2016: £21.7m) were not yet due for payment in accordance with the normal payment cycle.

As of 31 March 2017 of the Group's retail trade receivables, £0.3m (2016: £0.3m) were impaired and provided for. The recoverability of trade receivables held with multiple retailers is impaired when debt becomes more than 90 days past due. Balances due from independent retailers are impaired 6 weeks after the retailer's agreement is terminated. Outstanding balances on our active retailer estate are impaired after 30 days.

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

Notes to the Financial Statements continued

12. Trade and other receivables (Group and Company) continued

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
7 days to 3 months	1.2	0.2	-	-
3 to 6 months	0.0	0.1	-	-
More than 6 months	0.0	0.0	-	-
At 31 March	1.2	0.3	0.0	-

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

Movements on the Group and Company provisions for impairment of trade receivables are as follows:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
At 1 April	0.3	1.2	-	-
Provision for impairment of trade receivables	0.2	0.3	-	-
Utilised	(0.1)	(0.6)	-	-
Unused amounts reversed	(0.1)	(0.6)	-	-
At 31 March	0.3	0.3	0.0	0.0

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 receivables mentioned above. With the exception of £6.3m (2016: £5.7m) in retailer bonds, the Group and Company do not hold any collateral as security.

13. 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:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash at bank and in hand	16.6	19.9	3.3	3.0
Short-term deposits	15.9	43.3	-	-
At 31 March	32.5	63.2	3.3	3.0

Amounts held in short-term bank deposits comprise amounts held in either deposit accounts or Money Market Funds with interest earned rates at 31 March 2017 of 0.01% to 0.55% (2016: 0.40% to 0.80%). Both types of deposit are redeemable on demand.

On 8 July 2010 the Company entered into a £55.0m committed Revolving Credit Facility which runs until 6 August 2019 with the option (at no cost) to extend maturity for a further three years. The amount drawn under this facility at 31 March 2017 was nil (2016: nil).

13. Cash and cash equivalents (Group and Company) continued

The Group has a further £5.0m committed revolving credit facility which expires on 23 September 2020 available for utilisation by Group companies except Camelot and CGSL (2015: £5.0m). The amount drawn under this facility at 31 March 2017 was nil (2016: nil).

14. 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 15 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 2017, the credit ratings for the banks where financial assets totalling £15.0m (2016: £41.2m) are held in deposit accounts with banks which have Moody's short-term credit ratings of P1 and £0.9 (2016: £2.1) was held in deposit accounts which have a Moody's short-term credit rating of P2. Money Market Funds used during this and the preceding year each have Moody's credit ratings of AAA. Cash at bank and the trust accounts are held with Royal Bank of Scotland plc., which has a Moody's credit rating of P2 and A3 respectively.

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

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

15. Financial risk management (Group and Company)

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, which are further mitigated by the Company's use of hedging instruments on borrowings, 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 Group's exposure in this area, however this continues to be closely monitored.

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

The 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.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

b) Interest rate risk

The Group's £55.0m and £5.0m Revolving Credit Facilities allow short term borrowings at floating rates of interest.

The Group's Term Loan borrowings of £220m are also at floating rates of interest although some cash flow hedging has been undertaken using interest rate swaps under which the Group receives LIBOR and pays 0.775% on the hedged amount, thereby significantly reducing exposure to interest rate risk.

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 0.76% (2016: 0.42%).

c) Foreign exchange risk

The Group is exposed to foreign exchange risk on purchases that are denominated in a currency other than GBP 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 foreign exchange 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(n).

Included within Administrative expenses in the Group Statement of Comprehensive Income are net foreign exchange gains of £0.5m (2016: £0.2m).

