

AMENDING

New team,
new culture, new games,
new vision, new logo,
new approach

The only thing that
isn't new is our continued
responsibility to you

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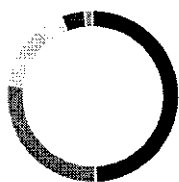
The Angel of the North,
as shown on this front cover,
was in a 60 second television
commercial aired in April 2001.
This formed part of a campaign
run by Camelot, in conjunction
with the distributing bodies,
to raise public awareness of
Good Cause funding.



Where does it all come from?

Where does it all go?

**Breakdown of £1 for second
licence period**
(%)



- Prizes 50
- Good Causes 28
- Lottery duty 12
- Retailers 5
- Operating costs 4.5
- Camelot profit 0.5

Note: Based on Camelot's
figures as detailed in their bid for
the second licence.

Camelot's role

Camelot is the operator of The UK National Lottery. It employs around 1,000 staff, the majority of whom work from a head office in Watford, Hertfordshire. Other sites include a player information line and telesales site in Aintree, a warehouse facility in Northampton and 10 regional centres across the UK.

The objective of all staff is to maximise returns to Good Causes and Government through lottery games in the most efficient and socially responsible way. This involves creating, marketing and promoting new games; running and developing the lottery infrastructure; providing services for players and winners and working in partnership with retailers.

The National Lottery's partners

There are a number of organisations involved in The National Lottery. Their partnership is critical to the lottery's success. They are:

- The Government, empowered by the National Lottery Act 1993, through the Department for Culture, Media and Sport which appoints and directs
- The National Lottery Commission which, after a competition against an Invitation to Tender, awards the licence to run The National Lottery and regulates
- Camelot, the lottery operator, which raises money for
- Six Good Causes approved by Parliament, which select and allocate funds to 16 distribution bodies*. These in turn decide which beneficiaries should receive funding.

* Funding to one of the 16 distribution bodies, the Millennium Commission, ceased in August 2001

Licence facts

In May 1994 Camelot was awarded a seven-year licence to run the lottery and on 14th November 1994 the first on-line tickets went on sale. Over the seven years of the first licence Camelot raised £10.6 billion for Good Causes, £1.6 billion more than originally promised.

In December 2000 Camelot was awarded the second seven-year licence to run The National Lottery, which commenced on 27th January 2002. Its objective for this licence is to exceed the expectations of its regulator, The National Lottery Commission, which expects no more than around £10.6 billion to be raised for the Good Causes during the second licence.

Breakdown of the lottery pound

Under the terms of Camelot's licence each pound spent on the lottery is allocated, over the seven-year period, as follows:

- 50p is paid to winners in prizes
- 28p is given to the Good Causes as set out by Parliament
- 12p is passed on to Government in lottery duty
- 5p is paid to National Lottery retailers on all National Lottery tickets sold
- 4.5p covers Camelot's operating costs, which comprise of running the lottery network and computer system, marketing expenses, player and retailer support services and administration costs
- 0.5p is Camelot's profit in the second licence, down from just under 1p in the first licence.

Camelot is fit for purpose and is looking forward to the challenges of the second licence



Camelot Group plc
Annual report 2002

The National Lottery is a proven success, having raised more than £11.3 billion for Good Causes.

I was appointed Chairman of Camelot at the start of the second licence in January 2002. My task is common to the shareholders, executive team and staff: to exceed the expectations of our regulator and succeed in raising more than the £10.6 billion raised for Good Causes in the first licence.

Chief Executive Dianne Thompson describes elsewhere in this report how we have embarked on our second licence, resolved to reinvigorate public interest in The National Lottery. After the uncertainties of the last licence award process, I am confident that Camelot has emerged as a forward looking organisation, dedicated to the sales-led task of increasing returns to Good Causes.

Partnership

The task of exceeding expectations is a formidable one and requires a partnership between the component parts of The National Lottery. That means finding new ways of working with our statutory regulator, the National Lottery Commission, in order to maximise returns to Good Causes, while continuing to ensure player protection and propriety. We share the belief of Parliament and our regulator that strict regulation is essential to preserve public confidence in The National Lottery. However, some aspects of the current regulatory regime have become so prescriptive and subjective that the shared duty to maximise returns to Good Causes is at risk.

What is needed is not a lighter touch but a regime which is redesigned positively to encourage innovation and experimentation, within the agreed guidelines and statutes. I am thinking most specifically here about the introduction of new games, the key to sales growth. Presently, the National Lottery Commission's procedures are unhelpful. I believe Camelot's initiatives should be judged by the National Lottery Commission after the fact and not before, as now. Innovation is the key to growth in any business but the present approach fails to recognise that The National Lottery is in its eighth year of operation. We welcome the fact the National Lottery Commission has signalled its willingness to engage on these issues – much depends on the outcome of those deliberations.

Dynamic Earth, Edinburgh

Having received a £16 million grant from the Millennium Commission, Dynamic Earth in Edinburgh has become one of Scotland's leading attractions, combining education and entertainment through hands-on exhibits.



Ferens Gallery, Hull

A new children's gallery at Hull's Ferens Art Gallery, opened through a £53,200 grant from the Heritage Lottery Fund, features educational, interactive and fun displays.



Our success also depends on continued recognition that there is a public interest in The National Lottery's protected status within the gaming market. We are delighted that the Government has signalled its intention to maintain that position even though it has embarked on a major programme of liberalised gaming reform. We welcome the news that the Secretary of State for Culture, Media and Sport has rejected those few recommendations within the Budd Review of gambling which would have had the effect of diluting the returns to Good Causes from The National Lottery.

And finally, we urgently need our other partners, The National Lottery distribution bodies, to help us to promote the direct connection between playing National Lottery games and the community benefits that result. The evidence is that our players have little understanding of what is spent, by whom and on what. We are pleased that there is now a good understanding of this problem by our distributing partners and we are working together to remedy the problem.

Getting on with business

This year has been a period of planning and huge investment in the business as it prepared for the second licence. The £73 million spent on 25,000 new terminals, the successful development and installation of the new Alpha Gols software platform and the recruitment of 300 staff are considerable achievements of Dianne Thompson and her team in the past 12 months.

The Board is committed to a further capital expenditure of £45 million, to create the software platform needed to secure the integrity of all National Lottery games via the Internet. This will enable us to make the best of whatever platform our regulator ultimately permits. The benefits of that investment cannot be fully realised until consumer take-up is accelerated, unlikely before the third licence.

Camelot is, in my view, a business more 'fit for purpose' than any I have come across. I am proud to be its Chairman and to play my part in supporting Dianne and her team to meet the considerable challenges that lie ahead.

For eight years now Camelot has played its part by operating what is internationally recognised as one of the world's most successful lotteries. Next month the

Government will publish a review of how it might ensure competition for the third licence. Camelot supports the Government's desire to ensure fruitful competition and shares the view that it is one of the key tools for maximising returns to Good Causes.

In due course Camelot will respond in detail to the debate on how this competition might best be achieved. Whatever the model chosen, I believe it is important that competition is not gained at the expense of an integrated approach to the operation of the lottery. It is Camelot's experience that such an approach is vital to the future efficiency, integrity and security of The National Lottery. In the public interest we will argue against proposals that threaten to break up the operation.

In stepping up to the Chair of Camelot from my role as non-executive director, I succeeded Sir George Russell. A man of enormous achievement in both the business and public sectors, he is owed a great debt by Camelot. Sir George's wise counsel and cool command were instrumental in the company's survival and on behalf of everyone at Camelot, most particularly the Board, I would like to express our gratitude.

Thanks are due, as well, to Lord Imbert, who has also retired from Camelot's Board after more than seven years of invaluable service.

This year has been one of preparation and change at Camelot. That process has seen a vibrant, sales-focused company emerge well equipped to meet, alongside its partners in The National Lottery, the considerable challenges that lie ahead.

Success will be built on with all partners playing their part and meeting their responsibilities to this great institution. We at Camelot look forward to meeting our responsibilities and fulfilling stakeholders' expectations.

Michael Grade CBE
Chairman
21 May 2002

Serving the nation's dreams through The National Lottery



As the operator of The National Lottery the nature of Camelot's business is unique. No other business can say its output is designed to create winners both individual, through the millions on offer in prizes and collectively through the 28p in every £1 sale that goes to the Good Causes. This Annual Report reflects *this business output with special reports on winners and Good Causes.*

My colleagues and I make no claims other than to feel proud that Camelot's role in raising the funds has enabled others to use their creativity to contribute positively to communities across the UK. It is also important to note that 89% of the monies raised last year for Good Causes were invested in projects worth under £100,000, each making a real difference to their local community.

My task and that of my colleagues is to ensure the source of the funds that make such a difference flourishes and, in the following pages I will explain how we have, and will continue to ensure that The National Lottery can 'serve the nation's dreams'.

Last year marked the transformation of Camelot.

The previous year's prolonged fight to win a second licence had left the company battle-scarred and, due to the uncertainties of the period, understaffed by 31%. Although the struggle to win our second licence had not distracted us from our duty to run The National Lottery with complete integrity and efficiency, we had been obliged to confine ourselves to the fundamentals. This meant we had become inward-looking, risk averse and process driven, not an ideal combination for a company that needs to excite, entertain and understand the national psyche.

My senior team and I took the view that we had to do something. And we did.

Camelot's new vision and logo

This year saw the launch of our new vision and logo, which focus on what The National Lottery does for individual, local and national aspirations; making dreams come true.

Winning Ways

Through a variety of workshops, conferences, feedback and personal development, Winning Ways encourages individuals to adopt the new Camelot culture, vital in ensuring we achieve our goals and vision.



Realising a vision

In fact, we devoted a considerable amount of time and energy in the last months of the old licence in a massive rethink of our entire business. We revisited everything – our core business objectives, our revenue streams, our game plan and our service delivery. Just as important, we stepped back to examine the Camelot culture as it had developed during the course of our first seven-year licence. This also involved an analysis of Camelot's relationships with all of our stakeholders and a determination of how we had to change.

At the heart of it was our vision. We came to realise that it was no longer enough to aim to be the best lottery operator in the world. Instead, we needed to focus on what The National Lottery really does for individual, local and national aspirations, which is to make dreams come true. Our vision became obvious, 'serving the nation's dreams through The National Lottery'.

Once we had a vision, the rest of Camelot's culture change began to fit more easily into place. Camelot already had its core company values, known throughout Camelot by the mnemonic FITTER: Fair play, Integrity, Trust, Teamwork, Excellence and Responsibility.

To bring these values to life we also determined five key behaviours: passion, creativity, empowerment, partnering and ownership. These behaviours are now integral to all we do in our everyday work.

The final piece of our internal jigsaw came with the introduction of a new logo. In 1993 we chose a logo which communicated the solidity and backing the company had. However, we have now moved on and business priorities have changed. Our new logo reflects Camelot as a modern and innovative company.

Living the culture

Launching a new culture is one thing; making it an intrinsic part of everyday business life is quite another. In this, the tribulations of the licence bidding process gave us something of a head start. The recruitment of 300 staff gave us a fresh transfusion of energy and enthusiasm. This has helped to accelerate Camelot's culture change in a number of tangible ways.

Another important part of Camelot's cultural change is a renewed emphasis on our retailers and players. Players have told us they want to know more about where the money is distributed. However, during the bidding process for the second licence we were not allowed to communicate with the bodies that allocate the money raised by The National Lottery. With no communication, there could be no co-operation on promoting the considerable difference that the £11.3 billion raised by The National Lottery had made in funding 107,500 awards throughout England, Northern Ireland, Scotland and Wales. As a result, we were unable to meet the very real public expectation – their right to know where their lottery money is going and furthermore to be able to judge the impact of lottery funding and the difference it makes.

To correct this, as soon as the bidding process was finished, we began to collaborate with the distributing bodies on planning a £3.2 million campaign to create greater public awareness of the impact of National Lottery funding. Using the strapline 'You played, the nation won', the campaign consisted of a 60-second television commercial, comprising of a number of lottery beneficiaries all thanking the nation for the monies received. We have included one of those beneficiaries, the Angel of the North, on the front cover of this report. The campaign also included four-page pullouts in 69 regional newspapers, stakeholder receptions, website activity and point-of-sale material for all 36,000 retailers highlighting local projects in their own areas as well as the amount each individual retailer had raised for Good Causes.

This campaign marked the start of a co-ordinated effort with Camelot's lottery partners to ensure the public has greater access to information about where and how lottery money is spent. The campaign was a success and we are now working to ensure a 52-week a year plan to communicate the enormous impact of National Lottery funding. Equally important is the growing willingness of the distribution bodies to share in this responsibility.

Investment in terminals and IT

This year has seen a capital investment of £73 million on the installation of 25,000 new replacement terminals and a major new IT system to run The National Lottery.

New Instant games

This year has seen the launch of 24 new Instant games. Our new strategy for Instant games, which saw a sales increase of 5.9%, has included hugely successful games like Millionaire, Cash for Life, Grand National, Monopoly and Millionaire Blue.



Implementation & investment

Having won the second licence, we spent much of the year at Camelot preparing for its implementation. One of the key tasks we faced was the installation of 25,000 new replacement lottery terminals throughout the UK. We began work on this in August 2001. The deadline set by the National Lottery Commission was 27 January 2002, with potential fines of £5 million for every day they were delayed. To put the task in perspective, when we set up The National Lottery in 1994, we had six months to install a mere 10,000 terminals.

Nevertheless, we got the job done – on time and within budget – despite delays caused when many terminals and components were snared in the shipping backlog that resulted after the tragedies of September 11. To catch up, our IT team had to carry out their work in remote areas during some of the worst of the winter weather, and even managed to install 60 terminals on Boxing Day.

Unfortunately, there was no time to celebrate this achievement, since we were simultaneously working on the switchover to a major new IT system. This was to be the largest conversion of its kind in the lottery world. Again, the team delivered this massive project on time, within budget and with no disruption to the National Lottery network as the new AlphaServer platforms took over from the old VAX system.

Together, these projects not only expand and accelerate our transaction capabilities, but also position Camelot to cope with future National Lottery offerings. The projects involved a capital investment of £73 million.

