



2010 ANNUAL REPORT AND FINANCIAL STATEMENTS

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Camelot Group plc (renamed Camelot UK Lotteries Limited on 5th August 2010)

Company Number

2822203

CAMELOT'S ROLE

Camelot is the operator of The UK National Lottery. It operates solely in the UK and Isle of Man and its head office is situated in Watford. Other sites include a prize payment department and an IT back-up team in Liverpool, a warehouse facility in Northampton and a corporate affairs office in London.

Camelot's objective is to maximise returns to the Good Causes through the sale of lottery games in the most efficient and socially responsible way. This involves creating, marketing and promoting new games, developing and running the lottery infrastructure, providing services for players and winners, and working in partnership with retailers. As a profit-making Group, Camelot also aims to maximise returns to shareholders.

CAMELOT'S PARTNERS

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

- the Government, empowered by the National Lottery etc Act 1993 (as amended), through the Department for Culture, Media and Sport,
- the National Lottery Commission (NLC) which, after a competition against an Invitation to Tender, awards the operating Licence to run The National Lottery. It is also responsible for regulating The National Lottery,
- the 14 lottery distribution bodies which decide which beneficiaries should receive lottery funding.

LICENCE FACTS

In May 1994, the NLC awarded Camelot a seven-year Licence to run the lottery and on 14 November 1994 the first draw-based tickets went on sale. In December 2000, Camelot was awarded the second seven-year Licence to run The National Lottery, which commenced on 27 January 2002 and expired on 31 January 2009. In August 2007, Camelot was awarded a third Licence to operate The National Lottery, which started on 1 February 2009 and will run to 2019, with a possible extension for a period of up to five years.

CHAIRMAN'S STATEMENT

In a very successful year for the Company, Camelot has reaffirmed its status as one of the most cost-efficient and responsible lottery operators in the world by once again increasing sales and returns to the Good Causes.

The Company's success in recording its second best ever sales performance and delivering the best returns to the Good Causes in a decade underlines the ongoing effectiveness of Camelot's long-term strategy for growth, which is based on maximising consumer choice and convenience. A strategy, however, is only as good as the people who implement it – and much credit must therefore go to Camelot's management team and entire staff for the commitment and hard work that underpinned this year's impressive achievements.

The ongoing review by Camelot's five shareholders of their shareholdings in the Company remained a predominant theme throughout the year. In December, Royal Mail Enterprises Ltd joined the four other shareholders – Cadbury Holdings Ltd, De La Rue Holdings plc, Fujitsu Services Ltd and Thales Electronics plc – in reviewing options for their interests in Camelot. This resulted in all five agreeing to sell their shareholdings in Camelot to Premier Lotteries UK Limited, a subsidiary of Ontario Teachers' Pension Plan (Teachers'), in March 2010.

Subject to final approval from The National Lottery's regulator, the National Lottery Commission (NLC), Teachers' will become the new ultimate owner of Camelot later this year. Teachers' is an experienced investor in socially-significant and regulated assets, and understands the responsibility of owning an asset of national interest, such as The National Lottery. Being owned by a long-term strategic investor is good news for Camelot and The National Lottery. I welcome Teachers' public commitment to supporting Camelot's management team in delivering its plans for the business – and raising even more money for the Good Causes.

My thanks are due to Camelot's outgoing shareholders. With Cadbury, De La Rue, Fujitsu and Thales – or their previous incarnations – having formed part of Camelot since its incorporation in 1993, and with Royal Mail joining the consortium in 2001, they have been very supportive of the Company and have invested considerable funds over the years to ensure the long-term health of The National Lottery.

In becoming the new ultimate owner of Camelot, Teachers' will be acquiring a world-class lottery operator. The Company operates the most cost-efficient lottery in

Europe and one of the most operationally-efficient in the world. In addition, it operates one of the most successful interactive lotteries in the world. It is also internationally-recognised as a world leader in setting and maintaining exceptionally high standards of corporate responsibility. Although Camelot operates four of the top fast-moving consumer goods brands in the UK – with one of those, Lotto, the single biggest brand in the country – National Lottery players spend relatively small amounts each week, underlining the Company's commitment to selling lottery tickets in a socially responsible way.

Through its purchase of Camelot, Teachers' will also be embracing a national institution. With 95% of the UK population recognising its crossed fingers logo and around 70% of adults playing games on a regular basis, the National Lottery has become an established part of everyday life in the UK. It creates around four million winners a week and has now produced more than 2,400 millionaires since its launch in 1994. Most significantly, it has now raised more than £24 billion for the Good Causes – money that has funded over 330,000 individual awards throughout the UK.

Camelot will be looking to build on these achievements to ensure it fulfils its commitment to maximise returns to the Good Causes over the course of the Licence period. To help it do this – and having already restructured the Company to ensure that it is in the best possible shape to deliver sustainable growth over the next decade – the management team will continue to focus on efficiency, innovation and diversification to drive sales.

It will also continue to work with the Department of Culture, Media and Sport

(DCMS) and the NLC in seeking to develop a regulatory framework that, while robust, recognises Camelot's record and experience of having run the National Lottery successfully for over 15 years. Camelot believes that after such a period of time, and in order to derive as much benefit as possible for the Good Causes over the next 10 years, it is important to move to a regulatory environment that is less prescriptive and time-consuming. The Government has indicated that it believes that regulation should be proportionate, outcome-based and as simple as proper scrutiny permits. This is a view that the Company shares – and hopes may be acted on in the new Parliament.

As in previous years, Camelot has argued for the National Lottery to be moved to a Gross Profits Tax (GPT) regime. The much more deregulated gaming and gambling sectors already benefit from this flexible and competitive system, in which profits are taxed after prizes have been paid, rather than before. Despite there being wide cross-party support for such a move for several years now, the Company remains disappointed that, to date, the Government has chosen not to implement this much-needed reform.

Given that the National Lottery is arguably the most benign form of gambling and returns, by far, more money back to society, the reluctance to put it on a more equal footing with other operators is frustrating. We shall therefore be pressing the new Government to switch the National Lottery to GPT for the benefit of players and the Good Causes – as well as the Exchequer itself.

On a penultimate note, there have been some changes to the Board in respect of the shareholder-nominated non-executive

directors. Ian O'Driscoll of Fujitsu resigned in July 2009 and was replaced by Brian Harris, while the Royal Mail's Adam Crozier left in March this year. I would like to thank both Ian and Adam for their support and important contributions during their time spent with the Company.

On behalf of the Board, my final thanks go to Camelot's Chief Executive, Dianne Thompson and her management team, and the talented and dedicated employees throughout the Company – all of whom have risen to the challenges of the year with the highest standards of commitment, professionalism and drive. The vital role they have all played in reinforcing Camelot's position as one of the world's best lottery operators is something of which they can be rightly proud.



Sir Peter Middleton GCB
Chairman
25 June 2010

CHIEF EXECUTIVE'S REVIEW

I am delighted to report on an exceptional year for Camelot and The National Lottery. In the first full financial year of our third Licence to operate The National Lottery, we have achieved our second best ever sales performance and delivered the best returns to the Good Causes in 10 years.

Total sales increased by £302.7 million (5.9%) on the previous year's total of £5,149.1 million to £5,451.8 million. This, in turn, means that we have again increased the amount of money delivered for the Good Causes. Excluding interest on lottery balances, the total returns to the Good Causes rose by a further £170.8 million (12.4%) – from £1,377.6 million in 2008/9 to £1,548.4 million.

This greater return to the Good Causes has been achieved by the ongoing transformation of the Company's operating structure and its cost base, as well as the decrease in returns to shareholders – a commitment we set out in our bid for the third Licence. The total returns figure also includes £2.3 million in Secondary Contributions – a direct result of changes to the retention structure for the third lottery Licence that increase the incentive for Camelot to grow sales and mean that, at certain levels, surplus profit will be shared with the Good Causes.

These outstanding achievements are a credit to the dedication and determination of all of the team at Camelot – and vindicate all of the work we carried out in preparation for the start of the third Licence to ensure we remain fit for purpose to maximise returns

to the Good Causes over the next 10 years. They also underline the success of our long-term strategy for growth – which is based on offering players a regularly-refreshed portfolio of games and innovative and convenient new ways to play. This approach has now resulted in an impressive 14.4% increase in total sales over the last five years.

Our strong performance during the year is also very good news for the London 2012 Olympic Games and Paralympic Games. The National Lottery is playing a major role by contributing £2.2 billion towards the public funding package for the Games. Of this, £750.0 million will come from specially-designated games. At the time of writing, and with over two years to go until the start of the Games, we remain on track having now raised over £500.0 million from sales of London 2012-designated games.

We have continued to put consumer choice and convenience at the heart of everything we do. We want people to enjoy playing National Lottery games in the way that best suits their lifestyles. The effectiveness of this strategy is underlined by the fact that we have again succeeded in growing sales across the board. As well as increasing sales

"These outstanding achievements are a credit to the dedication and determination of all of the team at Camelot."

of both draw-based and instant play games, we have continued to boost performance across all major distribution channels – including retail and direct channels

Total sales of draw-based games this year increased by over £193.6 million to £4,121.6 million from £3,928.0 million the previous year. EuroMillions, whose introduction we spearheaded, continues to enthral the nation with its huge Rollovers and special Mega Jackpot draws. And the public's excitement with the game has only heightened with the recent winning streak enjoyed by UK EuroMillions players – with, at the time of writing, the UK having had seven £24 million-plus EuroMillions winners since June 2009.

The public's imagination has also been captured with the launch of UK Millionaire Raffle in November 2009. This exciting UK-only addition to EuroMillions creates a guaranteed UK millionaire each and every week – and, up until the end of the financial year, had created 20 millionaires. The game has proved to be hugely popular with our players – making it The National Lottery's most successful game development since the launch of Wednesday Lotto in 1997.

Our ongoing policy of regularly refreshing our range of games to appeal to as many people as possible also succeeded in growing sales of instant play games. These rose by £109.1 million to £1,330.2 million in 2009/10 from £1,221.1 million the previous year.

With over 28,500 outlets, retail remains the largest sales channel for National Lottery products – accounting for almost 90% of all sales. National Lottery Fast Pay, our pioneering initiative that lets players store their favourite numbers or a Lucky Dip® on a handy, re-usable card and play draw-based games at the checkout, continues to go from strength to strength. Sales via National Lottery Fast Pay surged by £313.1 million this year – from £821.3 million last year to £1,134.4 million in 2009/10.

My thanks go to our all of our retail partners for their continued hard work and loyalty – especially during such a challenging economic climate. We will carry on building on their fantastic achievements by continuing to offer all the support they need to help them boost overall sales and returns to the Good Causes – and adding further value to their businesses.

Our internet and mobile phone platforms have also performed very strongly – and alone generate around £3.0 million for the Good Causes every week. Interactive sales this year grew to £572.4 million, an increase of £84.2 million on last year's sales of £488.2 million. With over four million people registered to play the National Lottery interactively, we operate one of the most successful interactive lotteries in the world – with our website, www.national-lottery.co.uk, one of the top e-commerce sites in the UK by monthly visits. In addition, our achievement in driving further growth in subscription sales – from £89.8 million last year to £117.6 million this year – underlines the success of our ongoing focus on offering players even greater convenience.

Our outstanding sales performance this year means that the UK National Lottery remains one of the world's most successful lotteries. At around 40% of total sales, Camelot also returns more revenue back to society in percentage terms than any other major lottery operator in the world. On top of this, we continue to run the most cost-efficient lottery in Europe and one of the most operationally-efficient lotteries in the world.

CHIEF EXECUTIVE'S REVIEW CONTINUED

We are not complacent – we want to build on these tremendous achievements to ensure that we continue to maximise returns to the Good Causes over the course of the third lottery Licence. To this end, we have maintained our focus on the long-term health of the business with a view to becoming even more cost-efficient, as committed to in our successful bid for the third lottery Licence.

Having pledged to further reduce operating costs from 5% of revenue to around 4% over the next 10 years, we have completed the work we started last year to review our ongoing operational and employee requirements. As a result of a successful phased programme of 'transformation', which minimised disruption to the business, I believe that we have created a lasting legacy of delivery excellence within Camelot which leaves us ideally placed to support the ongoing growth of the National Lottery over the next decade. This, in conjunction with our shareholders' decision to reduce their profit at the current level of sales, will ensure that we continue to maximise returns to the Good Causes over the long-term.

Despite our ambitious revenue plans for the third Licence period, we remain committed

to raising as much money as possible for the Good Causes in a socially responsible way. The success of our ongoing strategy of encouraging many people to play but to spend relatively little is highlighted by the fact that around 70% of the adult population in the UK play our games on a regular basis but spend around £3 a week each. Despite being the sixth largest lottery in the world in terms of sales, we are ranked just 64th in terms of per capita spend – clear evidence of our commitment to being a responsible operator.

As such, we are charged with a duty of care to our players and winners, and with maintaining public trust and confidence in The National Lottery. Corporate responsibility is therefore embedded at every stage of the National Lottery life cycle – from the way we design, sell and promote our games to the way we train our employees, advise big winners and strive to reduce our impact on the environment. Throughout the year, we have continued to build on our sustainability programme by maintaining stringent levels of consumer protection, supporting our local communities through employee participation and investment, and improving our environmental performance.

Our work in this area has not gone unrecognised. This year, we achieved both the European Lotteries Responsible Gaming Standards 'certification of alignment' and the highest level of accreditation, Level 4, of the World Lottery Association (WLA) Responsible Gaming Framework. At the same time, we continued to lead the way in advocating responsible gaming by sharing best practice with other lotteries and championing high standards worldwide. In addition, we remain a Platinum-ranked member – the highest category available – of Business in the Community's (BITC) Corporate Responsibility Index.

I am also pleased to report that, for the fourth year running, the National Lottery website and Play by Text service on mobile phones have achieved certification for implementing the GamCare Code of Practice for Online Lotteries. Camelot was the first organisation in the UK to achieve accreditation from GamCare, the leading gambling counselling and advice charity, for its interactive services – and our latest certification recognises the effectiveness of the robust measures we have in place to prevent excessive and underage play.

CHIEF EXECUTIVE'S REVIEW CONTINUED

We continue to receive tremendous support from our wide range of stakeholders – including players and winners, employees, public interest groups, governmental bodies, local communities, suppliers and retailers. We are committed to engaging with them further to gain an even better understanding of how we can continue to improve our products and run an even more responsible business.

We are also continuing to take action to lessen our impact on the environment. Following the introduction of new lottery terminals and Playstations across our retail estate, we have recycled virtually all of the component parts of the old models. We are also using an ongoing programme of refurbishment as an opportunity to reduce the overall environmental footprint of our offices by incorporating energy-saving and other sustainable features.

As we move into the second full year of our Licence, our commercial success will continue to be driven by our focus on innovation and our determination to grow the business further through an enhanced game portfolio and diversification. For example, in May 2010 we introduced some exciting changes to make our popular

Thunderball game even bigger – with an increased top prize of £500,000, a new £3 prize tier, an extended number range and a brand new Friday draw.