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 access to revolving credit facilities outlined in note 13. These contain covenants including a maximum level of leverage and minimum levels of interest and debt service cover, all of which the Group has met. The undrawn level of these facilities 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 cash flow 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 cash flow 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 2016				
Finance lease obligations	11.6	10.3	18.5	0.0
Term loan	45.0	45.0	175.0	0.0
Eurobond	0.0	0.0	0.0	100.0
Trade and other payables	537.1	0.8	1.2	0.3
At 31 March 2017				
Finance lease obligations	10.8	18.1	3.1	0.0
Term loan	45.0	45.0	130.0	-
Eurobond	0.0	0.0	0.0	106.3
Trade and other payables	448.1	5.9	6.8	1.7

15. Financial risk management (Group and Company) continued

The Group's current credit facility comprises Eurobond loan notes of £106.3.0m (2016: £100.0m), which mature in greater than 5 years.

e) Capital risk

The Group's financing arrangements include revolving credit facilities outlined in note 13, the Term Loan described in note 17 and finance lease agreements. Under these arrangements the Group's surplus cash flow is predominantly utilised in the repayment of the Term Loans and payment of interest and capital on the Eurobond.

The Company has secured adequate capital resources through its trading and banking facilities to continue in operational existence for the foreseeable future.

f) Fair value estimation

The table below analyses financial instruments held at fair value, by valuation method. The levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2016 and 2017.

Liability	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2016				
Derivative asset used for hedging	-	(0.2)	-	(0.2)
Total Liability	-	(0.2)	-	(0.2)
Liability				
At 31 March 2017				
Derivative liability used for hedging	-	(0.8)	-	(0.8)
Total liabilities	-	(0.8)	-	(0.8)

Specific valuation techniques applied to value financial instruments include the fair value of interest rate swaps, calculated as the present value of the estimated future cash flows based on observable yield curves.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

16. Derivative financial instruments (Group)

	2017 £m	2016 £m
Interest rate swaps: Cash flow hedges		
Liability	(0.8)	(0.2)
At 31 March	(0.8)	(0.2)

At 31 March 2017 the Company held interest rate swaps executed in 2012 with a notional principal of £44.0m (2016: £64.0m) fixing LIBOR at 0.7% and interest rate swaps executed in 2017 with a normal principal of £90.0m (2016: £nil) fixing LIBOR at 0.753%.

The hedging contracts are valued independently based on interest rate yield curves. As at 31 March 2017 the value of the swap contracts was a £0.7m net liability (2016: £0.2m net liability). Fluctuations in the value of the hedging contract are recognised through Other Reserves in equity (refer to note 23).

17. Financial liabilities – borrowings (Group and Company)

a) Current liabilities: amounts falling due within one year

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Finance lease obligations	10.8	11.6	-	-
Term loan	45.0	45.0	-	-
Fees incurred on arranging Term loans	(0.7)	(0.7)	-	-
Loan due to related party	-	-	-	16.1
At 31 March	55.1	55.9	0	16.1

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

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Finance lease obligations	21.2	28.8	-	-
Term loan	175.0	220.0	-	-
Fees incurred on arranging Term loans	(1.7)	(2.4)	-	-
Eurobond loan notes	106.3	100.0	100.0	100.0
At 31 March	300.8	346.4	100.0	100.0

Financing arrangement fees are amortised over the term of the loans using the effective interest rate method.

Non-current liabilities include the balances repayable on the term loan falling due after one year less the unamortised arrangement fees.

Other non-current financial liabilities of the Group consist of Eurobond loan notes registered with the Channel Islands Stock Exchange. All of the loan notes are held by 2247622 Ontario Limited, a subsidiary of the Company's ultimate parent, Teachers'.

Finance leases primarily relate to National Lottery terminals and software.