Given the nature of our business, such investment in technology is essential. The same could be said for the attention and care we pay to every aspect of our corporate social responsibility. It is core to our business.

Doing business responsibly

Therefore, I am delighted to report significant recognition for our efforts in this field. During the past year Camelot has received commendations for social reporting from ACCA/AccountAbility and a citation for best practice from the Department of Trade & Industry. More recently, the Echo Research Group has named Camelot among the world's top companies for our commitment to corporate social responsibility and the standard of our social reporting.

All of this shows just how far Camelot has come in adopting and embedding the highest principles of corporate social responsibility. We still face enormous challenges, but the disciplines we have learned from active consultation with our stakeholders and annual reporting of our progress against their legitimate expectations are a vital part of creating a winning business.

By publishing our performance against a range of social, fiscal and environmental measures each year, we bring a sharp focus on actual business performance. Of course, our ultimate goal remains the maximising of sales in a socially responsible way on behalf of the Good Causes.

Camelot's acute sense of social responsibility manifests itself in a number of ways. This includes:

- a game design protocol that provides a framework for measuring the potential risk of National Lottery games to vulnerable groups
- a community volunteer programme that encourages employees to become involved in the local community
- our Oyster Awards scheme to recognise and reward those who have taken constructive action about something they feel strongly about
- Operation Child – 10,000 test purchase visits a year to ensure retailers don't sell lottery products to under 16s
- the setting up of 100 reading clubs with Education Extra, to help children in the transition to secondary school
- Parental awareness campaign to make information available to parents on underage gambling
- the re-launch of the Camelot Foundation.

A summary of our latest social report can be found in this document on pages 20 to 33.

Oyster Awards

The Oyster Awards, run in conjunction with Common Purpose, look to recognise campaigners all over the UK who have taken constructive action about something they think should be improved, changed or created.

Employee community involvement

We actively encourage staff to become involved in local communities through fundraising activities and by donating time and skills. Every member of staff is allowed half a day off per month for this purpose.



New strapline for the main game

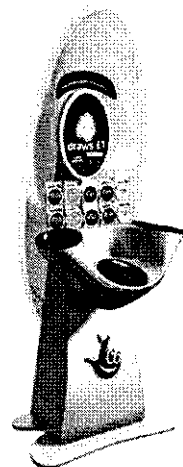
The new strapline for the main Lotto game is a reflection of the attitude to life Lotto players have. They are upbeat, optimistic, dreamers and possess a 'have-a-go' attitude to life.

New playzone

A fundamental part of our re-launch includes the replacement of all in-store permanent point of sale material. This includes new play zones which, while retaining their functionality, bring alive the new face of Lotto in the in-store environment.

don't live a little.
live a

Lotto



Tackling transformation

I began by saying that Camelot had ended the year transformed. So where is this transformation taking us?

It has already resulted this month in the re-launch of The National Lottery. The re-launch is about injecting fun and entertainment into The National Lottery at point of purchase, in the home and in the way people play the games.

The National Lottery is now an over-reaching parent brand linking an entire game portfolio that includes Instants and Thunderball, as well as Lotto and Lotto Extra.

We are investing £72 million in a robust, year-long marketing campaign to promote this new-look National Lottery. The first part of this campaign included:

- a series of television commercials starring comedian Billy Connolly
- one of the UK's largest ever poster campaigns, with over 4,000 48-sheet and 96-sheet sites around Britain for a fortnight
- one of the Royal Mail's biggest ever mailshots - reaching 82% of all UK residences - consisting of sample play slips and special draw information.

Our re-launch plans are about increasing sales and revenues for Good Causes over the long term, through slow steady growth. We are also determined to become more relevant to our players' lives and responsive to their requirements.

In June, for example, to mark the Queen's Golden Jubilee, we will add to the excitement with a £10 million bonus draw. And in July we will launch a new game, Lotto HotPicks, that meets our players' desires to have the opportunity to win bigger prizes for picking and matching fewer numbers.

These developments, an important outcome of our transformation, are the result of in-depth research and detailed strategic planning. We've taken our time, listened to our players and responded.



Sponsorship

Our sponsorship of Matthew Pinsent and James Cracknell will enable Britain's top rowing duo to devote themselves to full time training in their bid to secure the coveted pair Olympic gold at the Athens games in 2004.

Investment for 2002/03

We are committed to investing £72 million in marketing during 2002/03. This will include the marketing and promotion of new and existing games as well as exciting changes to our retail estate.



The result: stronger and more relevant products backed by considerable investment that over time will see growth return to sales across the game portfolio.

We have followed a similar strategy in reassessing our relationship with our network of 36,000 retailers. They have a huge role to play in the success of the lottery. As with our players we have taken time to listen to our retailers and, together, we have developed an exciting new retail environment.

Visible improvements include new interior and exterior signage, playzones, Instant's dispensers and unique digital-media communication screens. We expect to invest around £14 million over the next two years on improving our retail environment.

Less visible, but equally important, is our work behind the scenes to optimise the performance of our retailer network. Our 'Ask for the Sale' training programme, for instance, will help some 9,000 retailers per year to develop their business skills in fun, informal and highly interactive sessions. At the same time they are reinforcing their engagement with The National Lottery.

Another programme is specifically aimed at enhancing the performance of those retailers selling less than £1,500 per week of lottery products. They will benefit from a full support package to help them achieve this level. However, if after a reasonable period a retailer cannot make that target we will reallocate the terminal as part of Camelot's duty to maximise sales and, therefore, returns to Good Causes.

Rising to challenges

In our winning bid for the second licence we were at pains to point out that The National Lottery is operating in an increasingly tough environment. In two years, gaming regulations in the United Kingdom will have changed dramatically. In October, Camelot submitted a detailed 200-page response to the Government's Gambling Review, focusing on those measures – society lotteries, side-betting and higher prizes for bingo – which could seriously undermine our ability to raise money for Good Causes.

Encouragingly, the Department for Culture, Media and Sport took on board our coherent and robust analysis. Nevertheless, gambling deregulation will inevitably have an impact on our business. Our task at Camelot is to manage that impact.

At the same time, we have to be poised to make maximum use of any changes in broadcasting regulations or developments in the digital revolution that could grow our sales. We are already on target for Internet scratch card play at the start of next year, with the full range of National Lottery games also due on the Internet in 2003.

Looking ahead there is no doubt Camelot faces big challenges in its goal to maximise sales. I am confident we can meet those challenges and together with our partners in The National Lottery ensure the second licence can be as successful as the first.

I take pride and draw confidence from the fact that in our short history Camelot employees have shown a collective will to rise to challenges and thrive on change. Our aim to 'serve the nation's dreams through The National Lottery' and to grow sales in a socially responsible way is vital to the realisation of those dreams.

Dianne Thompson

Dianne Thompson
Chief Executive
21 May 2002

Eleven billion pounds for Good Causes

Every pound is a winner

The National Lottery Good Causes

Whilst we recognise that people play The National Lottery to win and make their personal dreams come true, it can also be said that the nation wins every time somebody plays. For every pound spent on The National Lottery, 28p is given for the benefit of communities across the whole of the UK. With thousands of good cause awards being made by the distributing bodies every year there are millions of other winners whose dreams have become reality. This year, for example, we must all remember the British Women's Curling team who kept us up into the early hours to watch them scoop the gold medal in an exciting final at the Salt Lake City Winter Olympics. The team had received lottery funding through sportscotland's Talented Athlete Programme.

The National Lottery is about the betterment of the nation and many large-scale city developments will act as catalysts for further regeneration. The Deep, the world's first submarium, in Hull, joins the Gateshead Millennium Bridge and The Falkirk Wheel as some of the many lasting testaments which mark the turn of the Millennium. Although these are the sort of projects which capture the headlines it is important to note that 89% of awards made during this year were for sums below £100,000. These smaller projects, like Poole Shopmobility which, with a grant of £51,887 from the Community Fund to purchase 20 purpose-built wheelchairs, has enabled disabled people and visitors to spend time on the beach and to have access to the sea. Whilst not high profile it has had a huge impact on the local community.

Public right to know

Up until now The National Lottery story that has captured the nation's imagination has tended to be that of Jackpot winners. However, it must be remembered that this is only one aspect of the lottery and in many ways the Good Causes story remains the greatest story never told. A recent survey revealed that only 34% of respondents felt that 'my local area' benefits from monies raised by the National Lottery despite the fact that some 21,164 awards were made this year alone. The East Belfast Community Health Information Project, for example, secured a grant of £984,188 to develop a network of local health workers providing vital information on a range of issues, including men's and women's health, mental health and drugs and alcohol awareness.

Awards this year total more than £1 billion with the average size of an award being £50,000. More than half of all awards were for less than £5,000. As the National Lottery matures, meeting the public's right to know where this money has been spent is becoming increasingly important. We believe there is a duty of accountability on the part of all lottery partners to both players and the non-playing public, which is why we instigated a £3.2 million campaign this year, in conjunction with the distributing bodies, to raise awareness of good cause spend. We are committed, in partnership with the distributing bodies, to continue this work.

Camelot's commitment

As a company we are committed to raising the maximum amount of money for the Good Causes in an efficient and socially responsible way. This forms the first of our six business objectives, which is then cascaded to become part of every member of staff's personal objectives. This commitment is further embedded through our annual bonus scheme, where a target for Good Causes is a constituent as well as the largest part of the bonus.

By the end of our first licence in September 2001 we had raised £10.6 billion for the Good Causes, exceeding our target by some £1.6 billion. By 31 March 2002 that sum had risen to £11.3 billion and had been distributed through more than 107,500 awards, for the benefit of charities, sport, heritage, arts, millennium projects and health, education and the environment. In terms of the second licence we are confident that we can exceed the expectations of our regulator by raising more than the £10.6 billion we did in the first licence period.

Making dreams come true through The National Lottery

Our new vision 'serving the nation's dreams through The National Lottery', while representing the collective betterment created by The National Lottery for communities across the UK, is also about fulfilling individuals' dreams through winning life-changing amounts of money.

Every week millions of people win on The National Lottery, from £1 on an Instant scratchcard to a sum which changes their lives forever. Since the lottery was launched we have paid out over £17.6 billion in prizes, creating over 1,322 jackpot millionaires.

New lottery winners

Again this year The National Lottery has continued to transform lives through creating an amazing 205 millionaires, paying out a total of £2.4 billion in prizes.

We saw the creation of the largest ever sole publicity winner when Tom Naylor scooped over £15.5 million on Lotto Extra last November. Since his win, Tom and his wife Rita have given away over £4 million to family and friends. Tom was just one of 716 jackpot winners this year who were paid out a staggering £590 million.

But it is not just about individual winners, as this year saw 71 syndicates winning the jackpot. These included a 35-strong syndicate of employees from the Rookery Medical Centre in Newmarket, Suffolk who won just over £2 million in December. The syndicate, who had been choosing the same numbers for Lotto since it started said, at the time of their win, that they would continue to work.

David Lynch was so amazed when he won £1 million on Instant Millionaire in November that he had to ask the shop manager to check his ticket. Since his win, David and his partner Yvonne Julian have donated a sum to their local branch of the animal charity PDSA to buy vital x-ray equipment.

Enjoying their wins

Winning that life-changing sum of money gives lottery winners the opportunity to realise those life-long dreams. For Mick Maplesden, who scooped just over £4 million in December 1997, becoming Chairman of Hastings Town Football Club was a dream come true, while Marjorie Longdin has travelled to some of the world's most far-flung corners following her win of £856,648 in 1998.

The lottery allows people to fulfil not only their own dreams but to also help family and friends, as well as doing valuable charity work. Since his £7.6 million win in January 2000 Ray Wragg, with his wife Barbara have given away over £5.5 million to friends, family and charities. In July this year he raised over £4,000 for the Western Park Hospital Cancer Appeal by abseiling 300 feet down the side of Hallamshire Hospital in Sheffield. For the second year running, the couple took 240 children from their local school to see Toy Story on Ice in London.

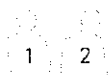
Camelot's support for winners

Winning the lottery does change lives forever so the service and support we provide to winners is critical. Our specialist team of winners' advisers look after all major winners following their initial contact with The National Lottery Line and this on-going contact and support is maintained for as long as required. Major winners are also offered impartial advice through a specialist panel which consists of an independent lawyer and financial adviser.

However, it is not just major winners we support as everyone winning over £10,000 receives a Winners' Information Pack, which includes a wide range of information such as how to contact an independent financial adviser.

Winning the lottery places people in an exclusive club and winners enjoy opportunities to share their experiences with others. This year saw the third winners' party, where publicity winners were the stars of the show at a glittering event at Pinewood Studios. It also saw the publication of our first ever winner's newsletter 'Lottery Life', where publicity winners can catch up with each other's exploits, whether it's an appearance on Ready, Steady, Cook or news of an exotic holiday destination.

Camelot's new executive team



1 Dianne Thompson

Chief Executive
Dianne became Chief Executive on Camelot being awarded the second licence in December 2000. Prior to this, she was Commercial Operations Director, where she was responsible for all aspects of player and retailer services.

The first female Executive Director to join the Camelot board, Dianne was named *Veuve Clicquot 'Business Woman of the Year 2000'*. She was also voted *'Marketeer of the Year 2001'* by The Marketing Society. Dianne is a member of the council of the Advertising Standards Authority (ASA) and is also a non-executive director of Lex Services plc. She is also currently President of the Chartered Institute of Marketing.

2 David Clark

Deputy Chief Executive
As Deputy Chief Executive David oversees Camelot's corporate strategy and international relations. He joined Camelot in 1994 as Lottery Operations Director following his work on the bid for the initial lottery licence and was appointed to the board shortly afterwards.

Prior to Camelot he was Chairman and President of the Quebec Lottery in Canada and Secretary General of the International Association of State Lotteries (AILE). David has a total of 30 years experience in lottery management, international business management and consumer products marketing. Before entering the lottery industry he worked in sales and marketing with Colgate Palmolive International.

3 Tony Jones

Operations Director
As Operations Director, Tony is responsible for IT, security, finance, projects, legal affairs, purchasing and facilities. He joined Camelot as Finance Director in January 1999 and in December 2000 he was appointed to the Board.