We are also actively exploring opportunities to offer additional services, such as bill payments, mobile top-ups and electronic fund transfers, through our network of lottery terminals to raise even more money for the Good Causes. Such ancillary services formed a key plank of our successful bid for the third lottery Licence in response to the National Lottery Commission (NLC) encouraging bidders to look at potential revenue opportunities which could help maximise returns to the Good Causes. At the time of signing these accounts, the NLC is currently considering our proposals, having conducted a 10-week consultation based on competition law. We very much look forward to receiving the go-ahead – and turning these exciting plans into reality.

Given our strong track record in maximising returns to the Good Causes, as well as our status as one of the largest and most cost-efficient lotteries in the world and a leader in corporate responsibility, Camelot is frequently approached by, and, through its sister company Camelot Global Services

Limited (CGSL), offers consultancy and advice to, lottery operators around the world.

Since September 2009, CGSL has been providing consultancy services and expertise to the California State Lottery to help it grow sales – and so maximise returns to the lottery's beneficiaries. Building on the successes of this current role, CGSL is now exploring potential opportunities with other lotteries throughout the world.

We want to use the skills and resources we have developed over the last 15 years to further benefit returns to society over the next 10 years and beyond – both at home and abroad. I am therefore delighted that our potential new owner wholeheartedly shares this vision.

Ontario Teachers' Pension Plan (Teachers') takes a long-term view of its investments, providing an environment of stability, commitment and continuity in the businesses in which it invests, and clearly recognises the substantial opportunities available to Camelot to grow both domestically and internationally. I very much welcome Teachers' commitment to The National Lottery's ongoing success, and I and my colleagues look forward to

the opportunity of working with them to continue our progress in developing the business and delivering even more money for the Good Causes

The National Lottery's continuing success and our track record of consistently delivering for the Good Causes would not be possible, of course, without one vital ingredient – our players. With around four million people winning a prize every week across our range of games, we have now paid out more than a staggering £37 billion in prizes since launch in 1994, creating more than 2,400 millionaires or multi-millionaires in the process

As well as putting them at the heart of everything we do as we look to implement our exciting plans, we are keen that our players have an even greater understanding of how National Lottery funding benefits communities the length and breadth of the UK. Although we play no role in distributing Good Causes money, we will continue to work closely with the National Lottery Promotions Unit, the lottery distributors and the Department for Culture, Media and Sport in their vital work to promote the huge difference that lottery funding makes

Given the challenges posed by our organisational restructuring, the tough economic climate, the continuing unlevel playing field in terms of our tax regime, and the lengthy shareholder sale process, I believe that our achievements this year are all the more exceptional. My thanks go to Camelot's Chairman, Sir Peter Middleton, and my Board colleagues for their guidance, advice and unwavering support as we have successfully faced up to these challenges

Much credit must also go to all of my colleagues at Camelot for their focus and dedication throughout the year. In last year's Annual Report, I referred to our goal of building an even better and brighter National Lottery as we started the third Licence period. Thanks to the tremendously hard work of everybody at Camelot, I firmly believe that this year's numerous successes provide clear evidence that we are well on the way to fulfilling this promise



Dianne Thompson CBE
Chief Executive
25 June 2010

DIRECTORS' REPORT

The directors of Camelot Group plc present their report together with the audited financial statements for the year ended 31 March 2010

PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Principal activity

The principal activity of the Group is the operation and promotion of the National Lottery in a socially responsible manner for the benefit of the Good Causes. The establishment of the UK National Lottery was enabled by the passing of the National Lottery etc. Act 1993 (as amended). Camelot operates the National Lottery pursuant to an operating Licence granted by its regulator, the National Lottery Commission (NLC). The current operating Licence was granted on 1 February 2009 and will run to 2019, with a possible extension for a period of up to five years. As a profit-making Group, Camelot also aims to maximise returns to shareholders, albeit that the Group has pledged to reduce profits at the current level of sales as well as reduce operating costs under the third lottery Licence period. The Group expects to pursue this principal activity for the coming year.

Strategy

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

- 1 Strengthening the National Lottery brand and giving it universal appeal
- 2 Growing the core product range and diversifying into new products to better satisfy consumer needs

3 Giving consumers easy access to the National Lottery brand wherever they are in the UK and Isle of Man and whenever they want to play

4 Build direct dialogue with consumers alongside traditional mass communications

During the current year, the Group has continued to focus on refreshing the game portfolio and enhancing player accessibility, and therefore maximising returns to the Good Causes. This will continue to be the focus of the Group for the immediate future.

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

Key performance indicators (KPIs)

The Group's financial KPIs cover sales levels, prizes and returns to the Good Causes, as well as net profit levels. Performance in these areas is discussed on the following pages. In addition, Camelot is required to maintain and report on specific standards of performance on player accessibility and the service provided to players. Failure to meet specific targets can result in a breach of the Licence. During the current year, Camelot has worked to meet, and in many cases exceed, these targets, as detailed in the table on pages 82 and 83.

Financial performance

The Group's profit before taxation was £44.8m (2009: £62.7m). Profit after taxation was £31.5m (2009: £44.5m). In its bid for the third Licence, Camelot committed to

reduce its profits at the current sales levels as well as reduce operating costs, therefore further increasing returns to the Good Causes. This reduction in profit is in line with this commitment.

Sales

Total sales for the year ended 31 March 2010 were £5,451.8m (2009: £5,149.1m), an increase of 5.9%. Within these revenues, sales for draw-based games increased by 4.9% and totalled £4,121.6m (2009: £3,928.0m), largely driven by continued growth in the EuroMillions game, which has more than offset natural declines in other games.

In line with Camelot's objective to strengthen its core product range, an enhancement was made to the EuroMillions game with the launch of a brand new UK-only Millionaire Raffle game. Every UK EuroMillions ticket is entered into the raffle which creates a guaranteed UK million pound winner every week.

Sales for instant play games (National Lottery Scratchcards and interactive Instant Win Games) increased by £109.1m or 8.9%, representing the seventh successive year of growth.

The year has continued to see strong growth through all the Group's distribution channels – retail and direct channels. Retail continues to be the Group's largest sales channel, increasing £190.7m from £4,571.1m to £4,761.8m. Sales through National Lottery Fast Pay cards increased by 38.1% to £1,134.4m – the first financial year in which Fast Pay sales have reached £1 billion.

Camelot's newer channels of distribution have also continued to grow, with direct

channel sales up 19.5% from £578.0m to £690.0m. Camelot continues to operate one of the most successful interactive lotteries in the world, raising around £3.0m a week for the Good Causes from these channels.

Prizes

Total prizes were £2,788.8m in 2010 (2009 £2,627.6m) and remained broadly the same at 51.2% of sales (2009 51.0%).

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

Camelot continues to have success in its efforts to locate the winners of unclaimed draw-based prizes worth £50,000 or more, either via local or national publicity. Unclaimed prizes, which are paid to the NLDF, for the financial year amounted to 1.5% of sales and totalled £83.1m (2009 £78.3m). The interest earned on unclaimed prizes is also paid to the NLDF or OLDF.

National and Olympic Lottery Distribution Funds

In aggregate, total payments to the Good Causes were £1,548.4m, representing 28.4% of sales (2009 £1,377.6m, 26.8%) for the year. This includes £1,465.3m (2009 £1,299.3m) in returns from ticket sales and other payments, and a further £83.1m (2009 £78.3m) in unclaimed prizes. While sales have improved by 5.9% total returns to Good Causes have increased by £170.8m (12.4%). This greater increase in returns to Good Causes is funded by the ongoing

transformation of the Company's operating structure and cost base, and the decrease in returns to shareholders.

Where Camelot's profits exceed a certain threshold, which depends on sales levels achieved, the additional profits are shared with the Good Causes in the form of Secondary Contributions. Total Secondary Contributions for the year are £2.3m.

The NLDF is the central fund from which the National Lottery Distribution Bodies draw funds for distribution to the Good Causes. The OLDF is the fund which collects and manages contributions to the cost of the London 2012 Olympic Games and Paralympic Games.

The National Lottery has committed to raise a total of £2.2 billion by 2012 to help fund the cost of hosting the 2012 Olympic Games and Paralympic Games in London, of which £750.0m will come from a series of designated games. During the current financial year, strong sales from London 2012-designated games and across the wider portfolio ensured fundraising for the Olympic Games and Paralympic Games remained on target – with over £500.0m raised to date.

Lottery duty

Lottery duty has remained at 12% of sales, and totalled £654.3m for the year (2009 £617.9m).

Retailers' and other commission

Total sales, validation and other commissions for the year totalled £261.7m, representing 4.8% of sales (2009 £247.7m, 4.8%). This includes both commission paid to retailers and bank fees paid on interactive sales transactions.

With the start of the third Licence Period, the rate of retailer commission paid in relation to Scratchcard sales was raised to 6%, with commission on draw-based games remaining at 5%. In addition, 1% of prizes paid out over £10, up to and including £500 is paid to all retailers in commission. The Post Office is able to validate prizes between £500 and £50,000 for which it continues to receive an annual payment.

In addition to paying these commissions, Camelot continues to provide all lottery terminal and standard point-of-sale equipment, consumables, telecommunications and training free of charge to all National Lottery retailers.

Gaming systems and data communication costs

Gaming systems and data communication costs decreased to £84.0m for the year (2009 £120.7m).

Gaming systems and data communication costs include the cost of maintaining software, terminals and the communications network (including National Lottery Fast Pay), 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. The decrease of £36.7m compared to the prior year is due predominantly to lower depreciation and amortisation costs. This is driven by last year's upward revision of the useful economic lives (UELs) of certain assets as Camelot moved from the second Licence to the third Licence. This is the first full year of operation under the third Licence and therefore the first year with the full effect of the revised UELs.

DIRECTORS' REPORT CONTINUED

In addition, the Group has also incurred reduced costs as a result of restructuring the cost base which had started during the previous year in preparation for the third Licence

Administrative expenses

Administrative expenses were £154.6m (2009 £180.3m) and consisted of advertising and marketing expenditure, depreciation, staff, facilities and all other administrative costs. In the previous year administrative expenses also included costs associated with the transition to the third Licence which have driven the decrease of £25.7m year on year.

Finance income and expense

Net finance expense during the year, relating to interest, amounted to £0.1m (2009 income of £5.5m), the average yield on investment being approximately 0.59% (2009 3.66%). Strict controls apply to treasury operations, which are reviewed regularly. The Group's investment policy is approved by Camelot's Audit, Risk and Security Committee and the Board. Funds are only deposited with banks which hold a strong credit rating and which meet the Group's treasury policy criteria.

Finance income was £0.4m (2009 £6.0m), £5.6m lower than prior year, reflecting the lower interest rates available in the market, as well as a decreasing cash balance following significant capital investment during the transition period to the third Licence. Finance expense of £0.5m is broadly in line with the prior year (2009 £0.5m).

Taxation

The Corporation Tax charge of £13.3m for the year (2009 £18.2m) represents an effective tax rate of 29.7% (2009 29.0%).

VAT

Sales of lottery tickets are exempt from VAT. Therefore, VAT is not normally recoverable on the Group's costs and is a charge against profits. The VAT cost for the year, including that arising on capital expenditure, was £21.9m (2009 £37.3m).

Dividends

The financial statements of the Group appear on pages 48-79. The Group's net profit for the year was £31.5m (2009 £44.5m), as disclosed on the Group Income Statement on page 48. Total dividends payable for the year under review, equivalent to net profit for the year, are £31.5m (2009 £44.5m). A final dividend of £13.0m (2009 £14.9m) is proposed.

Total approved and paid dividends during the year amounted to £33.4m (2009 £51.1m) (see note 7 to the financial statements).

Financial position at year end

The Balance Sheet reflects the financial stability of the business. Total assets have decreased from £459.0m to £456.2m.

The cost of additions to property, plant and equipment and intangible assets is offset by the respective depreciation and amortisation charge and therefore the combined value has remained consistent with the prior year at £139.1m (2009 £132.1m).

Current trade and other receivables have fallen to £23.3m (2009 £46.0m). The decrease is due to the timing of receipts from retailers. Financial assets have increased to £208.1m from £187.6m due to additional amounts held in the Raffle Trust and Prize Reserve Trust accounts to fund future prize payments. The cash

balance is in line with the prior year of £58.2m (2009 £58.5m).

Our investment in technology

In the previous year Camelot made significant investment in the infrastructure to deliver its commitments under the third Licence. The investment included installing over 27,500 next generation 'Altura' lottery terminals at retailers and rolling out a new satellite-based communications network. During the current year Camelot has continued to invest in the infrastructure to run the National Lottery and at the end of the financial year over 28,700 next generation 'Altura' lottery terminals were in operation.

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

Terminal sales availability, a key performance indicator monitored by the Group's regulator, was 100.0% (Licence target 99.5%, 2009 99.9%). In addition, system availability for playing games on the internet was 99.8% (Licence target 99.0%, 2009 99.6%).

Cash flows, cash and debt

Net cash generated from operations was £69.5m (2009 £88.3m), and interest received amounted to £0.7m (2009 £6.2m). Cash outflows primarily include £22.6m (2009 £116.4m) investment in property, plant and equipment and intangible assets to support the Group in the third Licence which includes new terminals and

communications equipment, as well as taxation related payments of £12.1m (2009 £20.5m) and dividend payments of £33.4m (2009 £51.1m). The closing cash balance was £58.2m (2009 £58.5m).

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

In order to protect prize winners and players, Camelot has set up certain trust accounts operated by The Law Debenture Trust Corporation plc, which acts as an independent trustee. The trust mechanism was reviewed and updated in anticipation of the third Licence. 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 and OLDF.

At 31 March 2010, Camelot had on deposit £20.7m (2009 £20.0m) of funds in trust accounts as an additional reserve for the protection of prize winners. Although Camelot cannot withdraw these amounts until the end of the third Licence Period, the interest on these accounts accrues to Camelot.

At 31 March 2010, the Group had bank facilities totalling £75.0m (2009 £75.0m). This consisted of an undrawn uncommitted overdraft facility of £10.0m (2009 £10.0m), a committed 364 day credit facility of £15.0m (2009 £15.0m) and a committed credit facility of £50.0m (2009 £50.0m). The overdraft facility has been extended for a six month period and will be reviewed in August 2010. The £15.0m and £50.0m revolving credit facilities will expire on February 2011 and December 2011 respectively.

Future developments and the year ahead

Camelot is currently operating under its third Licence to operate The National Lottery. The third Licence was awarded to Camelot, in August 2007, following a tender process. The licence period started on 1 February 2009 and will run to 2019 – with a possible extension for a further five years.

Following a transition phase to ensure that the right infrastructure was in place for the start of the third Licence, Camelot has continued to work on reducing operating costs from around 5% to 4% of revenue. Following the introduction of new technology and renegotiation of leases and supplier contracts last year, the Group has now restructured much of its operations, reducing its headcount from 941 employees in the previous year to 750 employees this year.

Camelot continues to deliver on the exciting plans set out in the bid for the third Licence. These include new games, the development of existing games, new ways to play and the increase in one-to-one player communication. As part of this, in May 2010, the Group launched a new-look Thunderball game – with an increased top prize of £500,000, a new prize tier, an extended number range

and a brand new Friday draw. Over the coming year the Group will continue to refresh the portfolio of games and further enhance player accessibility.