Notes to the Financial Statements continued

17. Financial liabilities – borrowings (Group and Company) continued

c) Interest rate profile of financial liabilities

The interest rate profile of the debt is as follows:

Liabilities 2016	%	Floating rate £m	%	Fixed rate £m
Term loan	LIBOR + Margin%	265.0		-
Eurobond loan notes		-	12.5	100.0
Finance leases		-	Various	40.4
		265.0		140.4
Interest rate swaps '12 -'17	Receive LIBOR	(64.0)	0.775	64.0
Net fixed/floating principal		201.0		204.4
Capitalised fees		-		(3.4)
Total borrowings		201.0		201.0

Liabilities 2017	%	Floating rate £m	%	Fixed rate £m
Term loan	LIBOR + Margin%	220.0		-
Eurobond loan notes		-	12.5	106.3
Finance leases		8.3	Various	23.7
		228.3		130.0
Interest rate swaps	Receive LIBOR	(134.0)	0.760	134.0
Net fixed/floating principal		94.3		264.0
Capitalised fees		-		(6.3)
Total borrowings		94.3		257.7

On 31 May 2016 the Company entered into further interest rate swaps with an initial notional principal of £130.0m fixing LIBOR at 0.753% from 30 June 2016 until 30 September 2019.

18. Trade and other payables (Group and Company)

a) Current liabilities

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Prize liability	227.0	297.1	-	-
Advance receipts for future draws	45.4	50.4	-	-
Amounts payable to the NLDF	29.8	27.3	-	-
Lottery duty payable	73.2	73.8	-	-
Trade payables	20.4	25.5	-	-
Other payables	23.0	27.0	-	-
Accruals and deferred income	29.3	36.0	3.4	3.1
At 31 March	448.1	537.1	3.4	3.1

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.

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Notes to the Financial Statements continued

18. Trade and other payables (Group and Company) continued

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

b) Non-current liabilities

	Group 2017 £m	Group 2016 £m
Accruals	3.1	2.3

19. Deferred taxation (Group)

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

Outstanding offset amounts are as follows:

	Group 2017 £m	Group 2016 £m
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	4.0	4.8
Deferred tax asset to be recovered within 12 months	0.0	0.2
At 31 March	4.0	5.0
	Group 2017 £m	Group 2016 £m
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(20.5)	(27.1)
Deferred tax liability to be recovered within 12 months	(4.0)	(4.9)
At 31 March	(24.5)	(32.0)
Deferred tax liabilities (net)	(20.5)	(27.0)

The gross movement on deferred income tax balances is as follows:

	Accelerated capital allowances £m	Provisions £m	Cash flow hedges £m	Other temporary differences £m	Total £m
At 1 April 2015	(3.8)	4.1	-	(36.0)	(35.7)
Credited in the Statement of Comprehensive Income	0.8	-	-	4.1	4.9
Change in tax rate	0.4	(0.4)	-	3.8	3.8
At 31 March 2016	(2.6)	3.7	-	(28.1)	(27.0)

19. Deferred taxation (Group) continued

At 1 April 2016	(2.6)	3.7	-	(28.1)	(27.0)
Credited in the Statement of Comprehensive Income	0.6	0.4	0.1	4.0	5.1
Change in tax rate	0.1	(0.2)	-	1.5	1.4
At 31 March 2017	(1.9)	3.9	0.1	(22.6)	(20.5)

20. Provisions for liabilities and other charges (Group)

	Legal £m	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	Total £m
At 1 April 2015	-	7.1	2.8	0.5	9.7	20.1
Charged to Statement of Comprehensive Income	-	1.2	2.0	3.3	3.2	9.7
Utilised in the year	-	-	-	(0.4)	(3.7)	(4.1)
At 31 March 2016	-	8.3	4.8	3.4	9.2	25.7
At 1 April 2016	-	8.3	4.8	3.4	9.2	25.7
Charged to Statement of Comprehensive Income	0.3	0.6	0.1	-	1.3	2.3
Utilised in the year	-	-	(0.4)	(3.3)	(0.9)	(4.6)
At 31 March 2017	0.3	8.9	4.5	0.1	9.6	23.4

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

	2017 £m	2016 £m
Current	2.6	5.3
Non-current	20.8	20.4
At 31 March	23.4	25.7

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.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

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.

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

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

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

The legal provision relates to the current best estimate of the costs relating to open legal cases.

21. Investment in subsidiaries (Company)

The Company holds an investment of £154.0m in PLUK (2016: £154.0m).