Prior to Camelot, Tony was Interim Group Finance Director at Marstons plc, which he joined in 1998 from Sears plc. While at Sears he was Divisional Finance Director, firstly at Sears Sports Leisurewear and then Sears Retail Services. Tony qualified as a chartered accountant with Price Waterhouse in 1983.

4 Sue Slipman OBE

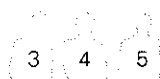
External Relations and Compliance Director
Sue is responsible for all external relationships and communication, as well as liaison with the National Lottery Commission. She joined Camelot in 1998 as Director of Social Responsibility and was appointed to the Board in 2000.

Prior to joining Camelot Sue held several public appointments in the fields of family policy, consumer rights and economic regeneration. Sue has served as a member of the Better Regulation Taskforce, an independent body that advises the government on regulation. She is currently Chair of the Corporate Responsibility Group, and has also held a non-executive directorship at Thames Water since the beginning of 2002.

5 Phil Smith

Commercial Director
Phil Smith joined Camelot's Board in January 2002 as Commercial Director. His responsibilities range from overseeing players and the 36,000 retailer estate, as well as consumer research, sales, marketing and new game development.

He was previously Deputy Managing Director of Improveline, an online home improvements business. Before this, Phil was Chief Operating Officer for Searchlight Systems, an Internet Games Developer. From 1996 to 1999, he was part of the board of Kwik Save plc, first as Group Marketing Director and then as Trading Director. He later became Marketing Director following Kwik Save's merger with Somerfield plc.





Camelot is a commercial company operating an important national institution for the public good.

To balance the moral and commercial imperatives that drive us, we incorporate social responsibility into everything we do. Our prime business objective is to deliver maximum returns to Good Causes in a socially responsible way.

To do that we set up The Winning Company Group. This internal, senior management group aligns all policy, structure, culture and business processes to benefit the society we serve.

At Camelot we group society into eight stakeholders:

- Public
- Employees
- Community
- Retailers
- Suppliers
- Pressure Groups
- Environment
- Shareholders

We listen to and learn from these groups through a variety of ways. The most effective of these is, in theory, the simplest: direct engagement. At Camelot, however, that means a regular, time-tabled programme encompassing communication, discussion and consultation. To cast the net even wider, we are currently working on producing remote stakeholder consultation through our website.

Effective stakeholder engagement – whether through meetings, publications, focus groups or events such as seminars and conferences – provides the basis for building Camelot's social policies.

Three permanent consultative and advisory bodies play a major role in developing Camelot policy:

- The Advisory Panel for Social Responsibility, chaired by a non-executive director, consists of individuals with professional expertise in stakeholder concerns. Each member focuses on the concerns of a particular stakeholder group. Together, the panel reviews and signs off the way we produce Camelot's social report. The panel also advises on strategies for continuous improvement.
- The Staff Consultative Forum (SCF) is made up of 23 representatives elected from throughout Camelot. The SCF elects its own chair and meets monthly to discuss all major staff policies.
- The Retailer Forum represents all 36,000 National Lottery retailer outlets across the four nations and all the retail sectors. The group meets quarterly under a joint chairmanship arrangement.

The following pages provide an overview of Camelot's Social Report for 2001/02. Each section focuses on a stakeholder group, starts with the model for success for that group, highlights progress against our key commitments from last year and captures the issues arising from dialogue. 2001/2 is the first time we have reported our social impact over a fiscal year and figures quoted for 2000 are for the calendar year. The report is available in full on www.camelotgroup.co.uk/socialreport2002.

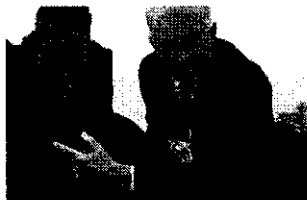
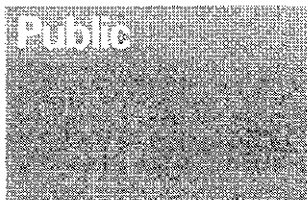
We produced this document in accordance with the AA1000 standard, covering consultation, verification and reporting as a way of demonstrating that we are tying social and ethical issues into Camelot's strategic management and operations.

Our independent verifier for the 2001/2002 report is the Ashridge Centre for Business and Society.



**Social
responsibility**

play
6/49 Lotto
here



**They could inform the public
a lot better than what they are
doing now'**
Quote from member of public

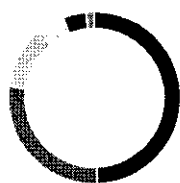
Camelot wants to raise the maximum amount for Good Causes in a socially responsible way. In this drive for excellence in all we do, we want to be trusted by the public who can be confident that we discharge our responsibilities to all our stakeholders and take the protection of the public seriously. We want to develop a high degree of confidence in the integrity of The National Lottery under our operation. We also want the public to understand the role and responsibilities of Camelot within The National Lottery and to understand the way we do business as a company.



Adults trusting Camelot to run the National Lottery (%)



Breakdown of £1 for second licence period (%)



- Prizes 50
- Good Causes 28
- Lottery duty 12
- Retailers 5
- Operating costs 4.5
- Camelot profit 0.5

Note: Based on Camelot's figures as detailed in their bid for the second licence.

Progress against last year's commitments Where does all the money go?

41 More than anything else the public wants to know how lottery money is spent. And Camelot wants to tell them, stressing that we ourselves have no role whatsoever in the distribution process.

48 We embarked on a major national and local promotional campaign. This provided a welcome platform – on television, radio and in the press – for the beneficiaries to thank players themselves.

57 With the co-operation of our retailer network we also relayed information about local lottery beneficiaries.

We did all this in close consultation with Camelot's partners in the distribution bodies.

Good Causes

Camelot raised more than £10.6 billion for Good Causes by the end of the first licence period. This was £1.6 billion more than initial projections.

We raised an additional £501.8 million during the interim licence period from 1 October 2001 to 26 January 2002.

Taking it to heart

A trustworthy organisation is one that takes complaints to heart and acts on them. To do that, we had to define a clear objective and method for Camelot's complaints service and have this agreed by the National Lottery Commission.

In 2001 we established a steering group to review the complaints process for both public and retailers and examine best practices in other regulated industries. The result: a new process identifying the best individual to manage a complaint through to satisfactory completion. Every quarter, Camelot senior management examines any complaints to ensure that wider lessons are learned.

When less is more

There is a limit to how much small print the public wants to wade through when playing The National Lottery. But some information at retail outlets is essential.

Working with the National Lottery Commission we managed to reduce the amount of mandatory information retained at retail outlets while ensuring that essential information needs are still met. Once we implement this change in Autumn 2002, players will gain from greater clarity of information and the environment will benefit from saved paper resources and reduced waste.

The public spoke; Camelot listened

To find out what the public was thinking about Camelot, The National Lottery and how we conduct our business, we commissioned Opinion Leader Research, an independent agency, to conduct a listening campaign on our behalf. This involved in-depth interviews and focus group discussions with 78 people of varying ages and backgrounds. During the course of our seeking their opinions in a variety of ways, four key issues arose:

Profits and pay

Scepticism about profits and pay at Camelot continues. Public perception remains that our profits and directors' remuneration are substantially higher than reality.

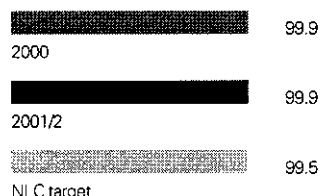
Camelot reduced directors' pay and total remuneration packages following our first social report in 1999. As part of our bid for the second licence, we halved our profits from 1% of sales to 0.5% of sales.



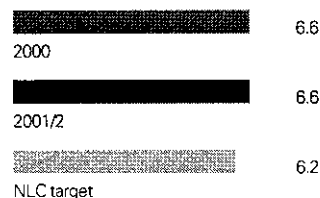
'When I do the Lottery I have a line and the girls pick a line... I wouldn't see that as gambling, I see that as joining them in with the family'
Quote from member of public



Network availability to sell tickets (%)



Winner overall satisfaction with service offered (Scale of 1 = terrible to 7 = excellent)



Complaints received



Note: The increase in complaints this year may reflect that the service is better known and more accessible to players. In addition, more complaints were received by email.

Distribution of funds

The public continues to credit or, in some cases blame Camelot for the distribution of National Lottery funds, rather than the 16 distribution bodies. This goes along with a very low awareness of the numbers and nature of benefiting organisations and projects. The public's right to know where its money is being spent is now the single most important issue. To address it we worked with the distribution bodies on a major national and local advertising and promotional campaign. Running in April 2002, its theme was a personal 'thank you' to players from the people who benefited from the Good Causes the lottery funds.

Camelot is also continuing to press for a clear, common branding for all projects funded by The National Lottery.

Size of jackpots

The public wants to see some capping of jackpot amounts, but in fact, the average Lotto jackpot prize is £641,410. This figure takes into account the many jackpots that are awarded to multiple winners.

6.2 Responding to the public's desire to win more money for picking and matching fewer numbers, this summer Camelot is launching a new game, Lotto HotPicks. This offers players the opportunity to win bigger prizes for picking and matching fewer numbers.

Responsible play

Although the public doesn't regard The National Lottery as serious gambling, Camelot has a serious commitment to promoting responsible playing.

Much of our efforts in this area are focused on underage play, an issue in which the public sees a need for strong commitment from retailers as well. At Camelot we feel joint responsibility is the best approach to the problem.

Operation Child makes use of young-looking (though adult) people who try and buy lottery products from retailers in order to test how well retailers follow the rules designed to protect underage would-be players. This year, Operation Child will conduct some 10,000 visits, covering just under one third of The National Lottery's retailer network.

More difficult to address in terms of underage gambling is when parents and other adults participate in The National Lottery on children's behalf. Although parental concern over this is low, Camelot made a commitment to The National Lottery Commission to address the problem.

We developed a campaign in consultation with a number of expert organisations including Gamcare and Parentline Plus. Launched in March 2002, the campaign included a parental awareness leaflet designed to be informative without preaching, providing practical advice on dealing with all forms of underage gambling.

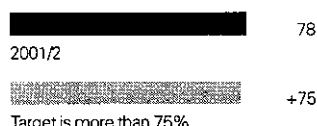


'Even us talking about the Winning Start now puts a smile on our faces, a sense of excitement'
Quote from employee

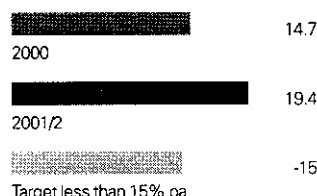
We need to recruit and retain a diverse range of skilled people at every level of the business. We want employees to feel valued by the Company, highly motivated and worthy of stakeholders' trust to deliver on our commitments. Camelot people should aspire to excellence in everything they do. We want employees to feel supported by directors and managers. At the same time, they should respect their colleagues and work positively in teams. Staff can expect equal opportunities for progression and development and their jobs should enable them to balance work with life demands.



Staff agreeing Camelot is one of the best or above average places to work (%)



Attrition rate (%)



Note: The 31% understaffing detailed in the Chief Executive's statement refers to attrition over 2000 and 2001 as well as an increase in staff through the transfer of staff from GTECH UK, establishing an in-house sales force and the recruitment of a new interactive team.

Progress against last year's commitments

Winning Ways

A new vision, new goals and new behaviours call for massive cultural change. At Camelot the umbrella programme to implement all this is Winning Ways. Using feedback and personal development, Winning Ways encourages individuals to adopt the new Camelot culture to help us achieve our goals and vision. To date, we have held two company conferences and a series of one-day workshops for everyone in the Company. In addition, managers and directors attended a leadership programme involving 360-degree feedback and measuring performance according to the designated new behaviours.

Consulting staff

Camelot established the Staff Consultative Forum in 1999 to consult employees on a wide range of subjects.

The Forum, consisting of 23 elected representatives from all functional areas of the business, meets every month. Regular presence of a Director ensures that feedback from each meeting is raised with the executive team. Over the course of the year the Forum made its views known on a number of key issues, including input into the significant changes made to Camelot's reward structure.

Determining reward

Camelot's interim social report for 2000 indicated that staff were concerned about a lack of transparency in the Company's reward structure. They were unclear how their pay was determined or what they could do to influence their salaries.

To rectify that situation we worked with employees to devise a new set of reward principles, with commitments that our systems will:

- be transparent and consistently applied
- provide a clear link between pay and performance
- encourage and recognise high performance
- be clearly aligned with Camelot's values and business strategy.

Using these principles as our guide, we set up a team to develop a way of classifying different roles within the Company, assigning each to one of a number of bands. We then priced these roles against the external market, using an independent remuneration consultancy.

We next wrote to everyone at Camelot detailing what impact the study would have on them. We addressed concerns about transparency by detailing all benefits applying to every reward band (including directors) in the Staff Reward Handbook.

All of this is part of an ongoing commitment, with further progress taking place in the next reporting cycle.

Career succession planning

While we have in place career succession planning for our senior managers we have not yet rolled this out company-wide. Development of a framework for this is underway.

Sticking to the code

Extensive internal consultation resulted in the production of a Camelot Code of Conduct in December 2001.

Approved by the National Lottery Commission, the Code is meant to provide everyone at Camelot - and other key stakeholders - with an overview of our policies and the Company's approach to doing business.

Following a review of the Code in March 2002, it now forms part of the induction pack for everyone who joins Camelot.

A life of equilibrium

Camelot launched a new work life programme in March 2002. Lifeworks provides employees with a one-stop shop for advice and information on issues that have an impact on every aspect of their lives. This includes help on finances, legal issues, education, parenting, health and overall well-being. The programme guarantees complete confidentiality.

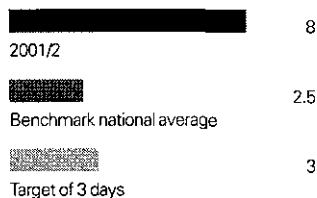
We are now in the process of monitoring how well Lifeworks is meeting the needs of Camelot employees.