The NLC's invitation to apply for the third lottery Licence encouraged bidders to look at potential revenue opportunities which could help maximise returns to the Good Causes. Since the start of the third Licence period, the Company has therefore been working in partnership with Camelot Global Services Limited to develop proposals to offer Commercial Services through the existing lottery network. The proposals initially concentrate on being able to offer mobile top-up, international calling cards, bill payment, chip and pin debit/credit card payments and payments through contactless technology. Eighty per cent of Camelot's profits from these activities will go to the Good Causes.

As part of its assessment of the Company's application, the NLC has undertaken a public consultation on the provision of these services by Camelot in order to identify whether any interested parties believe there to be any European or competition law considerations. Camelot has engaged independent legal advice to assess whether there are any competition issues and is confident that there are none. The consultation ended on 26 April 2010 and at the date of signing these accounts the NLC is still to announce the results of its consultation.

DIRECTORS' REPORT CONTINUED

During the year the Group was informed by its shareholders – Cadbury Holdings Limited, De La Rue Holdings plc, Fujitsu Services Limited, Thales Electronics plc and Royal Mail Enterprises Limited – that they had signed a Sale and Purchase Agreement to sell their shares, subject to regulatory consent, to Premier Lotteries UK Limited, a subsidiary of Ontario Teachers' Pension Plan (Teachers'). The operating Licence granted by the NLC, under which the Company operates the lottery, is of fundamental importance and there are therefore extensive controls in place to ensure that any change in ownership does not affect the running of the business for the benefit of the Good Causes. Teachers' has publicly announced that it is seeking to invest in the long-term potential of Camelot and is committed to supporting the Company's management team in delivering the business's ambitious plans.

Camelot has remained, and will continue to remain focused on maintaining its high standards of operational excellence while delivering its commitments for the third Licence throughout any change in ownership.

Risks and opportunities

The third Licence period provides Camelot with significant opportunities as well as some significant risks and these have been incorporated into the Group's risk mitigation plans. Over the coming year, the particular challenges ahead are

- uncertainty about the future of the regulator resulting in delays to approval processes which therefore impact the Group's commercial plans,
- successful launch of game enhancements and new games, as well as developing

and gaining regulatory approval for game ideas to ensure the Group continues to refresh its range of games to appeal to as many players as possible,

- working towards launching the new Commercial Services offering through the existing lottery network,
- managing a smooth transition to the new owner with no impact on lottery operations, and
- operating during a period of economic instability, particularly within the retail sector

In addition, as with other organisations, continued uncertainty regarding the performance of the UK economy means the Group's credit and financial liquidity risk remains higher than under normal circumstances. The Group has a clear and specific investment policy which is followed for all cash deposits placed. The Group continually monitors its banking facilities and, as detailed above, has access to an overdraft and credit facilities. During the next financial year, the Group's cash flow forecasts anticipate utilising a minimum level of these facilities whilst ensuring that sufficient head-room is maintained. In addition, Camelot has an established process, set out in the retailer agreement, which ensures exposure to retailer bad debt is minimised as detailed in note 14. The Group is therefore confident that it has appropriately mitigated the additional credit and financial risks.

The implementation of the new organisation detailed on page 25, as well as managing the existing operations and delivering the commitments made in the Company's bid for the third Licence presents a significant

challenge. However, the Group has delivered a strong set of results in its first full year operating under the third Licence and has ambitious plans for the future.

Going concern

As noted in the section above, the wider economic climate increases the credit and financial liquidity risk of the Group. However, management has assessed the controls in place to minimise Camelot's exposure to this increased level of risk, which are set out in notes 14 and 15.

The pending sale of the Group to Premier Lotteries UK Limited, a subsidiary of Ontario Teachers' Pension Plan, is not considered to have a bearing on the going concern position of the business. Assuming the change in ownership is approved, the facilities disclosed in note 13 will be replaced as established by the new owners.

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

Therefore, after making appropriate enquiries, the directors confirm that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

SHAREHOLDINGS

The following share structure has been in place throughout the year under review

	Number of 'A' shares	Number of 'B' shares	Number of redeemable shares	Total % holding of shares
Cadbury Holdings Limited	7,750,000	–	10,000,000	20
De La Rue Holdings plc	7,750,000	–	10,000,000	20
Fujitsu Services Limited	5,812,500	1,937,500	10,000,000	20
Thales Electronics plc	7,750,000	–	10,000,000	20
Royal Mail Enterprises Limited	–	7,750,000	10,000,000	20

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

None of the directors held any interest in the shares of the Company or its subsidiaries at the beginning or end of the financial year. None of the directors held any rights to subscribe in the shares of the Company or its subsidiary companies at the beginning or end of the year. There have been no changes to these interests between 31 March 2010 and the date of this report.

During the year the Group was informed by its shareholders – Cadbury Holdings Limited, De La Rue Holdings plc, Fujitsu Services Limited, Thales Electronics plc and Royal Mail Enterprises Limited – that they had signed a Sale and Purchase Agreement to sell their shares, subject to consent from the NLC, to Premier Lotteries UK Limited, a subsidiary of Ontario Teachers' Pension Plan.

DIRECTORS' REPORT CONTINUED

DIRECTORS

The names of the directors who served during the year are

Chairman

Sir Peter Middleton GCB

Executive directors

Dianne Thompson CBE
(Chief Executive)

Martin Pugh

(Commercial Director)

Nigel Railton

(Finance & Operations Director)

Independent non-executive directors

Gerry Acher CBE LVO
(Deputy Chairman)

Julie Baddeley

Tim Robinson

Non-executive director

Louise Botting CBE

Shareholder-nominated non-executive directors

Adam Crozier
(nominee of Royal Mail Enterprises Ltd)
(resigned 31 March 2010)

Brian Harris

(nominee of Fujitsu Services Limited)
(appointed 15 July 2009)

Ian O'Driscoll

(nominee of Fujitsu Services Limited)
(resigned 15 July 2009)

James Hussey

(nominee of De La Rue Holdings plc)

John Howe CB OBE

(nominee of Thales Electronics plc)

Michael Clark

(nominee of Cadbury Holdings Limited)

As at the date of signing this report, Royal Mail Enterprises Limited has announced an intention to appoint Hugo Robson in place of Adam Crozier

Under the Company's Articles of Association, each shareholder-nominated director may appoint an alternate. Alternates who served during the year are as follows

Anne Stokes

(alternate to Ian O'Driscoll, Fujitsu Services Limited)
(resigned 15 July 2009)

Antoine Lagomarsino

(alternate to John Howe, Thales Electronics plc)

Dominic Blakemore

(alternate to Mike Clark, Cadbury Holdings Limited)

Louise Fluker

(alternate to James Hussey, De La Rue Holdings plc)
(appointed 1 December 2009)

Mark Thomson

(alternate to Adam Crozier, Royal Mail Enterprises Ltd)

Stephen King

(alternate to James Hussey, De La Rue Holdings plc)
(resigned 25 November 2009)

Fujitsu Services Limited announced an intention during the year to appoint Steve Clayton as alternate to Brian Harris. Steve Clayton is currently undergoing fit and proper vetting by the NLC

Information regarding the service agreements of the directors is included on page 37

INSURANCE FOR DIRECTORS AND OFFICERS

The Company has in place liability insurance for its directors and officers

POLITICAL AND CHARITABLE DONATIONS

During the year, the Group made donations to charitable organisations of £0.3m (2009: £0.9m) and in addition made some contributions in kind by way of an employee volunteering scheme

The Group made no donations for political purposes during the year ended 31 March 2010 (2009: £nil)

RESEARCH AND DEVELOPMENT

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 spent significant resources on research and development during the year. The Group spend totalled £4.0m in 2010 (2009: £4.9m), primarily in the areas of brand research and new game development

EMPLOYEES

At the beginning of the year under review, the Group employed 941 staff at eight different sites across the UK. One of the critical deliverables of the Group's bid for the third Licence, and a key deciding factor in the success of that bid, was Camelot's commitment to reduce its profits and operating costs – to ensure it is fit for purpose to maximise long-term returns to the Good Causes over the Licence period. The Company achieved some significant cost savings by introducing new technology and renegotiating leases and supplier agreements in 2008/09, and as part of this process Camelot also implemented plans to review its operational and employee requirements in order to deliver its bid commitments. As a result, Camelot closed some of its regional sites, and consulted with employees at all levels of the Company about potential changes to terms and conditions of employment and its organisational structure. A total of 198 roles were made redundant, with the majority of these redundancies taking place during June 2009, with the final phase taking place in January 2010.

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

The Group believes that delivering consumer and player satisfaction is key to its success and strives to reward the contribution made by motivated and high performing staff. Reward mechanisms including performance-related pay and an annual bonus scheme continue to support this. For the year under review, bonuses were paid on two key performance criteria – sales and profitability. When reflecting on-target performance, these bonuses range from 10% of base salary, increasing for senior management.

A new Long-Term Incentive Plan (LTIP) scheme was put in place in 2009, although no payments were made under the scheme during the year. Further details of the scheme are included on page 40. In addition, amounts were earned by key executives under a Transformation Bonus scheme which related to the delivery of ambitious reductions in long-term operating costs for the third Licence. Payments under the Transformation Bonus scheme were paid during the year.

Member-nominated trustees represent the staff in relation to the Camelot Group pension fund. Two member-nominated trustees served during the year, representing the interest of past and present members on pension fund matters.

Camelot has an extensive and well-established structure for communicating with employees through a variety of channels including internal publications, companywide email, webcasts, cascades and the Group's intranet site.

The Group established a Staff Forum (SF) in September 1999 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. In particular, senior management worked very closely with the Staff Forum during the two rounds of consultation.

VALUES AND THE ENVIRONMENT

Values and sustainability

Sustainability remains at the core of Camelot's operation and encompasses its responsibilities to, and relationships with, all those who have a stake in The National Lottery.

The Group produces a separate Sustainability Report every year. This will include the Company's priorities around consumer protection, the environment, the communities within which it operates, the workplace and stakeholder engagement. It will be available on the Group's website at www.camelotgroup.co.uk.

Camelot is currently a Platinum ranked member (the highest category available) of Business in the Community's (BITC) Corporate Responsibility Index.

The Group's external Advisory Panel for Corporate Responsibility (APCR) is made up of independent specialists from outside the Company, with professional expertise in areas of stakeholder concern. Its job is to challenge the Group's approach and provide advice on improving Camelot's practice. The APCR is chaired by an independent non-executive director and reports directly to the Board.

DIRECTORS' REPORT CONTINUED

Consumer protection

Camelot's leadership in consumer protection, services to winners and the integrity of its operations has long been recognised by the industry internationally. Central to its strategy to protecting vulnerable players and those ineligible to play means building in consumer safeguards at every stage in the lifecycle of a game.

Environment

Camelot is also committed to delivering its business objectives in an environmentally responsible manner by minimising waste and resource-use associated with its products and cutting carbon emissions. During the current year, the Group has worked to reduce energy use in its buildings and is planning further efficiency measures, placing it in a good position to meet its obligations under the new Carbon Reduction Commitment legislation.

Community investment

Camelot has a longstanding commitment to Community Investment (CI). As such, it has committed to establishing a CI programme that is aligned to Camelot's business objectives, engages employees and contributes to and builds lasting relationships with the communities in which it operates.

CORPORATE GOVERNANCE

A report on corporate governance is set out on pages 30 to 35.

FINANCIAL INSTRUMENTS

The Group is exposed to minimal levels of credit, interest rate, currency and liquidity risks that arise in the normal course of business. Details of these risks are disclosed in note 15. The impact of the current

economic climate is discussed in the risks and opportunities section above.

RELATED PARTY TRANSACTIONS

During the current financial year, the Group has operated contracts of significance with one of its shareholders or their parent and/or subsidiary companies. The Group also trades with a sister company, Camelot Global Services Limited. Details of related party transactions are given in note 27 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. At 31 March 2010, the Group's trade creditors outstanding represented approximately 17 days' purchases (2009: 23 days). During the year the Group paid creditors on average within 43 days (2009: 46 days).

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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs,

issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to

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

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

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, whose names and
functions are listed on page 24 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

AUDITORS

The auditors, PricewaterhouseCoopers
LLP, have expressed their willingness to
continue in office. A resolution proposing
their reappointment and authorising the
directors to determine their remuneration
will be put to the members of the Group at
its 2010 Annual General Meeting

By order of the Board



Gill Marcus
Company Secretary
25 June 2010

REPORT ON CORPORATE GOVERNANCE

Camelot Group plc is not listed on the UK Stock Exchange and is therefore not obliged, by law, to comply with all requirements of 'best practice' corporate governance. However, the Board is committed to business integrity, high ethical values, corporate responsibility and professionalism in all its activities and it has therefore taken a decision to report, as far as it deems appropriate, in line with best practice. This report sets out how the Company complied during the year ended 31 March 2010 with the principles contained in the latest edition of the 'Combined Code on Corporate Governance' published by the Financial Reporting Council (the 'Code') in June 2008. It outlines the approach adopted to the principles contained within the Code and provides an explanation of any current departure from the provisions of the Code.

BOARD OF DIRECTORS

At 31 March 2010, the Board comprised 12 principal members and four alternates, the Chairman, four shareholder nominated non-executive directors, three independent non-executive directors, one non-executive director and three executive directors (the Chief Executive, Finance & Operations Director and Commercial Director). Although non-executive, the shareholder-nominated directors and the non-executive director are not considered to be independent under the terms of the Code, and therefore the Board does not comprise a majority of independent non-executive directors. However, the Board considers the current composition to be effective in terms of size and balance.

There is a clear delineation of responsibility between the Chairman and the Chief Executive and the other executive directors

which is set out formally in job descriptions for each role. The Chairman leads the Board, ensuring that each director, particularly the non-executive directors, is able to make an effective contribution. He monitors, with assistance from the Company Secretary, the information distributed to the Board to ensure that it is sufficient, accurate, timely and clear. Board papers are sent to directors in good time before Board meetings. These cover key areas of the Group's affairs including overall strategy, key commercial partnerships, approval of budgets, major capital expenditure programmes, significant transactions and financing issues. The Board approves all capital expenditure projects in excess of £1m. The Chief Executive maintains day-to-day management responsibility for the Company's operations, implementing Group strategies and policies agreed by the Board.

The Board has appointed one of the independent non-executive directors, Gerry Acher, as Deputy Chairman. He is expected to perform all the duties of the Chairman in the latter's absence or incapacity or if the office of chairman becomes vacant until such time as a chairman is appointed.

The Chairman is also chairman of a number of other companies including Marsh & McLennan Companies UK, Burford Capital Ltd and the Centre for Effective Dispute Resolution (CEDR). He is chairman of the advisory boards of Barclays Asia Pacific Advisory Committee and Three Delta LLP. He is senior adviser to Fenchurch Advisory Partners. As for all independent non-executive director appointments, the Board considered the Chairman's other obligations upon his appointment, it agreed then and continues to believe that they do not prevent him from spending sufficient time on Camelot matters.

Regular Board meetings were held during the year under review. Board meetings follow a formal agenda covering regular reports from the Chief Executive and Finance & Operations Director. The attendance of directors (including alternates) at the Board and Committee meetings during the year is detailed in the table on page 31.