22. Share capital (Group and Company)

The Group's immediate parent undertaking is PLIUK. The ultimate parent undertaking is Teachers'.

a) Authorised and allotted share capital:

Authorised	2017 £	2016 £
990 ordinary 'A' shares of £1 each (2016: 990)	990	990
10 preference 'B' shares of £1 each (2016: 10)	10	10
At 31 March	1,000	1,000

b) Analysis of shareholding

	Number of 'A' shares	Number of 'B' shares	Percentage holding %
Premier Lotteries Investments UK Limited	990	3	99.3
Fourmoront Corporation	-	7	0.7
At 31 March 2016	990	10	100
Premier Lotteries Investments UK Limited	990	3	99.3
Fourmoront Corporation	-	7	0.7
At 31 March 2017	990	10	100

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

c) Rights and obligations

Income and capital

Income and capital is distributed amongst the holders of all Ordinary Shares pari passu as if the same constitutes one class of share.

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 voting and all other rights (other than as provided for in article 5A of the Company's articles of association) the respective classes of all the 'A' and 'B' ordinary shares shall be pari passu as if the holders of all the 'A' and 'B' ordinary shares constituted one class of share.

23. Reserves (Group and Company)

	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Group				
At 1 April 2015	(0.2)	(0.1)	(185.7)	(186.0)
Profit for the financial year	-	-	43.5	43.5
Foreign exchange losses	(0.1)	-	-	(0.1)
Cash flow hedges				
- Fair value gains	-	(0.1)	-	(0.1)
Dividends paid	-	-	(59.4)	(59.4)
At 31 March 2016	(0.3)	(0.2)	(201.6)	(202.1)
	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Group				
At 1 April 2016	(0.3)	(0.2)	(201.6)	(202.1)
Profit for the financial year	-	-	28.6	28.6
Foreign exchange losses	0.3	-	-	0.3
Cash flow hedges				
- Fair value gains	-	(0.5)	-	(0.5)
Dividends paid	-	-	(0.3)	(0.3)
Tax thereon		0.1	-	0.1
At 31 March 2017	0.0	(0.6)	(173.3)	(173.9)

The Group holds cash flow hedging contracts with the providers of the bank loans to hedge exposure to interest rate fluctuations (see notes 16 and 17). The movement in other reserves represents unrealised gains or losses on fluctuations in the value of the hedging contracts, net of tax. Realised costs of £0.7m (2016: £0.2m) have been recognised within finance costs.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

23. Reserves (Group and Company) continued

Company	Retained earnings £m	Total equity £m
At 1 April 2015	54.7	54.7
Profit for the financial year	43.3	43.3
Dividends paid	(58.7)	(58.7)
At 31 March 2016	39.3	39.3

Company	Retained earnings £m	Total equity £m
At 1 April 2016	39.3	39.3
Profit for the financial year	10.4	10.4
At 31 March 2017	49.7	49.7

As permitted by section 408 of the Companies Act 2006, the income statement of the Company has not been presented in the financial statutory financial statements. The profit for the financial year was £10.4m (2016: £43.3m).

24. Cash generated from operations

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Profit for the financial year	28.6	43.5	10.4	43.3
Adjustments for:				
- Income tax	8.3	7.2	(1.5)	(1.6)
- Depreciation and amortisation	51.2	45.9	-	-
- Profit on disposal of fixed assets	-	-	-	-
- Interest income	(0.1)	(0.3)	-	-
- Interest expense	21.3	22.2	12.8	12.5
- Dividend not received as cash	(16.1)	-	(16.1)	-
	93.2	118.5	5.6	54.2
Changes in working capital:				
- Inventories	0.1	(0.1)	-	-
- Trade and other receivables	83.2	(14.5)	0.1	(0.3)
- Trade and other payables	(87.5)	(13.3)	-	0.6
- Provisions	(2.4)	5.6	-	-
	(6.6)	(22.3)	0.1	0.3
Cash generated from operations	86.6	96.2	5.7	54.5

25. 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 (2016: £0.3m).

Fixed and floating charges have been given on certain assets to the Trustee and to the Group's lenders (see note 17).