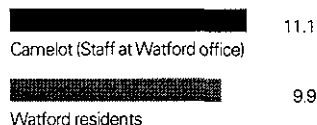
'I'm looking for leadership and role models'
Quote from employee



Number of training days per employee



Ethnic composition of workforce (%)



Listening to the front line

Three primary issues have emerged from consultation with employees. This consultation took the form of a brief survey sent to all staff in February 2002 and also included employee focus groups encompassing people at regional sites, the Watford office and representatives of the Staff Consultative Forum.

Benchmarking and grading review

While employees generally welcomed hearing about the new approach to benchmarking, confusion remains about how individual roles were benchmarked to appropriate jobs in the external market.

- 11.1 Many employees criticised the length of time between the initial presentations on benchmarking and receipt of their own letters.

- 9.9 We put in place an appeals process, taken up by one percent of employees, for those who felt the benchmarking process had been mistaken in their case. Some employees felt that the one-month appeals period was too short. Some also objected to the necessity of appealing to their director rather than their line manager who might have had a better understanding of individual roles and responsibilities.

Culture change

To determine the success of the Winning Ways programme, Camelot commissioned an independent audit from Business Hertfordshire. This involved interviewing 93 managers and employees at four different Company sites.

Overall, employees welcomed the Winning Ways programme, finding it positive, enjoyable and well organised. That being said, there were questions about how the business would manage to foster a learning environment and sustain overall enthusiasm to the levels generated during the programme.

Boundaries remain

Staff feel that effective cross-functional working at Camelot still remains a goal to be attained rather than a common practice.

Employees have been forthcoming with suggestions on how to motivate staff to work more inclusively with other teams. We welcome these suggestions and will consider them in the next reporting cycle.

Retailers

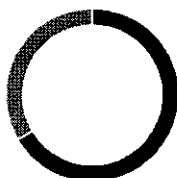


'Personally happy for (sales) targets to be publicised but criteria needs to be open'
Quote from retailer

We see our retailers as key partners in striving for excellence in everything we do for The National Lottery. We want to be trusted to provide retailers with the information, support and guidance they need from receiving an application from them through to a pro-active support role. Retailers play a key role in ensuring Camelot delivers on our commitments to stakeholders – particularly to players, winners and pressure groups. We include our retailers in our value of fair play, aiming to offer mutual support and involving them in the development of all our policies of relevance to them as a group through our Retailer Forum.

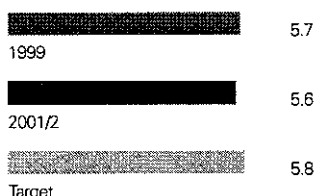


Distribution of outlets between multiples and independents
Snapshot 31.03.02 (%)



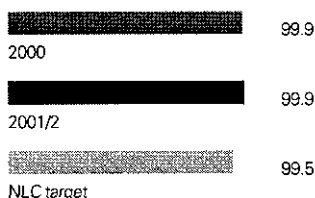
● Independent 66.4
● Multiple 33.6

Overall retailer satisfaction
(Scale of 1 – 7)



(Survey not carried out in 2000)

Network availability to sell tickets
(%)



Progress against last year's commitments Aiming for a fair spread

Independent retailers (including sub post offices) comprise the majority of outlets for the National Lottery, with multiples providing the balance. Retaining a fair balance between these types of outlets remains our objective for the second licence. Camelot remains committed to the independent sector because of the service and enthusiasm it provides and the access it offers our players. Any variation in this split would only be in line with a national retail trend during the course of the licence period.

In looking for new outlets our primary focus must be the maximisation of returns to Good Causes. However, Camelot is committed to implementing this policy in a socially responsible way. This includes a commitment to increasing and preserving access to The National Lottery for poorly served and remote communities through the designation of up to 1,000 Community Outlets.

Maximising returns for Good Causes

In 2002 Camelot launched a programme to maximise sales and therefore returns to Good Causes. As part of this programme we began a review of our retailer estate in light of changing demographics and high street trends. Following this, we initiated a sales improvement programme aimed at enhancing the performance of those retailers selling less than £1,500 per week of lottery products. The 1,000 specially-designated Community Outlets are exempt from these requirements.

Retailers below this level of performance receive a full support package to boost their sales to the required level. If, despite this effort, insufficient progress is made, Camelot will be obliged to reallocate terminals to maximise sales and returns to Good Causes.

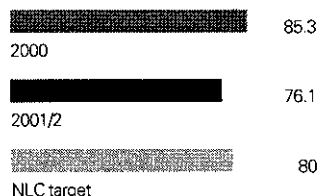
We developed this sales improvement programme over a period of 11 months in full consultation with Camelot's Retailer Forum. The National Lottery Commission, the Neighbourhood Lottery Alliance and the Office of Fair Trading were also involved in the process.



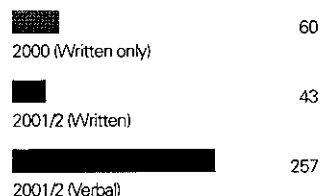
**'I'm going to get the message
about the Good Causes across
to my customers'**
Quote from retailer



Calls to retailer hotline answered in 20 seconds (%)

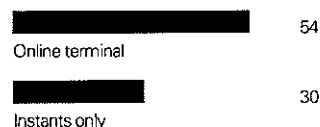


Complaints from retailers



Note: Verbal complaints are now logged
as well as written.

Retailers agreeing that they have a good rapport and Camelot is always responsive to their needs (%)



Spreading the good news

Camelot has been working closely with retailers, distribution bodies and the Department for Culture, Media and Sport to communicate the impact of The National Lottery in retailers' local areas.

Efforts centred on a three-week good cause awareness campaign that we launched in April 2002. This put the spotlight on the amounts raised by retailers for Good Causes. Specifically-tailored posters for each retailer highlighted five projects funded by The National Lottery in the local area. Each retailer also received a certificate detailing how much the individual outlet had raised for Good Causes.

The elusive bottom line

So far, Camelot has been unable to find any sources of published or readily available data to quantify the economic impact, over and above the sales of National Lottery products, to a retailer of hosting The National Lottery. Nevertheless, anecdotal evidence suggests that it clearly has a beneficial impact on footfall and sales of other products, particularly for independent retailers in the convenience sector.

For our next report we are now approaching representative retailers to try to gain a more precise understanding of the economic impact of The National Lottery on their business.

Retailers' response

The Retailer Forum is Camelot's primary vehicle for consulting the people who are selling National Lottery products directly to the consumer. It accurately reflects the national, ethnic and sector mix of our retailers. Members are nominated through trades associations and serve in an individual capacity.

The Retailer Forum's objectives are twofold: to provide strategic information from the company's perspective and to elicit tactical suggestions and feedback from the retailer's perspective.

A critical, permanent channel for policy consultation, the Retailer Forum meets quarterly. Issues arising from each meeting are dealt with thereafter.

During this reporting period the Retailer Forum discussed several issues. These included the rollout of new terminals, the Government's gambling review, community partnerships and the parental awareness campaign. Not surprisingly, the sales improvement programme was a major focus for consultation.



'Camelot was clearly one of the highest corporate donors, but the general public would not know about these activities'
Quote from voluntary organisation

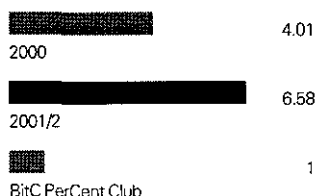
Working with the community is particularly important for us because we want our staff to understand and empathise with the potential beneficiaries of the National Lottery Distribution Fund for which their activity generates money. As a company, separately from the generation of good cause monies, we also want to contribute funding, skills and knowledge to find innovative solutions to combat social disadvantage in partnership with the community. We want our community investment to be the embodiment of our values across our four policy priorities: Developing skills; Opening up Opportunities; Supporting Communities and Social Responsibility in our Industry.

Community involvement April 01 – March 02
Using the London Benchmarking Group Model (£)

Camelot	National Lottery Distribution Fund	Good Causes
Charity*	2,050,742	
Community investment	1,072,797	
Commercial initiative	486,572	
Management costs	183,686	
Business basics	724,819,550	

*Including £2m paid to Camelot Foundation April 01 – March 02

Pre-tax profit for community investment (%)



Progress against last year's commitments Helping staff to help others

Camelot is already a leading company in community investment, but since Good Causes are what Camelot is about, we also want to foster an understanding within the company culture of what lottery funding beneficiaries do in the community.

We produced an employee guide to volunteering and distributed this widely in April 2001. This was part of a continuing effort to highlight practical and effective ways for employees to use the half day per month the company gives to become more involved in their local communities.

Employee volunteering participation against total hours available (%)



As an additional incentive, we developed a time-bank to match the hours given by staff with a contribution from the Camelot Foundation. A pilot programme of Volunteering Advice Stops, run by local Volunteer Bureaux, is furthering our staff participation efforts.

Flagship programmes

Camelot's enthusiasm for working with the community is not confined to employees. The company itself has initiated a number of flagship programmes as part of our Community Involvement Policy.

For Education Extra we launched a series of 100 Reading Clubs to tackle the issue of children's loss of literacy skills during the transition from primary to secondary education. The impact was dramatic. Membership of a reading club resulted in an average increase of 11 months in reading age over the school year. Other benefits included enhanced motivation, better relationships with peers and teachers and a boost in self-confidence.

In sport, Camelot is sponsoring Olympic gold medallist rowers James Cracknell and Matthew Pinsent. This four-year commitment will enable Britain's top rowing duo to devote themselves to full-time training in their bid to secure gold at the Olympics in 2004.

To encourage good citizenship in the broadest sense, Camelot has joined forces with Common Purpose to support www.citizensconnection.net website. Following the success of this initiative we launched

the Oyster Awards in February 2002 to recognise campaigners throughout the UK who have taken constructive action to change something about which they feel strongly.

The Camelot Foundation

The trustees of the Camelot Foundation reviewed its strategy, priority groups, programmes and staffing in order to maximise the impact of its grants. The objective for 2002-2009 is to support work aimed at bringing marginalised young people into the mainstream of UK life through the Transforming Lives grants programme. Specifically, the Foundation has identified four target groups:

- young parents, or those at risk of becoming young parents
- young asylum seekers
- young people with mental health problems
- young disabled people.

The programme will involve close liaison with people throughout the Camelot Group to maximise the synergies between the Foundation's work and the Company's wider community involvement activities.

Engaging, listening, acting

We held a community focus group with eight external organisations from the charity, voluntary and business communities. Among this group there was low awareness of Camelot's community investment activities. Three key suggestions from the focus group were to:

- keep a demographic record of employee skill profiles to help the transition from fundraising to volunteer work
- use volunteering to build networks with other companies in the area and so improve delivery on community initiatives
- revamp Camelot's literature package to express more clearly the quality of Camelot's work.

We will be working on developing these ideas in the coming year.

Replies to questionnaires sent to our five flagship programme partners showed that all partners felt we had added value to the relationship.

Suppliers



'It is quite refreshing to do business with a company that embraces and encourages their suppliers to be part of a team'
Quote from supplier

We see our suppliers as key partners in our striving for excellence in everything we do and include them in our value of fair play, aiming to offer mutual support and to build a relationship of trust, openness, clarity, honesty and problem solving through discussion. We seek to understand their business needs and offer support in developing them together with continuity and reliability through informed contract management. We accept particular responsibility for suppliers for whom Camelot is a strategic partner and do not want them to become over-reliant upon Camelot.



Total value of invoices paid within agreed terms (%)



2000

2001/2



Target

Suppliers who feel satisfied, very satisfied or completely satisfied with relationship with Camelot (%)



2000

2001/2



Target

Progress against last year's commitments A matter of policy

As part of our commitment to develop a more consistent relationship with suppliers Camelot is in the process of formalising a company-wide, target-based policy and procedure for purchasing and tendering.

Having consulted with a representative sample of suppliers on a first draft of this policy in February 2002, we will publish an updated Camelot Purchasing & Tendering Policy in June.

Data sensitive

We have created a central database of supplier contact details. A continual review ensures the capture of all relevant information. Moreover, for new suppliers, account managers make certain that the company understands turnover, financial stability and capabilities, as well as the impact that a relationship with Camelot will have on their business.

Keeping in touch

It is equally important to maintain a dialogue with suppliers not holding contracts with Camelot. To that end, we surveyed a sample of prospective suppliers and discovered that the top three preferred forms of communication were supplier forums/conferences, workshops and visits.

In the months ahead we will approach some of these prospective suppliers to discuss and develop these ideas.

Economic impact

Camelot takes care not to engage with suppliers who would be over reliant on our business. Instead, we aim to use suppliers for whom Camelot work would account for no more than 20% of total turnover. To assess the extent on which suppliers might rely on Camelot business, we have produced a supplier relationship questionnaire that collates information on supplier size and percentage of business attributable to Camelot.

Suppliers speak out

Between December 2001 and January 2002 we sent out relationship questionnaires to a total of 1,450 suppliers. This asked about contact details, policies and practices, their perceptions of their relationship with Camelot and preferred channels of communication. We had 343 responses by the due date.

Room for improvement

Results show that there is still a need to improve our day-to-day relationship with suppliers. We need to keep suppliers as informed as possible throughout the tendering process. We also want to share our values with suppliers and work with them to help align their own behaviour with our values. Suppliers have been informed about our values through day to day contact, contract reviews and in some instances as part of the tendering process. We will do more work next year to ensure suppliers understand our values and expectations.

Vetting down the line

To have a better understanding of our suppliers' own policies and procedures regarding their suppliers, we asked if they used any vetting or accreditation schemes or applied visits. Such schemes would be used to satisfy themselves that there was no compromising of their policies, practices and values. Of those who responded, about one third carry out these practices, compared with just under one quarter of our suppliers who responded negatively. This high negative response is cause for concern.

Paying our bills

Another worrying response was about payment service. Although Camelot pays 82% (in value terms) of invoices on time, only 64.1% of suppliers responding thought that most of their invoices were paid within terms. Our move to an e-payable purchasing system in 2002 will help towards improving suppliers' perceptions, as well as our own performance.