Each shareholder-nominated director appoints an alternate, who may attend meetings in the absence of his principal, or together with his principal if the Chairman agrees.

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

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

During the course of the year the executive directors were evaluated by the Chief Executive on their performance against personal objectives under the Company's standard appraisal mechanism. The Chairman leads the assessment of the Chief Executive and the Deputy Chairman conducts a review of the Chairman's performance.

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

	Board (7 meetings) No attended	Audit, Risk & Security Committee (6 meetings) No attended	Remuneration Committee (6 meetings) No attended	Share Sale Committee (2 meetings) No attended
Sir Peter Middleton	7	5	6	2
Dianne Thompson	7	6	5	2
Nigel Railton	7	6	–	–
Martin Pugh	7	6	–	–
Gerry Acher	7	6	6	2
Louise Botting	6	–	6	–
Tim Robinson	6	6	–	–
Julie Baddeley	7	–	6	–
Michael Clark	7	–	6	–
James Hussey	1	0	1	–
John Howe	6	5	–	–
Adam Crozier ¹	6	–	6	–
Ian O'Driscoll ²	3	–	–	–
Brian Harris ³	2	–	–	–
Alternate directors in attendance during the year were as follows				
Stephen King ⁴	5	4	3	–
Louise Fluker ⁵	2	2	1	–
Antoine Lagomarsino	–	–	1	–
Steve Clayton ⁶	1	–	–	–

– Indicates that the named individual is not appointed to or invited to attend the committee shown

¹ Resigned 31 03 10

² Resigned 15 07 09

³ Appointed 15 07 09

⁴ Resigned 25 11 09

⁵ Appointed 01 12 09

⁶ Director designate

REPORT ON CORPORATE GOVERNANCE CONTINUED

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

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

AUDIT, RISK AND SECURITY COMMITTEE

Chair

Gerry Acher CBE LVO

Members

James Hussey, Tim Robinson, John Howe CB OBE

Usual attendees

Sir Peter Middleton GCB, Dianne Thompson CBE, Nigel Railton, Martin Pugh and other functional managers for relevant sections of the meeting.

The members of this committee are all non-executive directors. It is chaired by the Deputy Chairman, Gerry Acher. Executive directors are invited to attend committee meetings, as necessary, to conduct its business. The Director of IT and Business Services, the Director of Programmes, the Head of Propriety, and representatives of the external auditors are invited to attend meetings.

The committee met six times in the year under review. Its duties are as follows:

Audit

The committee reviews the Group's financial and accounting policies, interim and final accounts and Annual Report prior to their submission to the Board, together with management reports on accounting and internal control matters. It also reviews the appointment and terms of reference of the external auditors, their management representation letter, and considers any other matters raised by the auditors. In respect of non-audit services, the committee reviews auditor objectivity by reviewing the scope of work for such services to ensure that their independence is safeguarded. It monitors the effectiveness of the internal audit function. At least once a year, the committee meets separately with the external auditors and Head of Propriety without any executive Board members present.

Risk

This section of the committee meets to assist the Board in fulfilling its responsibilities for managing the risk associated with the business and reviewing the Group's internal controls. It also monitors the framework that is in place throughout the Group to manage risk.

Security

This section approves and ensures adherence to the Group's security policies for operating The National Lottery.

REMUNERATION COMMITTEE

Chair

Louise Botting CBE

Members

Sir Peter Middleton GCB, Gerry Acher CBE LVO, Julie Baddeley, Michael Clark, Adam Crozier, James Hussey

Usual attendees

Dianne Thompson CBE, Stephen Taylor (Interim Director of HR)

The members of this committee are all non-executive directors. It recommends to the Board the policy on executive directors' remuneration and it determines the terms and conditions of employment of the executive directors. It focuses in particular on the remuneration of the executive directors and the Chairman, including pension rights and any compensation payments.

NOMINATIONS COMMITTEE

Chair

Sir Peter Middleton GCB

Members

Gerry Acher CBE LVO, Louise Botting CBE, Julie Baddeley, Michael Clark, Adam Crozier, James Hussey

Camelot recognises the vital role that non-executive directors play in ensuring high governance standards. The Nominations Committee identifies and evaluates candidates to fill vacancies and these are nominated for approval by the Board as a whole. The Nominations Committee is comprised exclusively of non-executive directors, under the chairmanship of the Chairman of the Board. It meets periodically as required to make recommendations to

the Board in respect of the appointment of directors. The committee engages the services of an executive search agency to help draw up a shortlist of suitable candidates if a vacancy arises. In briefing any such agency, the committee ensures the composition and balance of the Board is taken into consideration.

NOMINATIONS COMMITTEE (CHAIRMAN)

Chair
Louise Botting CBE

Members

Gerry Acher CBE LVO, the shareholder-nominated directors

When necessary this committee meets to consider and select suitable candidates for the role of Chairman of the Board

SHARE SALE COMMITTEE

Chair
Sir Peter Middleton GCB

Members

Gerry Acher CBE LVO, Dianne Thompson CBE, Adam Crozier (since April 2009)

During the year the Group was informed by its shareholders – Cadbury Holdings Limited, De La Rue Holdings plc, Fujitsu Services Limited, Thales Electronics plc and Royal Mail Enterprises Limited – that they had signed a Sale and Purchase Agreement to sell their shares, subject to regulatory consent, to Premier Lotteries UK Limited, a subsidiary of Ontario Teachers' Pension Plan

ADVISORY PANEL FOR CORPORATE RESPONSIBILITY

Camelot has appointed a panel of independent experts, chaired by the Deputy Chairman, Gerry Acher, which reviews the Group's Corporate Responsibility Report and advises on continuous improvement in the area of corporate responsibility. Although not a formal Board Committee, the Panel reports regularly to the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors, are independent of both management and the shareholders, and are initially appointed for a three-year term. Thereafter, while not automatic, their appointment may be extended for another three-year term, and thereafter a further three-year term, subject to mutual agreement and shareholder approval. The non-executive directors have full access to management and are encouraged to stay fully abreast of the Group's business through site visits and meetings with senior management. Louise Botting has served as a director in excess of three terms. The directors have agreed that she can remain on the Board until completion of the share sale.

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

RELATIONS WITH SHAREHOLDERS

Camelot is owned by a consortium of shareholders with which it maintains close links. All shareholder companies are represented around the Board table and have direct lines of access to the Chairman, the Deputy Chairman, the executive

directors, the independent non-executive directors and the Company Secretary.

LICENCE COMPLIANCE

The directors are responsible for establishing an adequate system of control so that assurance is provided over compliance with the provisions of the Section 5 operating Licence and Section 6 game licences and any other provisions imposed by or under any statute which relate to the running of the National Lottery or the promotion of any constituent lottery. The system of internal control includes regular reports to the Audit, Risk and Security Committee from the Group's Regulation department. Compliance audits and reviews by the Propriety department also provide assurance.

RISK MANAGEMENT AND INTERNAL CONTROL

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

REPORT ON CORPORATE GOVERNANCE CONTINUED

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

- 1 The Risk Management Committee, which meets prior to each Audit, Risk and Security Committee meeting to review and assess the Group's key risks for communication to the Audit, Risk and Security Committee. This committee also provides a forum for sharing strategic decisions that could impact risk management, and for improving the overall Group control environment
- 2 The Audit, Risk and Security Committee, which considers the Group's key risk profile and the actions taken and controls in place or planned to mitigate exposures. At the Board meeting following an Audit, Risk and Security Committee meeting, the Chairman of the Committee presents key risks to the Board which reviews how these risks are being controlled and monitored
- 3 A practical process, which identifies, evaluates and manages all types of risk faced by the Group. This process has been in place for the full financial year and will continue. The risk management process and systems of internal control are designed to manage rather than eliminate risk and to ensure that the Group's strategic objectives are achieved. It should be recognised that such systems can only provide reasonable and not absolute assurance against material misstatement or loss
- 4 The risk department, managed by the Head of Propriety, reports to the Audit, Risk and Security Committee. The Head

of Propriety assists management to identify the risks inherent in the Group's achievement of its strategic objectives. Each identified risk is recorded in a risk mitigation plan and assessed for impact on the organisation and likelihood of occurrence. The Audit, Risk and Security Committee receives a full report from the Head of Propriety at each of its meetings and examines key risks, changes to the risk mitigation plan since the last committee meeting, and risks removed since the last meeting.

Security is a key consideration for Camelot and is demonstrated by the rigorous application of security procedures throughout the organisation. The Board is regularly apprised of any potential security issues within the Group through the relevant section of the Audit, Risk and Security Committee.

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

Having reviewed its effectiveness, the directors are not aware of any significant weakness or deficiency in the Group's system of internal controls during the period covered by this report and accounts. There were no changes in the Group's internal control over financial reporting that occurred during the year ended 31 March 2010 that have materially affected, or are reasonably likely to materially affect, the Group's internal control over financial reporting.

COMPLIANCE

The Board of Camelot is committed to the principles of good governance set out in the Combined Code and has voluntarily adopted

those that are relevant to its circumstances. In doing so the Board has been mindful of the broad stakeholder responsibilities of the Group arising from the operation and promotion of the National Lottery alongside its responsibility to its shareholders. More details of how Camelot consults with its stakeholders are set out in the separate Corporate Responsibility Report. In adopting the principles and practice of the Code, the Board has taken account of the fact that all the Group's shareholders are represented on the Board, accordingly many of the Code's provisions relating to a public company's responsibilities to protect shareholders' interests and to communicate to shareholders are not relevant to the Group. Those areas where the Board has chosen to depart from the provisions of the Code are set out below.

- Provision A 3.2 requires that at least half of the Board, excluding the Chairman, should comprise independent non-executive directors. Each of Camelot's five shareholders has the right under a Shareholders' Agreement to appoint a director to Camelot's Board, and these directors are not considered independent under the terms of the Code. In order to satisfy this provision of the Code, while at the same time retaining the Board structure designed by the shareholders when the Company was established, Camelot would need to appoint a large number of independent directors, thus making its Board unworkable and unwieldy.

In addition, Provision A 3.1 requires the Board to determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

Louise Botting has served as an independent non-executive director on the Board since March 1999 and is not considered independent by virtue of having been a director for longer than nine years as recommended by the Code. Her term has been extended for a further short period, until completion of the share sale.

■ Provision A 71 states that all directors are to be subject to re-election by the shareholders at the first AGM after their appointment and at three-yearly intervals thereafter. Because of the unique set-up whereby each of Camelot's five shareholders has the right to appoint or remove a representative to sit on the Board on its behalf, these provisions are not appropriate. Any director nominated by a shareholder remains on the Board at that shareholder's discretion and the power to remove that director is vested in the relevant shareholder, subject to Company law provisions as to suitability and fitness. In the event that a shareholder-nominated director has served on the Board for an extended period (thus putting him or her in a position that might possibly compromise his/her judgement) or in the unlikely event that it is felt by colleagues that he or she is not performing in the best interests of the Company, the Chairman addresses this with the appointing shareholder company. Such issues are raised directly with the Chairman, the Company Secretary or through the annual Board evaluation process.

Under the terms of the Shareholders' Agreement each shareholder is required to give written consent to the appointment of an executive director and so there is no need for a re-election process at the first AGM after appointment. Each

executive director is subject to one year's notice and the Articles of Association reserve rights for the Board to revoke or terminate an executive appointment at any time. The shareholders are therefore accorded rights of approval over the executive director appointments, making it unnecessary to provide for a re-election process at the AGM.

Under the terms of the Articles of Association the shareholders have the right to remove any director (other than a shareholder-nominated director whose appointment and removal is a matter for the appointing shareholder company only) by written notice to the Company, thus there is no necessity for there to be a re-election process by the shareholders at an AGM.

The independent non-executive directors are appointed for three-year terms. Their appointments are governed by a process overseen by the Nominations Committee and all five shareholders have the right to attend these meetings.

Provisions A 4 1, B 2 1 and C 3 1 relate to the composition of the Nominations, Remuneration and Audit Committee respectively. Provision A 4 1 states that the majority of the members of the Nominations Committee should be independent non-executive directors. The other provisions set out that the Remuneration and Audit Committees should comprise independent non-executive directors only. These Board committees comprise a mix of independent directors, a non-executive director and shareholder-nominated directors. The shareholder-nominated directors and Louise Botting are not deemed to be independent

under the terms of the Code. They are all, however, independent of management. No Camelot executive director or other member of Camelot staff is a member of these committees. This structure has been agreed by the Board as a whole which believes that the committees are appropriately resourced.

DIRECTORS' REMUNERATION REPORT

THE REMUNERATION COMMITTEE

During the year under review the Remuneration Committee was chaired by Louise Botting, a non-executive director. The committee members during the year were Sir Peter Middleton, Gerry Acher, Julie Baddeley, Michael Clark, Adam Crozier and James Hussey, who are all non-executive directors. The Chief Executive is invited to attend Remuneration Committee meetings to share her views in determining the remuneration for other executive directors of the Company. Neither the Chief Executive nor the Chairman attends any meetings of the committee at which their remuneration is discussed. Further details of the Remuneration Committee are set out in the Report on Corporate Governance which starts on page 30.

This report contains both audited and non-audited information. As required under sections 421 and 497 of the Companies Act 2006 PricewaterhouseCoopers LLP has audited the following elements of the report:

- short-term employee benefits including basic salaries and fees, cash bonuses and non-monetary benefits which are included in the table of directors' remuneration and its footnotes,
- the awards accrued but not paid during 2009/2010 under the Long-Term Incentive Plan, and
- the disclosure of directors' defined contribution pension costs.

EXECUTIVE REMUNERATION POLICY

This report sets out the Group's policy on directors' remuneration that applies to executive directors for 2010 and, so far as practicable, for subsequent years.

The Group's executive remuneration policy is designed to attract, retain and motivate key senior executives with the relevant skills to achieve the Group's business objectives and to align their interests with those of shareholders by recognising and rewarding good performance.

The remuneration package for executive directors incorporates a competitive basic salary, an annual bonus, pension and other benefits. During the year under review the Group put in place a Long-Term Incentive Plan ('LTIP') for certain senior staff, including the executive directors. The purpose of the LTIP is to ensure the long-term health of the lottery by rewarding key staff for company performance and ensuring staff retention.

In addition, a Transformation Bonus scheme for key executives has been in operation for an interim period to reward key executives for delivering the ambitious reduction in long-term operating costs set out in our bid for the third Licence. During the year, the Company has successfully achieved this reduction in its cost base – thereby ensuring additional returns to Good Causes.

All bonus schemes and the LTIP are financed by the shareholders and paid out of profits.

In determining the appropriate levels of remuneration for executive directors, the committee takes independent advice from its formally appointed advisors, Watson Wyatt LLP. The use of external consultants and the choice of consultant is a matter reserved for the committee. Mercer Limited provided pension administration and Watson Wyatt LLP and Towers Perrin provided other group-wide remuneration advice to Camelot throughout the financial year.

The shareholders determine the remuneration for the independent non-executive directors, and these are then ratified by the Board. The Chairman of the Remuneration Committee and the Chairman of the Board maintain regular contact as necessary with the shareholders on remuneration matters.