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

26. Operating leases (Group)

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

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

No operating leases are held by the Company. Operating leases held by the Group primarily relate to building leases and use of third party satellite communications network contracts.

27. Pension arrangements (Group)

Employees began making contributions to the 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 £2.6m in the current year (2016: £2.4m).

28. Related party transactions (Group and Company)

The Company transacted with its fellow group companies, CBSL, Camelot, PLIUK and PLUK, during the year.

Receivables from related parties	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Premier Lotteries Investments UK Limited	0.3	-	0.3	-
Payables to related parties	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Premier Lotteries Investments UK Limited	-	-	-	16.1

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

28. Related party transactions (Group and Company) continued

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

Recharges from the Group / Company	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Premier Lotteries UK Limited	-	-	0.3	-

During the year under review, Camelot entered into the following transactions with SLE, a société coopérative à responsabilité limitée incorporated in Belgium. The main purpose of SLE is to provide services to lotteries in Europe which participate in the EuroMillions game. The head office is located in Belgium at the address Avenue de Terveuren 448, Bruxelles, Belgium, 1150.

	2017 £m	2016 £m
Purchases	1.0	0.9
Amounts due to SLE	0.0	0.2
Net income	0.1	0.1
Amounts due from SLE	0.0	0.0

In addition, the Company received £0.6m (2016: £0.8m) from Camelot UK Lotteries Ltd, £nil (2016: £0.3m) from CBSL, and £0.2m (2016: £0.1m) from CGLSL in respect of group taxation relief during the year.

The Company is controlled by PLIUK. PLIUK is the only company to consolidate the Company's financial statements. The Company's ultimate owner is Teachers'.

Loans due to related parties

The Company's Eurobond loan notes are held by 2247622 Ontario Limited, a subsidiary of the Company's ultimate parent Teachers'. The Eurobond incurs a fixed rate of interest of 12.5% and there are no fixed repayment dates. The Company has made repayments of nil (2016: £nil) resulting in the total Eurobond balance as at 31 March 2017 being £106.3m (2016: £100.0m). The Company has capitalised interest of £6.3m (2016: nil) on the loan during the year ended 31 March 2017 with a total amount due for interest as at 31 March 2017 of £3.3m (2016: £3.1m).

Key management compensation

The Company has no employees and the directors are remunerated for their qualifying services by CBSL or the Company's ultimate parent, Teachers'. Therefore there are no staff costs in the Company.

Premier Lotteries Capital UK Limited

Notes to the Financial Statements continued

29. Subsidiary undertakings

Name	Country of incorporation	Nature of the business	Type of shares held	Proportion of shares held by the immediate parent
Premier Lotteries UK Limited*	UK	Holding Company	Ordinary Preference	100% 0%
Camelot UK Lotteries Limited	UK	UK National Lottery operator	Ordinary Preference	100% 0%
Camelot Global Services Limited	UK	Holding company	Ordinary	100%
Camelot Global Services (North America) Inc.	USA	Lottery consultancy	Ordinary	100%
Camelot Commercial Services Limited	UK	Commercial Services	Ordinary	100%
Camelot Business Solutions Limited	UK	Business Services	Ordinary	100%
Camelot Global Lottery Solutions Limited	UK	Project management	Ordinary Preference	100% 30%
Camelot Lotteries Limited	UK	Dormant	Ordinary	100%
National Lottery Enterprises Limited	UK	Dormant	Ordinary	100%
CISL Limited	UK	Dormant	Ordinary	100%
CISL SA Limited	SA	Dormant	Ordinary	100%
Wholesale Commercial Collections Limited	UK	Dormant	Ordinary	100%

* Directly held by Premier Lotteries Capital UK Limited

The subsidiaries shown above as 'dormant' have share capital, equal to net assets, of £6 in total. This amount represents the Group'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 at Magdalen House, Tolpits Lane, Watford, Hertfordshire, WD18 9RN, United Kingdom.

Premier Lotteries Capital UK Limited

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