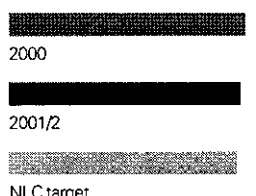


'It is very encouraging to see so much effort being put into minimising risk for vulnerable groups and I hope the work continues to go well'
Quote from pressure group

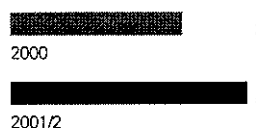
We want to be trusted by pressure groups to deliver on our commitments, to be seen to discharge our responsibilities and to involve our stakeholders as part of our wider team in developing policy and strategies. Our policy is actively to promote responsible playing of The National Lottery. Our approach is to protect, prevent harm where we can, and support treatment where we cannot. We are encouraging large numbers of people to buy lottery products spending relatively small amounts.



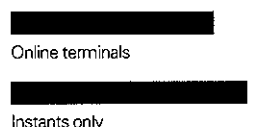
Retailers refusing to sell on first Operation Child visit (%)



Camelot's spend on prevention strategies (£)



Retailers agreeing that 'Camelot make every effort to help and work with me to solve the problem of under 16s' (%)



Progress against last year's commitments

Preventing excessive play

Overall, in the past year Camelot invested £526,984 implementing our National Lottery Commission approved, publicly available, strategies to prevent problem play of The National Lottery.

Getting the advertising right

By focussing our advertising on specific market segments, higher income groups and occasional and infrequent players, we try to ensure that we are not encouraging the more vulnerable segments of society to participate. Also, in terms of targeting younger players our strategy is aimed at those 18 or above.

In the months ahead we want to ensure that our adverts do not appear in areas where a high proportion of the population relies on state income benefits. We also want to explore the use of geo-demographic tools for sales analysis.

Tackling underage play

The National Lottery is not child's play. To prevent under age sales of National Lottery products we have formulated a strategy in consultation with the National Lottery Commission. There are three strands to this strategy:

- deterring people under 16 from attempting to buy tickets
- raising public awareness, particularly among adults, of the dangers of buying any gambling products for children
- deterring retailers from selling tickets to people under 16.

Working closely with our Retailer Forum, we have devised Operation Child to test retailers' adherence to the procedures in place to prevent underage sales. Persistent failure to follow these procedures (tested by a series of visits from young-looking people over the age of 16) can result in the permanent removal of the retailer's lottery terminal. During this fiscal year one retailer had their terminal removed as a result of Operation Child.

Keeping the dialogue going

Games using new technology

This year we are developing the system that will allow the sale of National Lottery products on the Internet, all the while considering the implications such ease of play might have on vulnerable segments of society.

To build these considerations in from the start we consulted Gamcare on the issues of underage and excessive play. As a result, we have developed an approach that excludes under 16s from registering to play. To combat excessive play, our system includes an option to break play after a certain time, as well as options for players to set their own limits on spending levels, games played and length of time played.

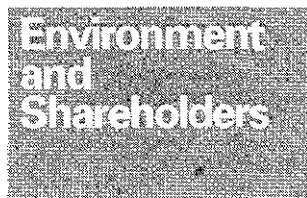
A matter of protocol

Camelot's Game Design Protocol, which took two years to create, provides a new and comprehensive framework for measuring the potential risk of National Lottery games for vulnerable groups. The groups concerned encompass people on low incomes, children under 16 and those with a potential to become problem gamblers.

To test our Game Design Protocol Camelot embarked on a large-scale survey comparing responses from a section of the general population with those of people in the defined vulnerable categories. We also sent questionnaires to pressure groups and acknowledged experts in problem gambling who had been invited to a seminar to discuss the outcome of our research.

The seminar confirmed that the Game Design Protocol is a valuable tool. However, there was no agreement between various types of stakeholders on what makes a game risky. Each interest group tends to analyse this from its own concern perspective.

In the absence of expert consensus, Camelot continues to define risk by looking at what drives frequency of play for each of our games as well as the amount spent per occasion of play.



'Camelot... has to tread the fine line between commercial success and public good. By all known measures it does this extraordinarily well'
Quote from shareholder

Environment: Camelot is not a major polluter, but we are committed to meeting our responsibilities as a good corporate citizen. We believe the company has a responsibility to minimise any adverse impact upon the environment and that all employees in the company have a responsibility to implement this policy.

Shareholders: We want our shareholders to take pride in their relationship with Camelot. We want them to recognise and endorse the scope of the Company's accountabilities and support the Company's values, policies and performance.

Cadbury Schweppes

FUJITSU


 **Consignia**



THALES

DeLaRue

Total energy use at main Camelot sites (kWh)

	6,646,875
2000	
	11,213,379
2001/2	

Note: This increase is likely to be due to the increased office space and doubling in size of our main computer and data centre.

CO₂ produced from energy use per capita (kgCO₂)

	5,017
2001/2	

**Environment
Getting started**

At Camelot we are at an early stage of looking at our impact on the environment. Although we feel we have made some progress in a number of areas there is still a way to go.

A policy in place

We published our environmental policy in August 2001, when it was widely circulated within the Company. The policy will be available to a wider external audience on the new Camelot website when it goes live in Summer 2002.

Resource efficiencies

Because we have not yet done a full review of all our recycling efforts our recycling data is incomplete. However, there are a number of initiatives underway:

- a clearout following a review of our archive system yielded 30 tonnes of waste paper, all of which we re-cycled.
- when we launched our new Camelot corporate identity in March 2002, we re-used and re-cycled all stationery bearing the old identity – amounting to about 60 kgs of paper.
- we have used the refurbishment of our headquarters in Watford as an opportunity to implement five out of 10 energy efficiency recommendations. We expect to make estimated savings of 72,000 kWh in energy use and 18,540 kgCO₂ in CO₂ emissions each year.

Involving employees

A concern for the environment is something that all Camelot employees should share. Future editions of our internal publication, TeamTalk, will feature stories on employees' environmental impact at work, at home, and on the move – including specific advice on transport choices.

Adding it up

We have made a good start in collecting and reporting data on Camelot's environmental impact. Now we need to keep this momentum going and improve our procedures.

We have reported energy use (in kWh) for both electricity and gas, as well as the amount of water used at main sites under our purchasing control. Using a DETR calculation we have also worked out our CO₂ liabilities for the year.

Next year's report will feature a new indicator on business travel. This will capture information on total business travel mileage, mode of transport and CO₂ calculated per person.

By switching to a new supplier we will have information on solid waste produced for the next report.

Future consultation

In accordance with the AA1000 standard we plan on further consultation with environmental stakeholders, including employees and the environmental think tank group. From this we are confident in getting good ideas and initiatives for action.

Shareholders

Reporting and governance

Camelot has consistently prepared annual financial statements in accordance with the Companies Act 1985. We continue to meet our objective to produce financial statements within four months of the end of the financial year.

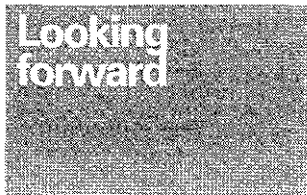
We believe that we have ensured proper compliance with accounting standards and that we follow high standards of corporate governance, including compliance with the Turnbull Committee on Internal Controls.

Committees in place

Throughout the reporting period Camelot had in place an Audit, Risk & Security Committee, a Nominations Committee and a Remuneration Committee. All consist of non-executive directors.

Board discussions

Good relations rely on effective communications, particularly with our Board of Directors and shareholders. To that end we have been determined to ensure proper and timely reporting to the board on all issues that require their attention or approval. During the reporting period we consistently met this aim.



Four important steps to improved social responsibility
Reviewing our ideals

For each of our stakeholders we have tried to define what a successful relationship entails. This definition must take into account Camelot's own values as well as the views of our stakeholders.

To make sure we have it right we have embarked on a review process, starting with our employees. This pilot project had particular emphasis on the impact of Camelot's new company behaviours and culture.

Learning from our experience with employees we plan to carry out a review of the success models for each stakeholder group during the course of our next reporting period.

Enhancing engagement

Working in partnership with AccountAbility and other leading companies, we are exploring ways to further improve stakeholder engagement and dialogue using the Internet.

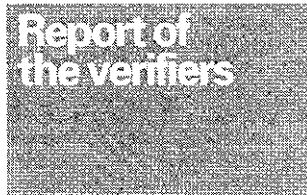
This will build on our success of using cross-stakeholder thinking to handle business issues more holistically. The process used in developing our Parental Awareness campaign leaflet is a prime example.

Measuring up

A meaningful context is essential for a realistic assessment of Camelot's performance as a socially responsible company. That is why in this reporting period we have started work with the Ashridge Centre for Business and Society on benchmarking our indicators. In the coming period we want to do more work in this area through our Winning Company Group, particularly in exploring additional benchmarks and comparing our practice with best practice in other organisations.

Becoming an integral part of the business

One of Camelot's top priorities is to align our people, policies and processes in building successful relationships with stakeholders and partners. In doing this we must also continue to embed the learnings, actions and processes outlined in our Social Report. The conduit for this will be Camelot's Winning Company Group and the continuing implementation of our Winning Ways culture change.



Assurance statement

A team from the Ashridge Centre for Business and Society carried out the verification process of Camelot's full social and environmental report. In its assessment, Ashridge made extensive use of the AA1000S Assurance Standard. This process comprised four major tasks:

- ensuring the stakeholder consultation processes allowed a comprehensive and objective assessment of the interests and concerns of all stakeholder groups
- offering advice and guidance on the appropriate performance measures to be included in the report
- where possible, providing robust and comparable benchmark data against which stakeholders can better judge Camelot's performance
- verifying that the data presented in the report provides a reliable, complete and balanced view of the company's financial, social and environmental impact on its stakeholders.

Ashridge is satisfied that Camelot has effective processes to identify and understand the views of its stakeholders. Furthermore, Ashridge is confident that the full technical report (available at www.camelotgroup.co.uk/socialreport2002) presents a true, complete, balanced and accurate account of how the organisation is implementing the values and principles stated in the success models relevant to each stakeholder group.

However, the full assurance statement does refer to two specific areas where improvements could be made. These concern discussions about making the data more accessible and the reporting of environmental impacts.

In general, Ashridge believes that Camelot has in place the management information and control systems to respond, where appropriate, to stakeholder concerns. The company is able to show strong linkages between its vision, culture, management policies and business processes, all of which are reflected in this report. There are plans in place to ensure that this good practice extends to the management of environmental concerns.

Ashridge believes that this summary of the full technical report presents a fair overview of the key issues facing the company and the major concerns raised by stakeholders through the engagement process.





Business review and financial statements

**£1.3 billion to
Good Causes**

**Total sales of
£4.8 billion**

**Prizes paid out of
£2.4 billion**

Business review



Camelot Group plc
Annual report 2002

This review provides further information on the main events that have occurred, and on the Company's financial performance, during the year ended 31 March 2002.

In a year that offered a challenging trading and operational environment, overall sales were down on last year by 3.0%. Amounts payable to the National Lottery Distribution Fund (NLDF) in respect of ticket sales amounted to £1,341.6m, representing 27.8% of sales (2001: £1,391.3m, 27.9% of sales). In 1994 Camelot set out to raise £9bn for Good Causes. In 1997 we were able to increase that target to £10bn and by 23 May 2001 this amount had been achieved. At the end of the first Section 5 Licence (30 September 2001), the amount raised for Good Causes totalled £10.6bn (£1.6bn more than Camelot's original bid commitment). Total cash payments made to the NLDF in the year are shown in the table on page 38.

The year under review includes three distinct licence periods:

- First Section 5 Licence (to 30 September 2001)
- Interim Section 5 Licence (1 October 2001 to 26 January 2002)
- Second Section 5 Licence (27 January 2002 to 31 March 2002).

Total sales for the year ended 31 March 2002 were £4,834.4m (2001: £4,983.3m). Sales for the on-line games, which comprise twice weekly Lotto (formerly The National Lottery game) and Lotto Extra, Thunderball and Christmas Millionaire Maker totalled £4,225.9m (2001: £4,437.2m). Sales for National Lottery Instant games were £578.5m (2001: £546.1m). The Company's profit before tax was £57.8m compared to £61.1m, in the prior year before exceptional items. Overall, profit after tax was £41.3m (2001: £33.7m) presently 0.85% of sales compared to 0.85% prior to exceptional items last year. Dividends of £98.8m were proposed and paid for the year (2001: £70.0m).

This year we have focused on ensuring the continuing success of The National Lottery through maintaining the popularity of The National Lottery brand and growing sales of the existing portfolio of games.

Trading conditions continue to be challenging with competitive pressures brought about by the new technologies and the impact of deregulation within the gaming industry. Lotto has decreased by 6.7% against the previous year albeit the decline in the second half of the year has been restricted to 2.9%. Furthermore the Instants brand has shown a marked turnaround with an increase of 5.9% against the previous year. The Instants brand has been rejuvenated with innovative games such as 'Cars and Cash', 'Millionaire' and 'Cash for Life' with average weekly sales in excess of £11m. Thunderball has also grown with sales up by 0.9%, against last year. 'Christmas Millionaire Maker', which was known as 'Big Draw' in previous years, has also shown a marked increase from the prior year of 52.5%.

During the course of the year we have continued to demonstrate that we are a highly responsible lottery operator and a leading socially responsible Company. Our social reporting process helps to enhance our accountability to all those who have a stake in The National Lottery. For the first time this year we have reported on a fiscal calendar and integrated our social report into our annual report to present a more complete picture of the Company and its impacts. In this period we have received recognition for our 2000 report by winning highly commended in the ACCA / AccountAbility social reporting awards. We have previously been highly commended two years running in Business in the Community's Impact on Society Awards. Further details on our social reporting are included on page 20 to 33.

Turnover

Sales for the year totalled £4,834.4m (2001: £4,983.3m), a decrease of 3.0% on the previous year.

National Lottery on-line games

Total sales in respect of on-line games amounted to £4,255.9 (2001: £4,437.2m). Player participation remained strong, with around 52% of the adult population playing on a weekly basis.

There were 18 Rollovers in the Lotto game this year (2001: 16), including two double Rollovers (2001: one) and one Rollover Superdraw (2001: nil). Three Superdraw events were held during the year (2001: seven).

National Lottery Instants

Sales for National Lottery Instants totalled £578.5m, an increase of 5.9% on the prior year's total of £546.1m, and that remains the nation's leading impulse purchase brand with current average weekly sales in excess of £11m.