Shareholder-nominated directors do not receive any remuneration from Camelot in respect of qualifying services to the Company.

POLICY ON EXTERNAL APPOINTMENTS

The Company recognises the benefits to the individual and to the Group of involvement by executive directors of the Company as non-executive directors of other companies and charitable and trade associations. The Board is always consulted over such appointments.

In the year under review Dianne Thompson CBE, Chief Executive, served as a non-executive director of Domino's Pizza UK & IRL plc and received a fee of £36,500 (2009 £36,000). Dianne is also non-executive Chairman of RadioCentre, for which she receives a fee of £30,000 per annum (2009 £30,000). She is a director of London First and a trustee of the Born Free Foundation for which she receives no remuneration.

DIRECTORS' SERVICE CONTRACTS

All executive directors are employed on service contracts with notice periods of 12 months. The contracts contain provisions on confidentiality, non-solicitation and non-competition. These provisions state that if a director leaves he or she will not, normally for a period of one year, be engaged in any competitive activity.

Any executive director whose employment is terminated by the Company, unless dismissed for gross misconduct or serious breach of their contractual terms, will receive payment of 12 months' base salary, a pro-rated bonus payment and, in addition, certain benefits will be paid for a maximum period of six months. The director may also be entitled to a payment under the Long-Term Incentive Plan (LTIP) scheme.

The details of the service contracts of those who served as directors during the year are

	Initial appointment date	Re-appointment/ Service Agreement ¹ date	Unexpired term (as at 31 March 2010)	Notice
Chairman				
Sir Peter Middleton	23 September 2004	23 September 2010	6 months	Reasonable notice
Executive directors				
Dianne Thompson	3 February 1997	1 April 2005	N/A	1 year
Nigel Railton	1 January 2006	1 October 2007	N/A	1 year
Martin Pugh	1 October 2007	1 October 2007	N/A	1 year
Independent non-executive directors				
Gerry Acher	11 September 2002	1 September 2008	1 year 5 months	Reasonable notice
Louise Botting ²	1 March 1999	See note 2 below	See note 2 below	Reasonable notice
Tim Robinson	15 February 2006	15 February 2009	1 year 10 months	Reasonable notice
Julie Baddeley	1 October 2008	1 October 2008	1 year 6 months	Reasonable notice

¹ Service Agreements are revised periodically to ensure terms and conditions are in accordance with legislation and best practice.

² Louise Botting is no longer considered to be an independent non-executive director under the Combined Code as she has served on the Board for more than three terms. Her contract has been extended until completion of the share sale.

Currently there is no policy in respect of notice periods and termination payments for the independent non-executive directors who are engaged under contracts of service.

DIRECTORS' REMUNERATION REPORT CONTINUED

DIRECTORS' EMOLUMENTS

The table below details directors' emoluments, excluding amounts qualified for under the Long-Term Incentive Plan which amounts are shown in the table on page 40

	Salary / Fees £'000	Benefits Buyout ¹ £'000	Pension Supp £'000	Bonuses ² £'000	Benefits in kind £'000	2010 Total £'000	2009 Total £'000	2010 Pension Cont ³ £'000	2010 Grand Total ⁴ £'000	2009 Grand Total ⁴ £'000
Chairman										
Sir Peter Middleton	245	–	–	–	–	245	259	–	245	259
Executive directors										
D Thompson	551	1	193	606	17	1,368	1,069	–	1,368	1,069
N Railton	306	8	44	306	15	679	566	40	719	606
M Pugh	292	5	–	292	14	603	435	80	683	511
Non-executive directors										
G Acher	80	–	–	–	–	80	98	–	80	98
L Botting	56	–	–	–	–	56	74	–	56	74
T Robinson	51	–	–	–	–	51	70	–	51	70
J Baddeley	50	–	–	–	–	50	25	–	50	25
	1,631	14	237	1,204	46	3,132	2,596	120	3,252	2,712

1 Benefit buyouts include amounts paid to compensate the executive directors for changes to their benefits arrangements. Changes were made to the benefits arrangements as a part of the Company's reduction to its long-term operating costs for the third Licence. All staff received compensation payouts due to changes in their benefits arrangements.

2 Bonuses comprise annual bonuses and the Transformation Bonus. Annual bonuses are payable in relation to performance during the year and Transformation Bonuses are payable for delivering the ambitious reduction in long-term operating costs for the third Licence. The bonuses, included above, were earned and paid during the year.

3 Contributions to money purchase schemes.

4 Grand total including Company contributions to money purchase schemes. The 2009 amounts include pension contributions of £40k for N Railton and £76k for M Pugh.

Shareholder-nominated directors do not receive any remuneration from Camelot in respect of qualifying services to the Company.

The total emoluments of the directors including pension contributions were as follows

	2010 £'000	2009 £'000
Executive directors' salaries and benefits	1,566	1,524
Executive directors' performance-related payments ¹	1,204	662
Non-executive directors' fees	237	267
Chairman's salary and benefits	245	259
	3,252	2,712

¹ Including the 2009/10 annual bonus and Transformation Bonus which were earned and paid during the year

These amounts are consistent with the detailed table above, and exclude amounts qualified for under the LTIP which are shown on page 40

DIRECTORS' REMUNERATION

The emoluments of the executive directors are determined by a Remuneration Committee consisting exclusively of non-executive directors. Non-executive directors (and their alternates) nominated by the shareholder companies do not receive any emoluments from Camelot in respect of their services to Camelot. The emoluments of the other non-executive directors are determined by the shareholders. All emoluments are paid to the directors out of the amount retained by Camelot under the terms of the Section 5 Licence after paying all prizes, duties and contributions to the National and Olympic Lottery Distribution Funds.

BENEFITS IN KIND

Executive directors are entitled to car-related, home office, medical and gym-related benefits, which are included in the amounts disclosed in the table above.

PENSION SUPPLEMENTS

Nigel Railton's benefits include a supplement of £43,995, representing the difference between 275% of his basic salary pension entitlement and the contributions made by the Company. Martin Pugh utilised his full pension entitlement during the year of 275% in employer contributions paid into his money purchase pension scheme. Dianne Thompson did not utilise any of her full pension entitlement during the year, choosing instead to receive a pension supplement of £192,780, amounting to 35% of basic salary which is included in the table on page 38.

BONUS SCHEMES

The executive directors are eligible for an annual bonus based on the performance of the Group against two key performance criteria: sales and profitability. The purpose of the scheme is to motivate employees to generate higher sales and thus higher returns to the Good Causes, and to ensure the business is run efficiently. Therefore, based upon on-target performance, 60% of the potential bonus is linked to sales, to drive maximum returns for the Good Causes and 40% of the potential bonus is linked to profits to ensure the business is run efficiently. For 2009/10, the annual bonus for achieving all of the targets is 40% of base salary for the Chief Executive and 33% for other executive directors, with a maximum bonus equal to 60% of base salary for the Chief Executive and 50% for other executive directors for achieving maximum sales and profit targets. The 2009/10 annual bonus was paid in March 2010. The 2010/11 annual bonus scheme will reflect the same percentage structure as 2009/10.

DIRECTORS' REMUNERATION REPORT CONTINUED

A scheme has been established during the year by the shareholders to reward the executive directors for their participation in the share sale process. All amounts payable to the directors will be funded by the selling shareholders and therefore there is no impact on the results of Camelot or to the amounts payable to the Good Causes. The scheme consists of two elements: a bonus paid on completion of the sale process and a discretionary bonus. Both elements are contingent upon the conclusion of the sale process and therefore no amounts have become payable in relation to the year ended 31 March 2010.

Following the end of the 2008/2009 Long-Term Incentive Plan (LTIP) scheme, see page 36, a Transformation Bonus scheme for key executives was introduced to recognise delivery of the ambitious reduction in long-term operating costs for the third Licence. Payments under this scheme were linked to salary, up to a maximum of 50%, and were dependent on certain business and strategic objectives for the Group. These objectives included financial measurements relating to the performance of the Company, the long-term operating cost reductions and Licence compliance. In addition, the scheme's objectives included non-financial measurements in relation to retailer satisfaction, call centre service standards and IT system performance, as well as the delivery of the operating model needed for the third Licence. The scheme closed in March 2010 and the amounts payable for executive directors have been included in the amounts disclosed in the table on page 38. The amounts were paid on 27 March 2010.

During the year a new LTIP scheme commenced. Further details of the scheme are given below.

LONG-TERM INCENTIVE PLANS

The executive directors, along with certain key members of the senior management team, participate in a Long-Term Incentive Plan (LTIP) which commenced during the year under review – although no payments were made. The purpose of the LTIP is to motivate key executives to deliver the challenging targets for the third Licence and consequently encourage the growth of cumulative returns to the Good Causes – and to ensure staff retention. The principal determinant of the award payment is the total cumulative returns to the Good Causes over the four years of the plan and the Group meeting its Olympic and Paralympic Games funding commitments.

The executive directors earned the following LTIP amounts in the first of four years of the scheme:

	Interest in scheme at 1 April 2009 £'000	Amounts earned during 2010 £'000	Amounts paid during 2010 ¹ £'000	Interest in scheme at 31 March 2010 £'000
Dianne Thompson	–	234	–	234
Nigel Railton	–	108	–	108
Martin Pugh	–	103	–	103

¹ Amounts vest on the payment date. No amounts vested during the year. Vesting is contingent on achievement of targets.

CHAIRMAN AND HIGHEST PAID DIRECTOR

The emoluments of Sir Peter Middleton, the Chairman, comprised his fee of £245,000 (2009: £238,750). The emoluments of the Chief Executive, Dianne Thompson, who was the highest paid director, comprise salary of £550,800 (2009: £540,000), Company pension contributions of £nil (2009: £nil), benefits of £18,050 (2009: £16,322), pension supplement of £192,780 (2009: £189,000) and total bonus amounts of £605,880 (2009: £324,000). Dianne Thompson is eligible to receive cash payments under the LTIP, as detailed above.

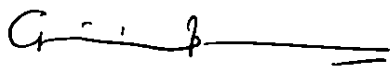
WAIVER OF EMOLUMENTS

No director waived any emoluments for the year ended 31 March 2010

SHAREHOLDER RETURN

Section 421 of the Companies Act 2006 requires the disclosure of total shareholder return over the last five years, compared to similar groups or indices. Camelot is not a listed or quoted company and its shares are not traded on any financial exchange and accordingly this information is not presented. The directors have no interest in the shares of the Company.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'G. Marcus', followed by a horizontal line.

Gill Marcus
Company Secretary
25 June 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAMELOT GROUP PLC

We have audited the financial statements of Camelot Group plc for the year ended 31 March 2010 which comprise the Group Income Statement, Group Statement of Comprehensive Income, the Group and Company Balance Sheet, the Group and Company Statement of Changes in Equity, the Group and Company Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements

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 parent 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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2010 and of the group's profit and the group's and parent company's cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

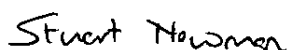
We have nothing to report in respect of the following

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

The directors have requested (because the company applies Listing Rules 9.8.6R 3, 5 and 6 of the Financial Services Authority as if it were a listed company), that we review the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and that we review the directors' statement in relation to going concern, set out on page 22. We have nothing to report in respect of these reviews

**Stuart Newman**

(Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 June 2010

GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £m	2009 £m
Gross ticket sales	2	5,451.8	5,149.1
Lottery duty		(654.3)	(617.9)
Prizes		(2,788.8)	(2,627.6)
National and Olympic Lottery Distribution Funds		(1,465.3)	(1,299.3)
Net income		543.4	604.3
Retailers' and other commission	3	(261.7)	(247.7)
Gaming systems and data communication costs	3	(84.0)	(120.7)
Gross profit		197.7	235.9
Administrative expenses	3	(154.6)	(180.3)
Other operating income		1.8	1.6
Operating profit	3	44.9	57.2
Finance income	5	0.4	6.0
Finance expense	5	(0.5)	(0.5)
Profit before taxation		44.8	62.7
Taxation	6	(13.3)	(18.2)
Profit attributable to equity shareholders		31.5	44.5

The results detailed above are all derived from continuing operations

The Group has no recognised income or expense other than that shown above, therefore no separate statement of comprehensive income is presented

The notes on pages 52 to 79 are an integral part of these consolidated financial statements

GROUP AND COMPANY BALANCE SHEET AS AT 31 MARCH 2010

	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Intangible assets	8	28 5	22 8
Property, plant and equipment	9	110 6	109 3
Deferred income taxation assets	18	19	78
Trade and other receivables	11	3 8	4 6
Financial assets	12	20 7	20 0
		165 5	164 5
Current assets			
Inventories	10	1 1	2 4
Trade and other receivables	11	23 3	46 0
Financial assets	12	208 1	187 6
Cash and cash equivalents	13	58 2	58 5
		290 7	294 5
Total assets		456 2	459 0
LIABILITIES			
Current liabilities			
Financial liabilities - borrowings	16	0 6	1 0
Trade and other payables	17	325 9	319 9
Current taxation liability		4 2	8 9
Provisions for other liabilities and charges	19	0 7	5 8
		331 4	335 6
Non-current liabilities			
Financial liabilities - borrowings	16	19	13
Trade and other payables	17	16	0 5
Provisions for other liabilities and charges	19	8 3	6 7
		11 8	8 5
Total liabilities		343 2	344 1
EQUITY			
Capital and reserves			
Called up share capital	20	88 8	88 8
Capital redemption reserve	21	11 2	11 2
Retained earnings	21	13 0	14 9
Total equity		113 0	114 9
Total equity and liabilities		456 2	459 0

The notes on pages 52 to 79 are an integral part of these consolidated financial statements

The financial statements including the accompanying notes were approved by the Board of directors on 25 June 2010 and were signed on its behalf by



Dianne Thompson CBE
Chief Executive



Nigel Railton
Finance & Operations Director

GROUP AND COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £m	2009 £m
Net profit for the year		31.5	44.5
Dividends	7	(33.4)	(51.1)
Net decrease in shareholders' equity		(1.9)	(6.6)
Shareholders' equity at the beginning of the year		114.9	121.5
Shareholders' equity at the end of the year		113.0	114.9

The notes on pages 52 to 79 are an integral part of these consolidated financial statements

GROUP AND COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	22	69.5	88.3
Bank interest received		0.7	6.2
Bank interest paid		(0.3)	(0.3)
Interest paid on other loans		(0.1)	(0.1)
Interest element of finance lease payments		(0.1)	(0.1)
Income tax paid		(8.0)	(2.7)
Consortium relief payments	27	(4.1)	(17.8)
Net cash from operating activities		57.6	73.5
Cash flows from investing activities			
(Increase)/decrease in non-current financial assets		(0.7)	0.2
Purchase of property, plant and equipment		(14.7)	(101.6)
Expenditure on intangible assets		(7.9)	(14.8)
Net cash used in investing activities		(23.3)	(116.2)
Cash flows from financing activities			
Dividends paid to shareholders		(33.4)	(51.1)
Capital repayments on other loans		(0.8)	(1.1)
Finance lease principal payment		(0.4)	(0.7)
Net cash used in financing activities		(34.6)	(52.9)
Net decrease in cash, cash equivalents and bank overdrafts		(0.3)	(95.6)
Cash, cash equivalents and bank overdrafts at the beginning of the year		58.5	154.1
Cash, cash equivalents and bank overdrafts at the end of the year	13	58.2	58.5

The notes on pages 52 to 79 are an integral part of these consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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

The principal accounting policies applied in the preparation of these accounts for the year ended 31 March 2010 are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention.

The applied IFRS accounting policies were selected by management considering all applicable IFRS issued by the International Accounting Standards Board (IASB) by 31 March 2010.

i) Standards adopted by the Group

The Group has adopted IFRS 8 'Operating Segments'. IFRS 8 replaces IAS 14 'Segment Reporting'. The impact of the new standard is considered in note 1c 'Segmental Reporting'.

ii) Interpretations and amendments to existing standards that are effective but are not relevant for the Group's operations or do not have a material impact on the Group's financial statements or presentation of financial information

The following standards and amendments to existing standards have been published

and are mandatory for the Group's financial year ending 31 March 2010, however management does not consider them to be relevant or to have a material impact on the Group's financial statements or presentation of financial information.

- IAS 1 (revised) 'Presentation of financial statements' sets out the requirements for the overall presentation of the financial statements and in particular prohibits the presentation of items of income and expense in the statement of changes in equity. The revised standard has resulted in amendments to references in the presentation of the Group's results but is not considered to have a material impact on the Group's financial statements.
- IAS 23 (revised) 'Borrowing costs', eliminates the option to recognise all borrowing costs, relating to qualifying assets, immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred. The Group does not incur borrowing costs relating to specific assets and therefore the revision to the standard is not considered to have a material impact on the Group's financial statements.
- Amendments to IAS 32 'Financial Instruments: Presentation', IAS 36 'Impairment of assets', IAS 39 'Financial instruments: Recognition and measurement', IFRS 2 'Share-based payments', IFRS 3 'Business combinations', and IFRS 7 'Financial instruments: Disclosures'.
- IFRIC 13, 'Customer loyalty programmes relating to IAS 18, Revenue'.

iii) Certain new standards, amendments and interpretations to existing standards that have been published but are not effective for the Group's financial year ending 31 March 2010 and have not been adopted early.

- IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction',
- IFRIC 17 'Distribution of non-cash assets to owners',
- IFRIC 18 'Transfers of assets from customers',
- Amendments to IFRS 2 'Share based payment transactions', IFRS 8 'Operating segments', IAS 17 'Leases', IAS 38 'Intangible Assets', IFRS 3 'Business combinations', IAS 27 (revised) 'Consolidation and separate financial statements' and IAS 39 'Financial Instruments: Recognition and measurement'.

b) Basis of consolidation

These financial statements comprise the consolidated and Company accounts of Camelot Group plc. Certain trust accounts established to provide protection to players are consolidated. Under IFRS the trusts are considered to be special purpose entities (SPEs) under the control of Camelot Group plc. As such IAS 27 'Consolidated and Separate Financial Statements', requires that consolidated accounts are prepared. Details of the trust accounts are provided in note 1(n) and note 12.

There are no other transactions within the SPE other than those relating to the trust accounts. There is no difference between the presentation of the balance sheet and income statement for the Group compared

to that of the Company because the applicable trust accounts are treated as financial assets in both Group and Company financial statements

The profit for the year, and profits available for distribution, of the Company are equal to the profits for the Group shown on page 48

The Group transacts with a sister company, Camelot Global Services Limited (CGSL). CGSL and Camelot Group plc have the same five shareholders and are therefore related parties. No one shareholder has a controlling interest therefore the two companies are not consolidated.

The Group also owns the entire share capital of three dormant subsidiaries, which have a share capital, equal to net assets, of £5 in total. These investments are not considered material for the purpose of giving a true and fair view of these financial statements and therefore have not been consolidated (see note 28).

c) Segmental reporting

The Group has elected to adopt IFRS 8 'Operating Segments' in the financial year ended 31 March 2010. IFRS 8 replaces IAS 14 'Segment Reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

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, therefore the Group is out of scope of IFRS 8. However, to remain consistent with the Group's principle of adopting best practice and reporting as if

it were a listed company the Group has voluntarily adopted the standard.

Decisions concerning the allocation of resources and assessing the performance of the business are made by the Camelot Group plc Executive Board. The Executive Board of Dianne Thompson CBE (Chief Executive), Nigel Railton (Finance and Operations Director) and Martin Pugh (Commercial Director) is therefore considered to be the Chief Operating Decision Maker.

The Group is operated and managed as a single business segment using common technology and infrastructure in one geographical area, the United Kingdom and Isle of Man, across a portfolio of games aimed to maximise the reach of The National Lottery. In accordance with IFRS 8 the business is deemed to be one segment and a note to provide details of performance by operating segment is not required. Therefore the adoption of IFRS 8 has had no impact on the presentation of the Group's results.

d) Gross ticket sales

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

e) Lottery duty

Lottery duty is 12% of sales.

f) Prizes

The draw-based games developed and managed by the Group operate under a prize pool mechanism under which a predetermined percentage of the ticket sales is allocated to prizes. To the extent that the actual prizes won on the Lotto and

EuroMillions draws vary from the pre-determined prize percentage, the relevant prize is carried forward under a Rollover to subsequent draws.

The liability for prizes is recognised at the time of the draw in line with the pre-determined percentage for each game.

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

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

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

g) National and Olympic Lottery Distribution Funds

The National Lottery Distribution Fund (NLDF) is the central fund from which the National Lottery Distribution bodies draw down funds for distributing to the Good Causes. The Olympic Lottery Distribution Fund (OLDF) is the body established to collect lottery money raised for the London 2012 Olympic Games and Paralympic Games.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

Amounts charged to the income statement represent

- The amounts arising due to the respective bodies based on cumulative accounting sales less lottery duty and prizes. The amounts recognised are calculated in line with the method set out in the third Section 5 Licence under which the Group has operated during the year, and
- The profits to be shared with the NLDF and OLDF as a result of Camelot achieving certain profit targets. This distribution of profits is known as Secondary Contributions and the payments to be made are as set out in the third Section 5 Licence

h) Net income

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

For draw-based games, income is recognised on a draw-by-draw basis, at the point the draw takes place

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

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

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

i) Retailers' and other commission

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

Amounts charged to the income statement represent commissions arising due to (i) retailers based on sales and in-store prize payments to date, (ii) our agent in respect of fees paid for the processing of debit card payments which arise when players load or unload money to and from their interactive wallet to enable them to participate in the National Lottery using the interactive channel, and (iii) other sales-related commissions

j) Intangible assets

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

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 income statement 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 income statement as incurred. Interactive development costs that relate to channels other than the website are also capitalised on the same basis

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 income statement 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 second Section 5 Licence ended on 31 January 2009. The third Section 5 Licence runs to 2019

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 Section 5 Licence or planned replacement date if earlier
Other software	The shorter of four years and the period to the end of the third Section 5 Licence

k) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. The cost of property, plant and equipment includes the estimated cost of removing and disposing of the terminal assets held at retailer sites.

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 Section 5 Licence Period throughout which benefit is anticipated to be derived from the asset. The second Section 5 Licence ended on 31 January 2009. The third Section 5 Licence runs to 2019.

The depreciation basis for the principal asset categories are as follows

Short leasehold improvements	The shorter of the lease period and the period to the end of the third Section 5 Licence
Computer hardware (excluding central gaming)	The shorter of four years and the period to the end of the third Section 5 Licence
Central gaming systems, Interactive hardware and Enterprise Resource Planning hardware	The period to the end of the third Section 5 Licence or planned replacement date if earlier
Fixtures and fittings	5 years
Media screens	3-5 years
Lottery terminals	The period to the end of the third Section 5 Licence or planned replacement date if earlier
Permanent point-of-sale equipment (PPOS)	The shorter of 2-5 years and the period to the end of the third Section 5 Licence
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. Borrowing costs related to the purchase of fixed assets are not capitalised.

l) Finance leases

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

Property, plant and equipment acquired under finance leases are included in the balance sheet at their equivalent capital value, which is defined as the lower of the fair value of the asset and the present value of minimum lease payments, and are depreciated in accordance with the policy for the class of asset concerned. The resulting lease obligations are recorded as a creditor and the interest element of the finance lease rentals is charged to the income statement. The liability is discounted where the difference between the values of minimum lease payments and the present value of those payments is material.

m) Operating leases

Operating lease rentals are charged to the income statement 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

n) Financial assets trust accounts

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

Funds are transferred to the Operational, EuroMillions, Raffle and Prize Reserve Trusts to ensure funds are ring-fenced in relation to the Group's liabilities to pay prizes. In addition, funds are transferred to the Advance Sales Trust in respect of funds received from players relating to future draws, and to the Interactive Trust in respect of funds held in players' interactive wallets which have not yet been utilised by way of sales placed via the interactive channels, and also prizes held in those wallets that a player has not withdrawn. During the second Licence period, funds were also transferred into the Equalisation Trust in respect of fixed-prize games, as disclosed in note 12.

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

In addition, the Reserve Trust and EuroMillions deposit are disclosed as non-current financial assets. These trusts represent additional security for prizes during and at the end of the Section 5 Licence Period. This amount (or the relevant part) will be repayable to Camelot in accordance with the Trust Deed at the end of the third Licence term.

o) Inventories

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

p) Trade and other receivables

Trade and other receivables are stated at fair value. Trade and other receivables are recognised at original invoice amount, less an estimate made for doubtful receivables based on a review of all outstanding amounts at the period end. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a doubtful debtor

account, and the amount of the loss is recognised in the income statement 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 income statement.

q) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

r) Financial instruments

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

The accounting policies for financial instruments have been applied to the line items below

	Loans and receivables	
	2010 £m	2009 £m
Assets as per balance sheet		
Trade and other receivables	271	50.6
Financial assets	228.8	207.6
Cash and cash equivalents	58.2	58.5
	314.1	316.7
	Other financial liabilities	
	2010 £m	2009 £m
Liabilities as per balance sheet		
Trade and other payables	327.5	320.4
Financial liabilities – borrowings	2.5	2.3
	330.0	322.7

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 cash flow statement, 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 cash flow statement

Borrowings

Borrowings comprise amounts drawn down against the Group's bank facilities and any bank overdrafts as defined above. They are recognised at fair value, net of transaction costs 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 income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

s) Provisions

Provisions are recognised where the Group has contractual obligations under supply agreements for services where the Group will not receive any benefit, that will probably require an outflow of resources to settle, and this outflow can be reliably measured

The provisions for the cost of decommissioning terminals and communications equipment held at retailer sites, and disposing of these assets, are recognised when the Group has a present legal or constructive obligation to incur this cost. A further provision comprises amounts in respect of lost or destroyed terminals

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

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

Provisions are recognised for future committed property lease payments when the Group receives no benefit from the property through continuing usage and future receipts from any sub-letting arrangements are not in excess of the Group's future committed payments

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

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

t) Pensions

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

u) Taxation

Current 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 balance sheet 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 balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred 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 tax assets and liabilities recognised are not discounted. Deferred tax liabilities and assets are classified as non-current irrespective of the expected timing of the reversal of the underlying taxable temporary difference. Current tax assets and liabilities are shown separately on the face of the balance sheet

v) Value added tax

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

w) Share capital and dividend recognition

Ordinary shares and ordinary redeemable shares are shown as 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

x) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet

date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are transacted using the rate of exchange at the date of transaction

2 GROSSTICKET SALES

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

	2010 £m	2009 £m
Draw-based games	4,121.6	3,928.0
Instant play games	1,330.2	1,221.1
	5,451.8	5,149.1

4 EMPLOYEE EXPENSES AND NUMBERS

	2010 £m	2009 £m
Employee expense (including Directors' emoluments)		
Wages and salaries	39.0	58.2
Social security costs	5.1	5.9
Pension costs	4.1	2.6
	48.2	66.7

	2010 Number	2009 Number
The average monthly number of employees (including executive Directors) employed by Camelot Group plc was as follows		
Retailer and consumer services	229	298
Sales and marketing	202	264
Information technology	128	211
Finance, administration and other	191	168
	750	941

	2010 £'000	2009 £'000
Key management compensation		
Salaries and short-term employee benefits	2,887.2	2,334.5
Post-employment benefits	120.4	115.8
	3,007.6	2,450.3

Key management is considered to comprise the Executive Board. The amounts above include compensation for all members of the Executive Board for the full year.

At the end of the financial year three Directors (2009: three) were members of the Group money purchase pension scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

3 OPERATING PROFIT

	2010 £m	2009 £m
Net income	543.4	604.3
Other operating income ¹	18	16
Retailers' and other commission	(261.7)	(247.7)
Gaming systems and data communication costs ²	(84.0)	(120.7)
Employee expense (note 4)	(48.2)	(66.7)
Marketing expense	(63.6)	(59.8)
Research and development	(4.0)	(4.9)
Amortisation on intangible assets	(2.0)	(5.2)
Depreciation on owned assets	(0.9)	(3.5)
Depreciation on assets held under finance leases	(0.2)	(0.6)
Loss on disposal of property, plant and equipment	(0.1)	(1.2)
Loss on disposal of intangible assets	–	(0.1)
Operating lease rentals – property	(2.9)	(2.9)
Auditors' remuneration – fees payable for the audit of company accounts	(0.3)	(0.3)
– other services pursuant to legislation	–	–
– audit related services	–	(0.2)
– prize draw assurance	(0.7)	(1.0)
– tax services	(0.2)	(0.2)
– advice on corporate structures and the share sale	(0.2)	(0.2)
Other expenses	(31.3)	(33.5)
Total expenses	(500.3)	(548.7)
Operating profit	44.9	57.2

¹ Other income primarily comprises amounts received 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 £13.7m (2009 £13.2m) depreciation on owned assets, £1.4m (2009 £16.9m) amortisation on intangible assets and £79m (2009 £16.5m) operating lease rental costs on plant and equipment

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

5 FINANCE INCOME AND EXPENSE

	2010 £m	2009 £m
Interest receivable from bank deposits	0.3	5.7
Other interest income	0.1	0.3
Finance income	0.4	6.0
Bank interest payable	(0.1)	(0.2)
Interest payable on other loans	(0.3)	(0.2)
Interest payable on finance leases	(0.1)	(0.1)
Finance expense	(0.5)	(0.5)
Net finance (expense) / income	(0.1)	5.5

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a) UK corporation tax

	2010 £m	2009 £m
Current taxation on income for the year	7.4	17.2
Prior period adjustments	–	(0.2)
	7.4	17.0
Deferred taxation charge for the year	5.9	1.1
Prior period adjustments	–	0.1
Deferred taxation charge for the year	5.9	1.2
Total taxation expense	13.3	18.2

The taxation charge is based on a corporation tax rate of 28% for the year ended 31 March 2010 (2009: 28%).