Prizes

As noted above, the financial year under review encompasses three distinct licence periods. This has resulted in the prize amount included in this year's results of £2,401.6m (2001: £2,486.9).

The first and interim Section 5 Licences specify a prize target for each of the periods of 49.9% (2001: 49.9%). For these periods £1,993.8m was allocated to prizes for all games and the amount of £67.2m (2001: £68.6m) which remained unallocated was paid over to the NLDF.

In the second Section 5 Licence there is no longer a prize target and the actual prizes capable of being won for each game are included in the prize amount (£407.8m for the 9 weeks ended 31 March 2002).

In any lottery there are prizes which remain unclaimed. If prizes are not claimed within 180 days of the draw date for Lotto, the Thunderball game or Lotto Extra, or Christmas Millionaire Maker, or 180 days after the close of a National Lottery Instants game, they are paid to the NLDF. On average, unclaimed prizes amount to around 1.6% of sales and in 2001/02 totalled £79.6m (2001: £75.7m, 1.5% of sales). The interest earned on the unclaimed prizes is also paid to the NLDF.

National Lottery Distribution Fund (NLDF)

The amount payable to the NLDF from ticket sales was £1,341.6m, representing 27.8% of sales (2001: £1,391.3m, 27.9% of sales). This decrease in the percentage of sales primarily reflects Licence conditions.

The second Section 5 Licence is structured so that in any one year the higher the sales, the higher the proportionate returns to the Good Causes, and, correspondingly, the lower the proportion retained by Camelot.

Over the second Section 5 Licence period, the amounts payable to the Good Causes from ticket sales are expected to be around 28% of sales. In addition to the amounts received from ticket sales, the NLDF benefits from unclaimed prizes.

The table below gives details of all cash payments made to the NLDF.

Cash payments to the NLDF:

	Year to 31.3.02 £m	Year to 31.3.01 £m	Year to 31.3.00 £m	Year to 31.3.99 £m	Year to 31.3.98 £m	Year to 31.3.97 £m	Year to 31.3.96 £m	Year to 31.3.95 £m	Total £m
Ticket sales*	1,306	1,369	1,410	1,478	1,554	1,258	1,401	312	10,088
Unclaimed prizes	80	76	70	78	74	48	34	–	460
Outstanding prize liability	104	91	88	100	122	135	18	–	658
Escrow	–	–	–	7	–	90	–	–	97
Ancillary activities	1	1	1	–	–	–	–	–	3
Total cash payments	1,491	1,537	1,569	1,663	1,750	1,531	1,453	312	11,306

* Camelot adopts a full accruals basis of accounting and therefore this figure – which relates to cash payments made – differs from that shown on the profit and loss account, which also includes the amount charged in respect of the escrow account. The NLDF also benefits from interest arising on its own cash balance and interest arising on certain trust accounts utilised for the payment of prizes and amounts held in trust in respect of future draws.

Lottery Duty

Lottery duty has remained at 12% of sales and totals £580.1m for the year (2001: £598.0m). If the lottery duty rate were to increase in future periods, the payments for prizes and to the Good Causes would be reduced to compensate for the increase. Conversely, any reduction in the rate of duty would solely benefit the Good Causes.

Retailers and retailer commission

Retailer commission in respect of the year totalled £247.5m (2001: £253.3m). The total lottery network now comprises around 36,000 retailers with approximately 11,000 selling National Lottery Instant only and approximately 25,000 selling both on-line games and Instant tickets.

During the year some 25,000 new replacement terminals were installed throughout the United Kingdom, to comply with our bid commitments for the second Section 5 Licence.

Retailers' commission is fixed at 5% of all sales plus 0.1% of prizes paid out over £10, up to and including £200, and approximates to 5.1% of sales. In addition to paying this commission, Camelot continues to provide free-of-charge to retailers all lottery terminal and point-of-sale equipment, maintenance and servicing of the equipment, consumables, telecommunications and training.

Terminal and data communication costs

Terminal and data communication costs increased to £91.7m for the year ended 31 March 2002 (2001: £88.6m). Terminal and data communications costs include the cost of maintaining the software, terminals and communication network, all costs associated with the purchase of National Lottery Instant tickets, point-of-sale and other consumables and depreciation of terminal and data communications equipment.

It is important that Camelot continues to provide a high level of systems availability, not only to ensure the satisfaction of players and retailers but also to facilitate sales. Systems availability continued to be high at 99.9% against a target of 99.5%. In addition, there are certain financial penalties incorporated in the Section 5 Licence should the number of lottery outlets fall below the number specified in the Licence on a particular quarter-end date. To date no such financial penalties have been incurred.

Administrative expenses

Administrative expenses of £126.8m (2001: £131.4m) consist mainly of advertising and marketing expenditure, depreciation and administration costs, which include all staff and facility costs. The decrease of £4.6m against last year is due to £12.0m of exceptional 'win related' costs in the previous year's results. On a like-for-like basis administrative costs have increased by £7.4m largely due to increased investment in marketing and higher staff numbers.

Capital expenditure in the year amounted to £85.4m (2001: £3.4m), primarily as a result of the purchase of new on-line terminals, new software and other investment in IT equipment.

Donations to the Camelot Foundation

Camelot made cash donations of £2.0m to The Camelot Foundation including £2.0m out of profits for the year ended 31 March 2002 (2001: £3.0m – including £1m in respect of a previous year). Since launch Camelot has donated some £16.0m to The Camelot Foundation.

Other corporate donations to registered charities made in cash during the year amounted to £1.0m (2001: £0.3m) with some further contributions in kind.

Taxation

The tax charge of £16.5m (2001: £15.4m) for the year represents an effective tax rate of 28.5% (2001: 30.6%). This fall is principally due to the release of non-taxable credits.

VAT

Sales of lottery tickets are exempt from VAT. Therefore VAT is not normally recoverable on the Company's costs and is a charge against profits. The VAT cost for the year under review, including that arising on capital expenditure, was £33.3m (2001: £18.7m). The increase is due to the increased capital expenditure incurred which is detailed on the previous page.

Cash flows, cash and debt

Net cash inflows from operations were £43.4m (2001: £73.1m) and interest of £6.0m was received (2001: £14.0m).

In addition, there were cash outflows arising from taxation payments of £15.6m (2001: £23.2m) and the payment of dividends of £73.2m (2001: £76.2m). A final dividend of £25.6m (2001: nil) is proposed.

The closing cash balance was £44.8m (2001: £165.0m).

The net cash inflow from operations represents ticket sales, less payment of prizes, lottery duty, payments to the NLDF (including any escrow payment and the prize fund shortfall payments detailed above) and operating expenditure. Cash is received from retailers net of prizes paid and commission due to retailers. Settlement of retailers' debts is on a weekly basis as are payments due to the NLDF and payments for prizes.

In order to protect prizewinners and players, Camelot has set up certain trust accounts operated by The Law Debenture Trust Corporation plc which acts as an independent trustee. Funds for prizewinners are deposited in a trust account on a weekly basis. The interest earned on this account (after expenses of operating the trust) accrues to the benefit of the Good Causes.

In addition, at 31 March 2002, Camelot had deposited £20.2m (2001: £16.7m) of funds in a trust account as an additional reserve for the protection of prize winners, the interest on which accrues to Camelot. There are certain restrictions over the liquidity of this account and as a result Camelot cannot withdraw the amount until the end of the Licence period.

At 31 March 2002 the Company had an undrawn revolving credit facility of £50.0m (2001: £50.0m) and an undrawn money market facility of £10.0m (2001: £10.0m) both secured by a floating charge. There is an additional undrawn overdraft facility of £26.3m (2001: £29.4m) available to the Company. The £50.0m revolving credit facility commenced on 6 March 2001 reduces to £30.0m on 31 January 2004 and the facility expires on 31 January 2005. The money market and overdraft facilities are subject to annual renewal.

Interest and exchange rates

Net interest receivable in the year amounted to £11.4m (2001: £13.5m), the average yield on investment being approximately 4.5% (2001: 6.2%).

The Company's interest rate exposure is hedged if considered appropriate. Strict controls apply to treasury operations which are reviewed regularly. The investment policy is approved by the Company's Audit, Risk & Security Committee and the board. Funds are only deposited within strict parameters with regard to both counterparty and maturity.

The Company does not invest in complex derivatives and under no circumstances will instruments be utilised which result in an unquantified risk being assumed.

All of Camelot's major contracts are priced in sterling. Therefore, the Company has no direct exposure to movements in exchange rates.

Distributions and dividends

Total paid and proposed dividends for the year amounted to £98.8m (2001: £70.0m). A final dividend of £25.6m (2001: nil) is proposed.



Tony Jones
Operations Director
21 May 2002

Directors' report for the year ended 31 March 2002

The directors of Camelot Group plc present their report together with the audited financial statements for the year ended 31 March 2002.

Principal activity, business review and future developments

The principal activity of the Company is the operation and promotion of The National Lottery in the United Kingdom, pursuant to an initial licence granted by the Director General of The National Lottery in July 1994 and subsequently pursuant to licences granted by the National Lottery Commission (NLC) in October 2001, January 2002 and thereafter. The Company expects to pursue this principal activity for the coming year. Trading conditions continue to be challenging, and, in view of this, results are in line with the directors' expectations.

Legislative background

The establishment of the UK National Lottery was enabled by the passing of The National Lottery etc. Act 1993. A regulator was appointed under the Act and invited applications for a licence to run The National Lottery (the Section 5 Licence) and for licences to promote lottery games as part of The National Lottery (Section 6 Licences). Following a competitive tender, Camelot was selected in May 1994 and the Section 5 Licence was formally awarded in July 1994.

On 1 April 1999 the statutory responsibilities of the regulator passed to the National Lottery Commission (NLC). Under the power granted to it by The National Lottery Act 1998, the NLC has responsibility for the regulation of The National Lottery and was the body responsible for the appointment of the operator for a second licence period.

Applications were invited from parties interested in operating The National Lottery for a second licence term in November 1999. Camelot submitted its bid on 29 February 2000. The NLC's decision on the

licence bid was delayed to 23 August 2000 and, following a successful judicial review hearing in the high court in September 2000, Camelot was given a month to revise its bid to take account of the NLC's issues with the original bid. On 19 December 2000 the NLC announced its decision to award the licence to Camelot. An interim licence was awarded to Camelot to run from 1 October 2001 until 26 January 2002. The second seven-year licence to run The National Lottery commenced on 27 January 2002.

Camelot has also been awarded Section 6 Licences for the on-line National Lottery games and a number of Section 6 Licences for each of the Instant games.

Results and Dividends

The financial statements of the Company appear on pages 50 to 70. The Company's profit after tax was £41.3m (2001: £33.7m), as disclosed on the profit and loss account on page 50.

Total paid and proposed dividends for the year amounted to £98.8m (2001: £70.0m) (see note 7 to the financial statements). A final dividend of £25.6m is proposed.

Related Party Transactions

Camelot has entered into contracts of significance with three of its shareholders or their parent and/or subsidiary companies, details of which are given in note 25 to the financial statements.

Shareholdings

The following share structure is in place:

	Number of 'A' Shares	Number of 'B' Shares	Total Percentage Holding of Shares
Cadbury Schweppes plc	7,750,000	–	20
De La Rue Holdings plc	7,750,000	–	20
Fujitsu Services Limited (formerly International Computers Limited)	5,812,500	1,937,500	20
Thales Electronics plc	7,750,000	–	20
Consignia Enterprises Limited	–	7,750,000	20

Further details of the rights and obligations of each class of share are given in note 17 to the financial statements.

Suppliers

The Company's policy is to pay suppliers 30 days after the end of the month in which their invoice is received or within such other credit period as agreed between the parties, providing the obligations of those suppliers are met. These terms are stated on all purchase orders issued by the Company. At 31 March 2002 the Company's trade creditors outstanding represented approximately 36 days purchases (2001: 35 days).

Global Crossing

Global Crossing (UK) Telecommunications Limited supplies the majority of the data communications network for Camelot's retailer network. Global Crossing Limited, the Bermuda registered parent company, has recently sought Chapter 11 bankruptcy protection in the United States. Camelot in conjunction with Global Crossing (UK) Telecommunications Limited and its key suppliers have established contingency plans to minimise any adverse risk this may have on The National Lottery operations (see note 1a to the financial statements).

Political and charitable donations

In 1996 the Company established The Camelot Foundation. The Camelot Foundation is a registered charity and its focus for the next seven year period is to concentrate on work which aims to connect or re-connect highly marginalised young people to the mainstream of UK life. Since its inception the Company has paid a total of £16.0m to The Camelot Foundation, of which £2.0m (2001: £3.0m) has been paid during the year.

The Company made further direct donations to other community and charitable organisations of £1.0m (2001: £0.3m) and in addition made some contributions in kind. The Company made no donations for political purposes during the year ended 31 March 2002 (2001: nil).

Employees

The Company's employment policies have been designed to respect the individual and offer career and personal development opportunities regardless of colour, ethnic or racial origin, nationality, disability, sexual orientation or marital status. Full and fair consideration is given to the employment, training and development opportunities of all individuals. Camelot is a Gold Card Member of the Employers' Forum on Disability and has undertaken several initiatives to foster best practice on disability matters, including awareness sessions and working with various disability groups. The Company endeavours to re-train any members of staff should they develop different needs or a disability during employment with the Company.

The Company has an extensive and well-established structure for communicating with employees and has an annual performance-related bonus scheme, payable to all members of staff, based on targets to be achieved in respect of the performance of the Company and money to be raised for the Good Causes. In addition, during the year under review, the Company has put in place a long-term incentive plan (see report of the Board on remuneration) to retain and motivate permanent staff.

Two staff trustees represent staff in relation to the Camelot pension fund.

Directors' report for the year ended 31 March 2002

Continued

Staff Consultative Forum

Since the establishment of a Staff Consultative Forum (SCF) in September 1999, the SCF has been holding annual company-wide elections for representatives from all areas of the business. The SCF continues to be consulted on all policy proposals and initiatives affecting staff and in turn gathers company-wide reactions to such proposals.