All taxable temporary differences have been recognised and are reflected in the deferred taxation balance.

b) Reconciliation of tax expense

	2010 £m	2009 £m
Profit before taxation	44.8	62.7
Taxation on profit on ordinary activities at the standard rate (2010: 28%, 2009: 28%)	12.6	17.5
Factors affecting charge		
Expenses not deductible for tax purposes	0.7	0.8
Prior year adjustments	-	(0.1)
Total taxation expense	13.3	18.2

7 DIVIDENDS

	2010 £m	2009 £m
Prior year final dividend for aggregate ordinary class 'A' and 'B' shares	14.9	21.5
Current year interim dividend for aggregate ordinary class 'A' and 'B' shares	18.5	29.6
	33.4	51.1

The Directors proposed a final dividend for the financial year ended 31 March 2010 of £13.0m (2009: £14.9m) at the Board Meeting on 9 June 2010.

In the previous year, under a deed of dividend waiver, Royal Mail Enterprises Limited irrevocably waived its entitlement to receive the sum of £0.3m from the proposed final dividend for the financial year ended 31 March 2009. Fujitsu Services Limited waived its entitlement to receive its share of this amount and as a result De La Rue Holdings plc, Thales Electronics plc and Cadbury Holdings Limited each received an additional £0.1m.

Furthermore Royal Mail Enterprises Limited entered into a deed of dividend waiver which irrevocably waived its entitlement to receive the sum of £28,800 from the proposed final dividend for the financial year ended 31 March 2009. As a result De La Rue Holdings plc, Thales Electronics plc, Cadbury Holdings Limited and Fujitsu Services Limited each received an additional £7,200.

There are no dividend waivers that apply to the year ended 31 March 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

8 INTANGIBLE ASSETS (GROUP AND COMPANY)

	Total £m
Cost	
At 1 April 2009	28.8
Additions	9.1
Disposals	-
At 31 March 2010	37.9
Accumulated amortisation	
At 1 April 2009	6.0
Charge for the period	3.4
Disposals	-
At 31 March 2010	9.4
Net book value	
At 31 March 2010	28.5
At 31 March 2009	22.8

The intangible assets balance represents internally generated assets relating to the development of software and the National Lottery website, including design and content development, and also assets purchased separately, such as software licences that do not form an integral part of related hardware. The net book value of intangible assets includes £4.3m (2009: £2.9m) of internal staff costs incurred in generating computer software.

The net book value of costs associated with the development of the National Lottery website amounted to £nil at the year end (2009: £nil).

Intangible assets include £3.7m (2009: £1.0m) of assets which are under construction.

9 PROPERTY, PLANT AND EQUIPMENT (GROUP AND COMPANY)

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2009	6.3	11.1	173.6	191.0
Additions	14.0	–	2.5	16.5
Transfers	(17.3)	0.1	17.2	–
Disposals	(0.3)	–	(21.9)	(22.2)
At 31 March 2010	2.7	11.2	171.4	185.3
Accumulated depreciation				
At 1 April 2009	–	8.3	73.4	81.7
Charge for the period	–	0.3	14.5	14.8
Disposals	–	–	(21.8)	(21.8)
At 31 March 2010	–	8.6	66.1	74.7
Net book value				
At 31 March 2010	2.7	2.6	105.3	110.6
At 31 March 2009	6.3	2.8	100.2	109.3

The net book value of plant and equipment held under finance leases is £1.4m (2009 £0.2m). Depreciation charged in the period in respect of these assets was £0.2m (2009 £0.6m).

10 INVENTORIES (GROUP AND COMPANY)

	2010 £m	2009 £m
Scratchcard tickets	0.3	1.6
Play slips, terminal rolls and other consumables	0.8	0.8
	1.1	2.4

Inventory consumed during the year amounted to £17.3m (2009 £15.9m). The inventory balance above is net of a provision of £0.5m (2009 £2.4m).

Unsold Scratchcard tickets are written off and destroyed following National Lottery Commission approval after a game closes. During the year £1.9m (2009 £0.9m) of unsold tickets for closed games were written off, fully utilising the provisions held for these games.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

11 TRADE AND OTHER RECEIVABLES (GROUP AND COMPANY)

a) Non-current assets

	2010 £m	2009 £m
Other receivables and prepayments	3.8	4.6

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

Included in other receivables and prepayments is £0.1m (2009: £0.1m) in respect of amounts receivable from Services aux Loteries en Europe SCRL ('SLE'). Further information on SLE is provided in note 27.

b) Current assets

	2010 £m	2009 £m
Trade receivables	16.8	35.4
Prepayments and accrued income	6.5	10.6
	23.3	46.0

Trade receivables primarily represent amounts due from retailers.

As of 31 March 2010, trade receivables of £16.7m (2009: £34.8m) were not yet due.

As of 31 March 2010, retail trade receivables of £0.5m (2009: £0.7m) were impaired and provided for. The recoverability of trade receivables held with multiple retailers is assessed on the retailers' level of credit risk and impaired accordingly. Independent retailers are impaired when the debt becomes more than one month past due.

Other trade receivables that are past due are considered impaired when it is deemed uneconomical to pursue recoverability of the debt. At 31 March 2010, no other trade receivables were considered impaired or provided for.

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

	2010 £m	2009 £m
1 to 3 months	0.1	0.5
3 to 6 months	–	–
More than 6 months	–	0.1
	0.1	0.6

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

The carrying amounts of the Group's trade and other receivables are denominated in sterling

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

	2010 £m	2009 £m
At 1 April	0.7	0.1
Provision for impairment of trade receivables	0.2	1.3
Receivables written off during the year as uncollectible	(0.4)	(0.7)
At 31 March	0.5	0.7

All movements in the provision for impaired receivables have been included in 'administrative expenses' in the income statement

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

12 FINANCIAL ASSETS TRUST ACCOUNTS (GROUP AND COMPANY)

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

The trust accounts and interest received thereon are subject to first fixed and floating charges in favour of the Trustee.

a) Non-current Financial assets

	2010 £m	2009 £m
Reserve Trusts	15.0	16.4
EuroMillions deposit	5.7	3.6
	20.7	20.0

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

Reserve Trusts

The purpose of the Reserve Trust accounts is to provide additional security for prizes during and at the end of the relevant Section 5 Licence period. The amounts held in these accounts (or the relevant part) will be repayable to Camelot in accordance with the Trust Deed. These amounts will remain on deposit until the end of the third Section 5 Licence period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

EuroMillions deposit

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

b) Current Financial assets

	2010 £m	2009 £m
Amounts held in respect of prizes		
– Operational Trust	95.7	83.3
– Equalisation Trust	–	28.2
– EuroMillions Trust	33.2	29.0
– Prize Reserve Trust	3.0	6.2
– Raffle Trust	30.0	–
Amounts held in respect of future draws		
– Advance Sales Trust	29.5	26.5
Amounts held in Interactive Trust	16.7	14.4
	208.1	187.6

Operational Trust

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

Equalisation Trust

The purpose of this account during the second Licence period was to ensure that sufficient monies were available to pay players of certain fixed-prize games in the event prizes exceeded the theoretical prize amount up to the maximum payout, as stipulated within the rules of the games, for any individual draw. All interest income arising on this account was for the benefit of the National Lottery Distribution Fund (NLDF). An updated trust mechanism was implemented for the commencement of the third Licence and this account is no longer used. The monies remaining in this account were paid to the NLDF during the year.

EuroMillions Trust

Camelot and the other participating lotteries in the EuroMillions game have each established a EuroMillions Trust account. This is used for the settlement of all amounts due and for holding amounts in respect of future prizes. The interest on Camelot's EuroMillions Trust account is for the benefit of the NLDF. At the end of the third Section 5 Licence, any monies remaining in this account will pass over to a successor or, in the event that no successor is appointed, to the NLDF.

Prize Reserve Trust

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

Advance Sales Trust

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

Interactive Trust

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

During the year, the rate of interest earned on amounts held in trust ranged from 0.15% to 0.45%.

Raffle Trust

The Raffle Trust accounts hold Camelot cash in Trust. The amount held represents the difference between the guaranteed prize fund and actual prizes paid for the EuroMillions Raffle game which launched during the year. The amount held will be used to fund one-off prize payments for future EuroMillions Raffle prizes. All interest income arising on these accounts is for the benefit of the NLDF.

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 bankers, The Royal Bank of Scotland plc. Camelot's cash balances can be analysed as follows:

	2010 £m	2009 £m
Cash at bank and in hand	(3.3)	(0.3)
Short-term bank deposits	61.5	58.8
	58.2	58.5

Amounts held in short-term bank deposits comprise amounts held on either a Money Market deposit with interest earned rates of 0.40% to 0.80%, due to mature on 7 April 2010 and 9 April 2010, or Money Market Fund deposits with interest earned rates at 31 March 2010 of 0.42% to 0.48%, which are redeemable on demand.

Interaction between the trust and Camelot bank accounts is such that Camelot has an accounting overdraft of unpresented cheques. However, these amounts are fully recovered from the Operational Trust account once the cheque payment has cleared, and therefore the accounting overdraft is shown above within Cash at bank and in hand.

At 31 March 2010 the Group had bank facilities totalling £75.0m (2009: £75.0m). This consisted of an undrawn uncommitted overdraft facility of £10.0m (2009: £10.0m), a committed 364 day credit facility of £15.0m (2009: £15.0m) and a committed credit facility of £50.0m (2009: £50.0m). The overdraft facility has been extended for a six month period and will be reviewed in August 2010. The £15.0m and £50.0m revolving credit facilities will expire in February 2011 and December 2011 respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

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 2010, the credit ratings for the banks where financial assets totalling £50.0m (2009: £40.0m) are held in short-term Money Market deposits are P1 (Moody's short-term credit rating). A further £11.5m (2009: £18.8m) is held in three Money Market Funds with Fidelity, Goldman Sachs and Standard Life which have Moody's credit rating of Aaa.

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 receivable mentioned above.

15 FINANCIAL RISK MANAGEMENT

Exposure to credit, interest rate, currency, liquidity and capital risks arise in the normal course of the Group's business.

a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers at the point at which the Group starts to trade with that retailer. If the 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.

In light of the current economic climate, 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 during these uncertain times.

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 'Trade and other receivables' 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 investment policy has also been reviewed and updated accordingly to reflect the current market uncertainty.

b) Interest rate risk

The Group is structured such that the exposure to changes in interest rates is minimal. The Group has in place a floating rate overdraft facility for short-term borrowing requirements. During the year, interest rates incurred on the overdraft facility have ranged from 0.38% to 1.50%.

During the year Camelot's £15.0m revolving credit facility and the Group overdraft of £10.0m were renegotiated.

Investments are predominately in fixed-rate Money Market deposits with maturity of less than three months. During 2010 the Group also held investments in three Money Market funds with variable rates ranging from 0.37% to 1.32%.

All investments in 2010 and 2009 were denominated in sterling.

c) Foreign exchange risk

The Group is exposed to foreign exchange risk on purchases that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily US Dollars and Euros. During the year, the Group did not participate in any derivative or hedging contracts due to the minimal number of foreign transactions. Transactions denominated in foreign currencies are accounted for in line with our accounting policy detailed in note 1(x).

Included within 'administrative expenses' in the income statement are £0.1m (2009: £0.3m gain) net foreign exchange gains.

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group's current credit facilities comprise an overdraft, an uncommitted facility and a committed facility totalling £75.0m. Regular review of cash flow forecasts, strategic plans and budgets guide the considerations of the adequacy of these facilities and determine the potential draw down of each.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. Cash-flow forecasts are produced up to one year in advance and revised regularly. Camelot's cash is subject to daily, weekly and monthly cycles that are factored into forecasting. The cash position is monitored daily, and monies are placed on deposit to ensure returns are maximised across pooled accounts. Currently funds are placed in short-term deposits with maturities between one day and three months, dependent on future cash outflow requirements. In addition there are funds placed within Money Market Funds that are repayable on demand.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date 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
At 31 March 2010			
Borrowings	0.6	0.8	1.1
Trade and other payables	325.9	0.2	1.4
At 31 March 2009			
Borrowings	1.0	0.5	0.8
Trade and other payables	319.9	–	0.5

e) Capital risk

The Group has had minimal borrowing requirements during the year. At 31 March, the Group has a loan arrangement and finance lease agreements in place, of which £2.5m (2009: £2.3m) is outstanding at the end of the year.

The Group makes two dividend payments a year, and all profits are distributed to the shareholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

16 FINANCIAL LIABILITIES – BORROWINGS (GROUP AND COMPANY)

a) Current liabilities amounts falling due within one year

	2010 £m	2009 £m
Finance lease obligations	0.3	0.2
Other loans	0.3	0.8
	0.6	1.0

The carrying value of current financial liabilities approximate to fair value

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

	2010 £m	2009 £m
Finance lease obligations	1.1	0.1
Other loans	0.8	1.2
	1.9	1.3

All finance lease and other loan obligations held in non-current liabilities fall due after one year, but in not more than five years

Future lease payments will include future finance charges of less than £0.4m (2009 £0.1m). Future loan repayments will include finance charges of £0.1m (2009 £0.2m).

17 TRADE AND OTHER PAYABLES (GROUP AND COMPANY)

a) Current liabilities

	2010 £m	2009 £m
Trade payables	29.5	30.8
Property, plant and equipment creditors	–	0.2
Lottery duty	55.3	52.3
Amounts payable to the NLDF and OLDF	15.4	2.3
Prize liability	160.4	126.9
Equalisation liability	–	28.2
Accruals and deferred income	28.6	40.2
Advance receipts for future draws	36.7	39.0
	325.9	319.9

The prize liability represents unclaimed prizes and at 31 March 2010, the Group had transferred £160.1m into the relevant trust accounts to meet these liabilities (2009 £118.5m). Advance receipts for future draws represent the multi-draw and subscription payments relating to future draws.

The Equalisation liability represents amounts set aside during the second Licence period to pay prizes for games with fixed prize tiers where actual prizes won vary from the predetermined percentage. The remaining balance was paid to the NLDF during the year.

b) Non-current liabilities

	2010 £m	2009 £m
Accruals and deferred income	16	0.5

18 DEFERRED TAXATION (GROUP AND COMPANY)

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets with current taxation liabilities. At 31 March 2010 the offset amounts are as follows:

	2010 £m	2009 £m
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	2.5	2.4
Deferred tax asset to be recovered within 12 months	0.1	5.4
Deferred tax assets	2.6	7.8
	2010 £m	2009 £m
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(0.7)	-
Deferred tax liability to be recovered within 12 months	-	-
Deferred tax liabilities	(0.7)	-
Deferred tax assets (net)	1.9	7.8

The gross movement on the deferred income tax account is as follows:

	Accelerated capital allowances £m	Provisions and accruals £m	Total £m
At 1 April 2009	7.2	0.6	7.8
Reclassification	(1.9)	1.9	-
Retained in the income statement	(6.0)	0.1	(5.9)
At 31 March 2010	(0.7)	2.6	1.9

The reclassification of the £1.9m deferred tax is in respect of provisions set up in prior years relating to the decommissioning of terminal equipment assets. Although the deferred tax relates to fixed assets it is more appropriately included within 'provisions and accruals' rather than 'accelerated capital allowances' as it arises from the provisions that have been set up rather than from the fixed assets themselves.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

19 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (GROUP AND COMPANY)

	Terminal and data communication related £m	Property £m	Restructuring £m	Long term incentive plan £m	Total £m
At 1 April 2009	4.9	2.7	4.9	–	12.5
Charge to income statement	0.4	0.1	1.2	0.8	2.5
Provision utilised	–	(0.1)	(5.9)	–	(6.0)
At 31 March 2010	5.3	2.7	0.2	0.8	9.0

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

	2010 £m	2009 £m
Current	0.7	5.8
Non-current	8.3	6.7
Total	9.0	12.5

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 current Licence period
- Amounts in respect of lost or destroyed terminals and associated contractual costs. This provision will be fully utilised by the end of the current Licence period

Property provisions comprise

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

The restructuring provision relates to future severance costs resulting from the internal restructuring. The provision is expected to be fully utilised within the next financial year.