Place of business – Northern Ireland

The Company is registered as having a place of business in Northern Ireland pursuant to Part XXIII of The Companies (NI) Order 1986.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards 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 also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements.

Going Concern

After making appropriate enquiries, the directors confirm that the Company 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.

Corporate Governance

A report on corporate governance is set out on pages 44 to 46.

Close company status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988 and there has been no change in that status since the year-end.

Auditors

The auditors, PricewaterhouseCoopers, 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 Company at its 2002 Annual General Meeting.



By order of the Board
Gill Marcus
Company Secretary
21 May 2002

Directors

The names of the present directors are:

Independent non-executive directors

Michael Grade CBE
Chairman

Sir James Butler CBE DL
Deputy Chairman and Senior
Non-executive Director

Louise Botting CBE
Non-executive Director

Shareholder nominated Non-executive Directors

Jerry Cope
Consignia Enterprises Limited

David Kappler
Cadbury Schweppes plc

Paul Hollingworth
De La Rue Holdings plc

John Bennett
Fujitsu Services Limited

Ross McInnes
Thales Electronics plc

Executive Directors

Dianne Thompson
Chief Executive

David Clark
Deputy Chief Executive

Tony Jones
Operations Director

Sue Slipman OBE
External Relations and
Compliance Director

Phil Smith
Commercial Director

Under the Company's Articles
of Association, each shareholder
nominated director may appoint
an alternate.

Current alternates are as follows:

Michael Clark
alternate to David Kappler,
Cadbury Schweppes plc

Robert McGowan
alternate to Paul Hollingworth,
De La Rue Holdings plc

Mark Thomson
alternate to Jerry Cope,
Consignia Enterprises Limited

Tim Robinson
alternate to Ross McInnes,
Thales Electronics plc

David Sillitoe
alternate to John Bennett,
Fujitsu Services Limited

Changes to the directors were as follows:

Dick Wheelhouse
resigned 31 August 2001

The Rt Hon Lord Imbert QPM JP
retired 30 September 2001

David Whittaker
resigned 17 December 2001

Sir George Russell CBE
retired 26 January 2002

Michael Grade CBE
appointed Chairman
1 January 2002

David Sillitoe
appointed 3 May 2001

Mark Thomson
appointed 1 January 2002

Phil Smith
appointed 15 February 2002

Tim Robinson
appointed 21 February 2002

None of the directors has a
beneficial interest in, or options to
acquire, shares in the Company.

Directors' remuneration is
disclosed in note 4 to the financial
statements.

Insurance for directors and officers

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

Report on corporate governance

During the year, Camelot has remained committed to maintaining high standards of corporate governance in line with the Combined Code issued by the London Stock Exchange in June 1998, which sets out the Principles of Good Governance and Code of Best Practice. Although Camelot is not a listed company, and therefore not obliged to do so, the directors have voluntarily considered the requirements of the Combined Code as described on page 46.

Review of Corporate Governance Principles

The Board sets out its review of how the principles of corporate governance contained in the Combined Code have been applied.

Board of Directors

The Board currently comprises five executive, three independent non-executive and five shareholder nominated non-executive directors. Two further independent non-executive directors are to be appointed in the near future and one of the current independent non-executives is due to retire in the autumn. There is a clear delineation of responsibility between the Chairman and the Chief Executive and other executive directors. Sir James Butler CBE DL, Deputy Chairman, has been designated the senior independent non-executive director.

Regular board meetings are held during the year including a specific meeting to direct overall strategy and operations. Board meetings follow a formal agenda covering regular reports from the Chief Executive, Operations Director and External Relations and Compliance Director and matters specifically reserved for decision by the Board. All board members are free to raise other issues at the Board. Board papers are sent to directors in good time before board meetings. These cover key areas of the Company's affairs including overall strategy, acquisitions and other key commercial partnerships, approval of budgets, major capital expenditure programmes and significant transactions and financing issues. The Board has delegated some of its responsibilities to committees, as set out below.

There is an agreed procedure for directors to take independent legal advice. The Company Secretary is responsible for ensuring that board procedures are followed. All directors have access to the Company Secretary.

During the year, the Company streamlined its committee activities as follows:

Audit, Risk & Security Committee

Chair Sir James Butler CBE DL

Members Michael Grade CBE
Paul Hollingworth
Ross McInnes

Usual Attendees Dianne Thompson
Tony Jones and other functional
managers for relevant sections
of the meeting

This newly amalgamated committee comprises four non-executive directors, two of whom are independent. Executive directors are invited to attend committee meetings, as necessary, to conduct its business. The Committee meets at least three times a year and its duties are as follows.

Audit

The Head of Audit and Compliance and a representative of the external auditors are normally invited to attend this section of the meeting.

The Committee reviews the Company's financial and accounting policies, interim and final results 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 letter and considers any other matters raised by the auditors. 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 Compliance and Internal Audit without any executive board members present.

Risk

The Risk Manager is normally invited to attend the risk section of the Committee, which meets to assist the Board in fulfilling its responsibilities for managing the risk associated with the business. It also monitors the framework that is in place throughout the Company to manage risk.

Security

The Directors of Security of both Camelot Group plc and De La Rue Holdings plc are normally invited to attend the security section of the meeting. This section approves and ensures adherence to the Company's security policies for operating The National Lottery.

Remuneration Committee

Chair	Louise Botting CBE
Members	Michael Grade CBE David Kappler Jerry Cope Sir James Butler CBE DL

The Remuneration Committee comprises five non-executive directors, three of whom are independent, under the chairmanship of Louise Botting. It determines the terms and conditions of employment of the executive directors. Further details are set out on pages 47 and 48.

Nominations Committee

Chair	Michael Grade CBE
Members	Louise Botting CBE Sir James Butler CBE DL David Kappler Jerry Cope

The Nominations Committee comprises five non-executive directors, three of whom are independent, under the chairmanship of Michael Grade. It makes recommendations to the Board in respect of the appointment of directors.

Relations with shareholders

The Combined Code contains several recommendations aimed at improving communications between companies and their shareholders. These recommendations are largely aimed at listed companies with a large number of institutional investors and private shareholders. Camelot can be distinguished from such companies; it is owned by a consortium of shareholders with whom it maintains close links.

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 Licence and Section 6 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. This system of internal control includes regular compliance audits and reviews by the Company's Audit and Compliance and the Regulatory Affairs departments, to help provide such assurance.

Internal control

The Turnbull Committee's guidance on internal control is designed to assist directors of UK listed companies in complying with the internal control requirements of the Combined Code.

The implementation by Camelot of a risk management framework and compliance with Turnbull's guidelines has been a voluntary decision by the Board so as to comply with best practice and demonstrates Camelot's risk and control culture. Camelot's directors acknowledge that they are responsible for the Company's systems of 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.

Report on corporate governance Continued

To help the directors fulfil their duties, the following has been put in place by Camelot's management:

1 a process to ensure tight regulation by a structured, auditable process of internal control, through the establishment of the Audit, Risk & Security Committee. At the next Board meeting following an Audit, Risk & Security Committee meeting, the Chairman of the Committee presents any key risks identified by the process to the Board and the Board considers how these risks are being controlled and monitored;

2 to add value to the process at all operational levels throughout the company, the establishment of the Risk Management Committee, which meets quarterly. It provides a forum for sharing strategic decisions that could impact risk management, and for improving the overall company control environment;

3 the establishment of a practical process in accordance with the guidance of the Turnbull Committee, which identifies, evaluates and manages all types of risk faced by the Company. This process has been in place for the full financial year and up to the date the financial statements were approved and is continuing. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's strategic objectives. It should be recognised that such systems can only provide reasonable and not absolute assurance against material misstatement or loss; and

4 the establishment of the position of Risk Manager, reporting to the Operations Director. The Risk Manager assists management to identify the risks inherent in the Company's achievement of its strategic objectives. Each identified risk is logged in a risk register and assessed for financial impact and the estimated likelihood of occurrence. The Risk Manager has regular meetings with executive directors and other risk owners to examine their areas of risk set out in the risk register. Through this process, key risks are brought to the attention of the Audit, Risk & Security Committee.

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

Compliance Statement

In the opinion of the directors, other than in respect of the matters listed below (see 'Combined Code Compliance') the Company fully complied throughout the year ended 31 March 2002 with the provisions of the Combined Code and with the recommendations of the Turnbull Committee.

Combined Code compliance

Camelot has complied with the Combined Code provisions (set out in section 1 of the code) with the following exceptions:

- two members of the Remuneration Committee are non-executive directors but are not deemed to be independent
- two members of the Audit, Risk & Security Committee are non-executive directors but are not deemed to be independent
- Camelot's directors are not subject to re-election every three years. The Company is governed by the terms of a Shareholders' Agreement which sets out the procedure for appointing directors
- the Board comprises five executive and five non-executive directors (nominated by the shareholders) who are not deemed independent and, currently, only three independent non-executive directors

The exceptions are not viewed by the board to impact the quality of Corporate Governance, and arise from the unique nature of the Company.

Report of the board on remuneration

The remuneration policy for Camelot Group plc's executive directors and senior executives is determined by the Remuneration Committee (details of which are set out below) for recommendation to the Board as a whole. No director is permitted to comment on his or her own remuneration package.

The non-executive directors nominated by the shareholder companies and their alternates receive no emoluments from the Company.

The remuneration of the independent non-executive directors (including the Chairman) is determined by the shareholders and ratified by the Board as a whole. The directors concerned do not take part in discussions on their remuneration.

Policy on remuneration of executive directors and senior executives

The aim of the Company's remuneration policy is to ensure that senior executives and directors are rewarded competitively and in a way that attracts, retains and motivates management of the highest calibre. In return, those staff are expected to meet the highest level of performance and run The National Lottery responsibly and efficiently, delivering the aims and objectives of Camelot.

After considering input from external consultants, the Company is satisfied with the directors' and senior executives' pay arrangements and consider that these are appropriate for ensuring Camelot is staffed with high calibre professional executives. The remuneration of the senior team is kept under regular review to ensure this continues to be the case.

The main components

Remuneration for executive directors and senior managers comprises short term rewards (i.e. salary, annual bonus, car, fuel and medical cover for the individual and his or her immediate family) and long term rewards (i.e. pension, and the all-employee long term incentive plan).

The introduction of performance-related reward programmes with measurable targets is designed to provide an element of 'at risk' pay which is only available once actual results are known.

Basic salary

Basic salary for each executive director is determined in the first instance by the Remuneration Committee, taking into account the performance of the individual and external market data from independent sources on the rates of salary paid to retain key executives in comparable companies. The Board as a whole reviews the remuneration package recommended by the Remuneration Committee.

Annual bonus

The targets for annual performance-related bonuses are approved by the Remuneration Committee and provide challenging performance goals which executives and staff must achieve before the maximum bonus is payable. The executive directors are eligible for annual bonuses based upon achieving target returns to The National Lottery Distribution Fund, the target for the Company's pre-tax profit, and personal business objectives. The principal element within these three components is the returns to the NLDF. Camelot's annual bonus scheme is an all-employee scheme with on target performance yielding 15% of annual base salary for all staff including directors. Annual performance related bonuses are capped at a maximum of 25% of base salary for all staff including directors.

Report of the board on remuneration

Continued

All-employee long term incentive plan

Each executive director will participate in the future Camelot all-employee long term incentive plan (LTIP). The plan is a deferred cash scheme and all Camelot employees, including directors, are eligible to participate in the scheme on the same basis and at the same level of reward.

The LTIP is a rolling scheme, whereby an individual earns entitlement to a bonus amount in scheme year one, which is paid out 18 months later, and normally thereafter for two further years (three years in total). The LTIP pays out to employees based on the performance of the Company (achievement of NLDF target payments and Company profit targets) as well as the performance of the individual (achievement of personal business objectives).

The annual maximum allowed allocation in the LTIP for each employee (including directors) is 35% of base salary.

The terms of the LTIP were approved by all shareholders prior to implementation.

Policy on external appointments

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

Executive directors' service contracts

All executive directors' contracts of service are permanent contracts of employment with a 12 month notice period for termination on both sides.

All recently drafted and future service contracts for directors set out compensation arrangements in the event of early termination.

Company pension policy for its executive directors

Salary only is pensionable.

Further details of directors' remuneration are given in note 4 to the financial statements.

Independent auditors' report

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes on pages 50 to 70.

Respective responsibilities of directors & auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 42.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the business review, the corporate governance statement and the remuneration report.

We also, at the request of the directors (because the company applies the Financial Services Authority listing rules as if it were a listed company), review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
21 May 2002

Profit and loss account

For the year ended 31 March 2002

		2002	2001	2001	2001
	Notes	Total £m	Before Exceptional Items £m	Exceptional Items £m	Total £m
Turnover					
On-line		4,255.9	4,437.2	–	4,437.2
Instants		578.5	546.1	–	546.1
		4,834.4	4,983.3	–	4,983.3
Cost of sales					
Prizes		(2,401.6)	(2,486.9)	–	(2,486.9)
Lottery duty		(580.1)	(598.0)	–	(598.0)
National Lottery Distribution Fund		(1,341.6)	(1,391.3)	–	(1,391.3)
Retailers' commission		(247.5)	(253.3)	–	(253.3)
Terminal and data communication costs		(91.7)	(88.6)	–	(88.6)
Gross profit		171.9	165.2	–	165.2
Administrative expenses		(126.8)	(119.4)	(12.0)	(131.4)
Other operating income		1.3	1.8	–	1.8
Operating profit	2	46.4	47.6	(12.0)	35.6
Net interest receivable	5	11.4	13.5	–	13.5
Profit on ordinary activities before taxation		57.8	61.1	(12.0)	49.1
Tax on profit on ordinary activities	6	(16.5)	(18.7)	3.3	(15.4)
Profit on ordinary activities after taxation		41.3	42.4	(8.7)	33.7
Dividends	7	(98.8)	(70.0)	–	(70.0)
Loss retained for the financial year	18	(57.5)	(27.6)	(8.7)	(36.3)

The company has no recognised gains or losses other than its loss for the year.

All activities are derived from continuing operations.

There were no exceptional items for the year ended 31 March 2002.