The provision for the Long-Term Incentive Plan is discussed in the Directors' Remuneration Report on page 40.

20 SHARE CAPITAL

a) Authorised and allotted share capital

	2010 £m	2009 £m
Authorised		
100,000,000 ordinary shares of £1 each, divided into		
'A' shares 29,062,500	29.1	29.1
'B' shares 70,937,500	70.9	70.9
50,000,000 redeemable shares of £1 each	50.0	50.0
At 31 March	150.0	150.0
Allotted, issued and fully paid		
38,750,000 ordinary shares in issue of £1 each, divided into		
'A' shares 29,062,500	29.1	29.1
'B' shares 9,687,500	9.7	9.7
50,000,000 redeemable shares of £1 each	50.0	50.0
At 31 March	88.8	88.8

b) Analysis of shareholding at 31 March 2010

	Number of 'A' shares	Number of 'B' shares	Number of redeemable shares	Percentage holding
Cadbury Holdings Limited	7,750,000	–	10,000,000	20
De La Rue Holdings plc	7,750,000	–	10,000,000	20
Fujitsu Services Limited	5,812,500	1,937,500	10,000,000	20
Thales Electronics plc	7,750,000	–	10,000,000	20
Royal Mail Enterprises Limited	–	7,750,000	10,000,000	20
	29,062,500	9,687,500	50,000,000	100

During the year the Group was informed by its shareholders – Cadbury Holdings, De La Rue Holdings, Fujitsu Services, Thales Electronics and Royal Mail Enterprises Limited – that they had signed a Sale and Purchase Agreement to sell their shares, subject to regulatory consent, to Premier Lotteries UK Limited, a subsidiary of Ontario Teachers' Pension Plan.

c) Rights and obligations

With regards to income

Income is distributed among the holders of all Ordinary Shares and Redeemable Shares *pari passu* as if the same constitutes one class of share. Historically, holders of the 'B' shares were not entitled as a class to the Relevant Profit for the first Licence period and the period of the interim Licence, defined as

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

- (i) the Company's profits available for distribution calculated in respect of all periods ending on or before 31 January 2002, being the last day of the interim Licence and determined by reference to interim accounts for the period ending on that day, and
- (ii) any further amount referable to the period of the first Section 5 Licence and the period of the interim Licence

With regards to capital

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

- (a) firstly, in paying to the holders of 'A' shares pro rata between them a sum equal to any arrears of dividend calculated by reference to the Relevant Profit for the first Licence period and the period of the interim Licence (as defined above),
- (b) secondly, in paying to the holders of 'A' shares pro rata between them a sum equal to that amount of the Relevant Profit for the first Licence period and the interim Licence (as defined above) which has not already been distributed to them since the date of adoption of the articles of association of the Company,
- (c) and, subject thereto, any arrears of dividend and the balance of such assets shall belong to and be distributed amongst the holders of all the 'A' and 'B' Ordinary Shares and Redeemable Shares (pari passu as if the same constituted one class of share)

With regards to 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)

With regards to 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

Redeemable shares shall confer on each holder thereof (without capacity) the right to receive notice of and to attend and speak but not vote at any general meetings of the Company

The Company shall have the right (but no obligation) at any time and from time to time after the elapse of the first five years of the third Licence, by giving three months' written notice to the holders of Redeemable Shares, (subject to the provisions of the Companies Act) to redeem for cash at par all or such other number of Redeemable Shares then in issue as set out in the notice

21 RESERVES (GROUP AND COMPANY)

	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2009	11.2	14.9	26.1
Net decrease in shareholders' equity	–	(1.9)	(1.9)
At 31 March 2010	11.2	13.0	24.2

22 CASH GENERATED FROM OPERATIONS

	2010 £m	2009 £m
Profit for the year	315	44.5
Adjustments for		
– Taxation	13.3	18.2
– Depreciation and amortisation	18.2	39.4
– Loss on disposal of fixed assets	0.3	1.3
– Interest income	(0.4)	(6.0)
– Interest expense	0.5	0.5
	31.9	53.4
Changes in working capital		
– Inventories	1.3	2.0
– Trade and other receivables	23.2	(8.9)
– Financial short-term assets	(20.5)	(8.4)
– Trade and other payables	5.6	6.1
– Provisions	(3.5)	(0.4)
	6.1	(9.6)
Cash generated from operations	69.5	88.3

23 FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES (GROUP AND COMPANY)

At the year end, capital expenditure totalling £6.0m (inclusive of VAT) was contracted for in the year but not yet incurred (2009 £8.3m)

Fixed and floating charges have been given on certain assets to the Trustee and to The Royal Bank of Scotland plc. See notes 12 and 13 for details.

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

24 OPERATING LEASES (GROUP AND COMPANY)

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

	2010 Land and buildings £m	2010 Plant and machinery £m	2009 Land and buildings £m	2009 Plant and machinery £m
– Within one year	2.6	6.9	3.0	6.8
– Between two and five years	9.8	26.1	8.6	25.2
– After five years	7.8	25.0	11.0	30.4

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

25 PENSION ARRANGEMENTS (GROUP AND COMPANY)

The Company operates a defined contribution pension scheme. Employees who transferred from shareholder companies have continued to participate in their respective shareholder pension plans via an agreed deed of participation. All amounts payable under these schemes are charged to the income statement as they fall due. The total amount charged in respect of pensions to the income statement in 2010 was £4.1m (2009: £2.6m).

Camelot accounts for these schemes as if they were defined contribution schemes, by charging the cost of contributions to the income statement in the year to which it relates. This treatment is consistent with prior accounting periods. In adopting this approach, Camelot has claimed exemption from defined benefit accounting, as permitted by paragraph 34A of IAS 19, on the basis that insufficient information regarding the plans' assets, liabilities and any surplus or deficit is available because the plans are fully administered by the respective shareholders.

26 CONTINGENT LOAN NOTES (GROUP AND COMPANY)

Camelot entered into a contingent loan note arrangement during the course of 2001 with its shareholders. Camelot will issue loan notes to the shareholders in the event that equity shareholder funds fall below £50m and certain cash accounts fall below £25m. Camelot shareholders will subscribe in proportion to their aggregate of class 'A' and 'B' shares, an amount to bring either equity shareholders' funds back to £50m or cash accounts back to £25m. While the redeemable shares are in issue these loan notes cannot be called upon. However, should the Group redeem the shares, the shareholders have formally agreed that the loan note mechanism (as amended) will once again apply.

27 RELATED PARTY TRANSACTIONS (GROUP AND COMPANY)

Camelot has a number of contracts with its shareholders, their parent and/or their subsidiary companies.

The amounts included in the financial statements for the financial years ended 31 March 2010 and 31 March 2009 excluding VAT are given below:

	2010 Purchase of revenue items and stock £m	2010 Amount due to related party £m	2009 Purchase of revenue items and stock £m	2009 Amount due to related party £m
Fujitsu Services Limited	–	–	8.7	–
Royal Mail Enterprises Limited	2.1	0.2	11.3	0.2

Royal Mail Enterprises Limited in its capacity as a National Lottery retailer also earned sales and prize commissions of £35.5m (2009: £34.5m).

In addition, the following cash payments and refunds for overpayments were made in respect of consortium taxation relief during the year

	2010 £m	2009 £m
Cadbury Holdings Limited	18	6.7
Fujitsu Services Limited	–	71
Royal Mail Enterprises Limited	23	4.0
	41	178

During the course of the year, Camelot entered into the following transactions with 'Services aux Loteries en Europe SCRL' (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

	2010 £m	2009 £m
Purchases	0.5	0.3
Amounts owed to SLE	–	–
Sales	0.1	0.1
Amounts owed by SLE	–	0.1

Also, Camelot transacted with a related party, Camelot Global Services Limited (CGSL), during the year. CGSL provides consultancy advice to other lottery operators around the world. CGSL and Camelot are subject to common control, because they have the same shareholders, and therefore are deemed to be related parties.

	2010 Sale of services £m	2010 Amount due from related party £m	2009 Sale of services £m	2009 Amount due from related party £m
Camelot Global Services Limited	2.3	0.5	–	–

Information regarding compensation paid to key management is disclosed in note 4.

28 SUBSIDIARY UNDERTAKINGS

Camelot Group plc owns the entire equity share capital of the following dormant companies:

Camelot Lotteries Limited

National Lottery Enterprises Limited

CISL Limited

These subsidiaries have share capital, equal to the net assets, of £5 in total. This amount represents Camelot's cost of investment in these subsidiaries. They are not material for the purpose of giving a true and fair view for these financial statements and therefore have not been consolidated, in accordance with Companies Act 228(2). The registered office for these companies is at Tolpits Lane, Watford, WD18 9RN.

PERFORMANCE STANDARDS

Performance standards

Standard and description	Target	Year End Actual
General matters		
Payments to Secretary of State	100 00%	99 28%
Computer systems		
Terminal sales availability	99 50%	100 00%
Terminal validation availability	99 00%	99 97%
Retailer matters		
Response to retailer selection request	95 00%	100 00%
Response to retailer correspondence	95 00%	100 00%
Player service		
Response to correspondence by National Lottery Line (NLL)	95 00%	97 57%
Resolution of player complaints	95 00%	99 57%
<i>Access to NLL Voice Response System (VRS)</i>		
Wednesday (20 00-23 00)	90 00%	100 00%
Saturday (20 00-23 00)	85 00%	100 00%
All other times	97 00%	100 00%
<i>Access to NLL representative</i>		
Friday (20 00-23 00)	80 00%	98 41%
Saturday (20 00-23 00)	80 00%	89 60%
All other times	90 00%	93 92%
Failure to select an option on VRS (FTO%)	<8 00%	4 46%
Abandoned calls to call centre	<5 00%	0 34%
Prize payment		
Prize claims paid by CHAPS	92 50%	99 63%
Prize claims paid by cheque	92 50%	92 75%

Standard and description	Target	Year End Actual
Normal claims		
Prize claims made in post (including interactive)	95 00%	98 50%
Claims requiring investigation		
<i>Draw-based</i>		
Resolution of lost, stolen or destroyed tickets	75 00%	82 98%
Missing multi-draw exchange	90 00%	89 35%
Damaged tickets	95 00%	98 73%
Previously validated	90 00%	8789%
<i>Scratchcards</i>		
Damaged tickets	95 00%	88 01%
Stolen tickets/packs	92 50%	98 92%
Previously validated tickets	95 00%	91 53%
Any other claims investigation	75 00%	98 96%
<i>Subscriptions</i>		
Written correspondence answered by Subscriptions	95 00%	99 00%
Resolution of player complaints	95 00%	92 13%
Voice contact with Subscriptions department	80 00%	83 04%
Abandoned calls Subscriptions department	<5 00%	2 67%

Interactive performance standards

Standard and description	Target	Year End Actual
Systems availability		
Availability to play games	99 00%	99 82%
Availability to pay prizes	99 00%	100 00%
Customer contact		
Voice contact with customer call centre	80 00%	80 82%
Abandoned calls to customer call centre	<5 00%	2 46%
Customer contact via email	80 00%	90 55%
Mail server performance	<1 00%	0 00%
Response to letters	95 00%	9734%
Contact resolution (enquiries)	80 00%	98 68%
Complaint resolution (all channels)	95 00%	9745%

NATIONAL LOTTERY DISTRIBUTION BODIES

GOOD CAUSES

Good Causes Information Line

0845 275 0000

Textphone 0845 275 0022

Good Causes Websites

www.lotterygoodcauses.org.uk

www.lotteryfunding.org.uk

CHARITIES, HEALTH, EDUCATION AND ENVIRONMENT

Big Lottery Fund

1 Plough Place

London EC4A 1DE

020 7211 1800

SPORTS

UK Sport

40 Bernard Street

London WC1N 1ST

020 7211 5100

Sport England

Third Floor

Victoria House

Bloomsbury Square

London WC1B 4SE

0845 850 8508

Sport Scotland

Doges

Templeton on the Green

62 Templeton Street

Glasgow G40 1DA

0141 534 6500

Sport Northern Ireland

House of Sport

2a Upper Malone Road

Belfast BT9 5LA

028 9038 1222

Sport Wales

Sophia Gardens

Cardiff CF11 9SW

0845 045 0904

ARTS

Arts Council England

14 Great Peter Street

London SW1P 3NQ

0845 300 6200

Scottish Arts Council

12 Manor Place

Edinburgh EH3 7DD

0131 226 6051

Arts Council of Northern Ireland

MacNeice House

77 Malone Road

Belfast BT9 6AQ

028 9038 5200

Arts Council of Wales

Bute Place

Cardiff CF10 5AL

0845 8734 900

UK Film Council

10 Little Portland Street

London W1W 7JG

020 7861 7861

Scottish Screen

249 West George Street

Glasgow G2 4QE

0845 300 7300

HERITAGE

Heritage Lottery Fund

7 Holbein Place

London SW1W 8NR

020 7591 6000

OLYMPIC LOTTERY DISTRIBUTION FUND

Olympic Lottery Distributor

1 Plough Place

London EC4A 1DE

020 7880 2012

SCIENCE, TECHNOLOGY AND ART

The National Endowment for Science, Technology and the Arts (NESTA)*

1 Plough Place

London EC4A 1DE

020 7438 2500*

* Lottery Good Causes funding has also provided two endowments to NESTA

COMPANY INFORMATION

CAMELOT GROUP PLC

Head Office

Magdalen House
Tolpits Lane
Watford WD18 9RN
www.camelotgroup.co.uk
01923 425000

Registered office

Tolpits Lane
Watford WD18 9RN

Registered in England and Wales

No 2822203
Incorporated and domiciled in England

Auditors

PricewaterhouseCoopers LLP

Bankers

The Royal Bank of Scotland Plc

CONTACT DETAILS

Player enquiries

Avalon House
Tolpits Lane
Watford WD18 9RN

National Lottery Line

0845 910 0000
0845 910 0045
Minicom facility

National Lottery Interactive Channels

0845 278 8000
www.national-lottery.co.uk
help@national-lottery.co.uk

National Lottery Direct Debit

0845 912 5000

Retailer Hotline

0800 064 9649

Under-16s sales prevention

Hotline 0870 160 0016

OTHER ADDRESSES

National Lottery Promotions Unit

1 Plough Place
London EC4A 1DE
020 7211 3991

National Lottery Commission

101 Wigmore Street
London W1U 1QU
020 7016 3400
www.natlotcomm.gov.uk

Department for Culture, Media & Sport

The National Lottery Licensing Division
2-4 Cockspur Street
London SW1Y 5DH
020 7211 6200
www.culture.gov.uk

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