Balance sheet

At 31 March 2002

	Notes	2002 £m	2001 £m
Fixed assets			
Tangible assets	8	82.3	15.4
Current assets			
Stocks	9	2.8	2.5
Debtors: amounts falling due within one year	10	72.7	86.1
Debtors: amounts falling due after more than one year	10	4.3	8.4
Amounts held in trust accounts in respect of prizes	12a	122.2	164.1
Amounts held in trust in respect of future draws	12b	21.8	–
Trust reserve account	12c	20.2	16.7
Cash at bank and in hand	12d	44.8	165.0
		288.8	442.8
Current liabilities			
Creditors: amounts falling due within one year	14	(316.4)	(348.9)
Net current (liabilities)/assets		(27.6)	93.9
Total assets less current liabilities		54.7	109.3
Creditors: amounts falling due after more than one year	14	(3.3)	(0.8)
Provision for liabilities and charges	15	(1.4)	(1.0)
Net assets		50.0	107.5
Capital and reserves			
Called up share capital	17	38.8	38.8
Capital redemption reserve	18	11.2	11.2
Profit and loss account	18	–	57.5
Equity shareholders' funds	19	50.0	107.5

The financial statements on pages 50 to 70 were approved by the board of directors on 21 May 2002 and were signed on its behalf by:



Dianne Thompson
Chief Executive
21 May 2002



Tony Jones
Operations Director
21 May 2002

Cash flow statement

For the year ended 31 March 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	13a	43.4	73.1
Returns on investments and servicing of finance			
Interest received		6.0	14.0
Interest paid		(0.1)	(0.2)
Interest element of finance lease payments		(0.2)	(0.2)
		5.7	13.6
Taxation			
Taxation paid		(1.0)	(2.7)
Consortium relief payments	25	(14.6)	(20.5)
		(15.6)	(23.2)
Capital expenditure			
Purchase of tangible fixed assets		(83.1)	(0.5)
Equity dividends paid		(73.2)	(76.2)
Management of liquid resources			
Decrease in term deposits	13b	96.7	14.8
Financing			
Capital element of finance lease payments		(0.5)	(0.6)
(Decrease)/increase in cash	13d	(26.6)	1.0

Notes to the financial statements

For the year ended 31 March 2002

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards.

A summary of the more important accounting policies is set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The directors have reviewed the accounting policies set out in these financial statements and have confirmed that they are the most appropriate to the company's circumstances as required by FRS18 - Accounting Policies.

Global Crossing

Global Crossing (UK) Telecommunications Limited supplies the majority of the data communications network for Camelot's retailer network. Global Crossing Limited, the Bermuda registered parent company, has recently sought Chapter 11 bankruptcy protection in the United States. Camelot in conjunction with Global Crossing (UK) Telecommunications Limited and its key suppliers have established contingency plans to minimise any adverse risk this may have on National Lottery operations.

The directors have considered the financial impact and related cash flows of the contingency plans on the Company. They are satisfied that the Company has sufficient funding available to cover a period of disruption to The National Lottery operations should the company have to seek alternative suppliers for its communications network. Consequently the directors believe it is appropriate to prepare the financial statements on a going concern basis.

b) Group financial statements

The financial statements presented are for Camelot Group plc only. Camelot Group plc has three 100% equity owned subsidiaries. These have not been consolidated as they are dormant and are not material for the purposes of giving a true and fair view.

c) Turnover

On-line turnover comprises a portfolio of games where sales are recognised on a draw by draw basis. Where a financial year-end does not fall on a draw date, the sales for the next draw are recognised up to the financial year-end date. Sales for each draw include multidraw and subscription sales that are relevant for that specific draw. The following games are included within on-line turnover:

The National Lottery Game (renamed 'Lotto' on 18 May 2002)

Thunderball

Lottery Extra (renamed 'Lotto Extra' on 18 May 2002)

Christmas Millionaire Maker (formerly 'Big Draw')

Instant ticket sales are recognised by pack settlement. A pack of instant tickets becomes settled on the earlier of 15 days after the pack is activated by the retailer or when 60% of the low tier prizes are validated.

All turnover is derived from and originates in the United Kingdom.

d) Taxation

The charge for taxation is based on the profit for the year. Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

e) Value added tax

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

Notes to the financial statements

For the year ended 31 March 2002
Continued

f) Fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, at such rates as to write off the cost of these assets in equal installments either over their expected useful lives or the remaining Section 5 Licence period ending 31 January 2009 whichever period being the shorter. Exceptions to this policy are noted alongside the principal asset categories below. The depreciation basis for the principal asset categories are as follows:

Short leasehold improvements	The shorter of the lease period and the remaining Section 5 Licence period.
Computer hardware (excluding central gaming systems)	The shorter of four years and the remaining Section 5 Licence period.
Central gaming systems	To the end of the second Section 5 Licence period.
Fixtures and fittings	The shorter of five years and the remaining Section 5 Licence period.
Lottery terminals and network installation (new ISYS terminals)	To the end of the second Section 5 Licence period.
<i>Permanent point-of-sale equipment</i>	<i>The shorter of two years and the remaining Section 5 Licence period.</i>
Other plant and equipment	The shorter of 2 – 5 years and the remaining Section 5 Licence period.
Motor vehicles	The shorter of the lease period and the remaining Section 5 Licence period.

Interactive development costs

The company has adopted UITF abstract 29 'Website development costs'. Accordingly, costs relating to the development of The National Lottery website, including design and content development, have been capitalised as 'Assets under construction' within tangible assets. These costs will be amortised over the period gaining economic benefit from the expenditure. Planning costs are charged to the profit and loss account as incurred.

g) Leasing

Operating lease rentals are charged to the profit and loss account as incurred. Tangible fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over the shorter of the lease term and their useful life. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account.

h) Stocks

Stocks consist of instant tickets, consumables (i.e. terminal rolls, playslips and ribbons) and various point of sale equipment. Instant tickets are valued on a unit cost basis and rollout based on marketing strategy. Consumables and point of sale equipment are valued at cost using the first-in first-out method, or at net realisable value, whichever is the lower.

i) Pensions

The Company operates a defined contribution scheme. The cost of contributions is charged to the profit and loss account in the year to which it relates.

j) Cash and liquid resources

In the cash flow statement, cash comprises cash at bank and in hand, overdrafts, bank loans and overnight term deposits. Liquid resources comprise term deposits maturing within twelve months from inception, other than overnight term deposits.

Camelot interest earning cash for the first Section 5 Licence consists of the Trust Reserve Account, other trust accounts (including the Subscription Trust Account), Camelot bank accounts and short term deposits. From the commencement of the second Section 5 Licence, the Subscription Trust Account is no longer classified as Camelot cash. Interest earned on the Subscription Trust Account is split 5% to Camelot and the remaining 95% for the benefit of The National Lottery Distribution Fund.

Interest received on the Operational Trust and Trust Prize Reserve Accounts are for the benefit of The National Lottery Distribution Fund.

k) Escrow account

The escrow account was a fund held for the sole benefit of The National Lottery Distribution Fund. Amounts paid to the escrow account were allocated to the profit and loss account evenly over the period of the first Section 5 Licence. For the interim licence and second Section 5 Licence commencing 27 January 2002, there is no requirement to transfer funds to an escrow account.

l) Advertising and marketing costs

Advertising and marketing costs are charged to the profit and loss account when they are incurred and in accordance with the Section 5 Licence requirements.

m) Provisions

Dilapidation provisions are provided on the current best estimate of the cost of bringing certain premises held under operating leases back to their original state. Provisions recognised have not been discounted.

Notes to the financial statements

For the year ended 31 March 2002
Continued

2 Operating profit

	2002 £m	2001 £m
a) Operating profit is stated after charging:		
Depreciation on owned assets	17.2	24.3
Depreciation on assets held under finance leases	0.5	0.5
Loss on disposal of fixed assets	–	0.2
Net movement in provisions	0.4	–
Employee costs (note 3)	31.1	39.4
Operating lease rentals	2.5	2.0
– land and buildings	1.0	1.1
– plant and equipment	0.3	0.1
Auditors' remuneration	0.3	0.3
– audit	0.4	0.2
– prize draw attendance		
– other services		
	2002 £m	2001 £m
b) Operating profit is stated after charging the following exceptional items:		
Exceptional items	–	8.7
– win bonuses	–	3.3
– other win related costs	–	12.0

In 2001 Camelot incurred a number of one-off costs in securing the second licence. Win bonuses relate to staff and supplier bonuses. Other win related costs comprise accelerated depreciation, legal fees and certain restructuring costs.

3 Employee numbers and costs

	2002 £m	2001 £m
Employee costs (including directors' emoluments):		
Wages and salaries	26.9	32.1
Social security costs	3.0	4.1
Pension costs	1.2	3.2
	31.1	39.4

The average monthly number of employees (including executive directors) employed by Camelot Group plc was as follows:

	2002 Number	2001 Number
Retailer services	312	282
Sales and marketing	203	184
Information Technology	141	127
Finance, administration and other	225	204
Total average number of employees	881	797

Employee costs in 2001 include win bonuses as disclosed in note 2b to the financial statements.

4 Directors' remuneration

The emoluments of the executive directors are determined by a remuneration committee consisting exclusively of non-executive directors. The five non-executive directors (and their alternates) nominated by the shareholder companies did not receive any emoluments from Camelot. The emoluments of the other non-executive directors are determined by the shareholder companies. 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 Lottery Distribution Fund.

Annual bonus

The executive directors are eligible for annual bonuses if budgeted returns to The National Lottery Distribution Fund and profit to Camelot are met as well as personal objectives. These bonuses are capped at 25% of annual base salary.

Long term incentive plan

Each executive director also participated in a staff loyalty scheme, a long-term incentive plan that was put in place to retain permanent staff at Camelot until the end of the first Section 5 Licence period. In order to qualify for full payment under this scheme, executive directors needed to remain in full time employment with Camelot to 30 September 2001. This condition was waived and the directors were consequently deemed to have earned this bonus during the year ended 31 March 2001. These bonuses were paid in October 2001.

There is a new long term incentive plan as described in the Report of the Board on Remuneration.

	Salary/ Fees £'000	Annual bonuses £'000	Benefits £'000	2002 Total £'000	2001 Total £'000
Chairman					
Michael Grade (appointed 1.1.02)	39	–	–	39	28
Sir George Russell (retired 26.1.02)	75	–	14	89	75
Executive directors					
Tim Holley (resigned 1.2.01)	–	–	–	–	777
Peter Murphy (resigned 1.2.01)	–	–	–	–	566
Dianne Thompson	270	35	27	332	870
David Clark	218	23	35	276	706
Tony Jones	171	20	16	207	268
Sue Slipman	135	14	23	172	264
Phil Smith (appointed 15.2.02)	27	2	8	37	–
Non-executive directors					
Sir James Butler	38	–	–	38	39
Lord Imbert (resigned 30.9.01)	17	–	–	17	33
Louise Botting	34	–	–	34	33
	1,024	94	123	1,241	3,659

Sir George Russell resigned as Chairman on 31 December 2001 and subsequently retired from the Board on 26 January 2002.

Notes to the financial statements

For the year ended 31 March 2002
Continued

Benefits

Executive directors are entitled to car related benefits which are included in the amounts disclosed in the table on the previous page.

Sir George Russell received a supplement of £13,587 being the difference between his pension entitlement of £75,000 and the actual pension payment of £61,413. David Clark received a supplement of 27.5% of basic salary in lieu of pension contributions. A portion of the supplement (£19,360), up to the maximum Inland Revenue approved contribution, is paid directly to him as a benefit in the above table. Sue Slipman and Phil Smith's benefits include supplements of £10,140 and £6,047 respectively, representing the differences between 27.5% of their basic salary pension entitlement and the contributions made by the company. Dianne Thompson was also entitled to a supplement, amounting to the £8,335 difference between her pension entitlement of 35.0% of basic salary and the lower contributions made by the Company. Also entitled to a supplement was Tony Jones, this amounted to the £2,565 difference between his pension entitlement of 27.5% of basic salary and the lower contributions made by the Company.

Pensions

Directors have remained within the same pension scheme category year on year, as outlined below:

	2002 Total Money purchase £'000	2001 Total £'000
Chairman		
Michael Grade (appointed 1.1.02)	19	–
Sir George Russell (retired 26.1.02)	61	70
Executive directors		
Tim Holley (resigned 1.2.01)	–	102
Peter Murphy (resigned 1.2.01)	–	13
Dianne Thompson	86	50
David Clark	41	54
Tony Jones	45	12
Sue Slipman	27	8
Phil Smith (appointed 15.2.02)	1	–
	280	309

No contributions were made to defined benefit schemes in respect of directors during 2002 (2001: £102,415).

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

	2002 £'000	2001 £'000
Executive directors' salaries and benefits	930	1,010
Executive directors' performance related payments	94	2,441
Non-executive directors' fees	89	105
Current Chairman's salary and benefits	39	28
Former Chairman's salary and benefits	89	75
Pension contributions	280	309
	1,521	3,968

Retirement benefits accrued to seven directors, including the Chairman and Sir George Russell, under defined contribution pension schemes.

The former Chairman may receive an additional pension contribution for the next five years at a rate to be determined. The additional pension contribution for 2002/03 will be £80,000.

Chairman and highest paid director

The emoluments of Michael Grade, the Chairman since 1 January 2002, comprise his salary of £39,250 for the whole year (2001: £27,500 salary for last year while he was not Chairman). Michael Grade's accrued pension contributions within the year amounted to £18,625 (2001: £nil).

The emoluments of Sir George Russell, the Chairman until 31 December 2001, comprise his salary and benefits of £88,087 (2001: £74,500). Sir George Russell's accrued pension contributions within the year amounted to £61,413 (2001: £70,000).

The emoluments of the Chief Executive Dianne Thompson, who was the highest paid director, comprise salary of £270,400 (2001: £235,114), pension contributions of £86,305 (2001: £50,124) benefits excluding pension supplement of £18,331 (2001: £14,559) and total bonuses of £35,000 (2001: £600,640).

5 Net interest receivable

	2002 £m	2001 £m
Interest receivable from bank deposits	7.7	13.5
Release of other interest accrued	3.4	–
Other interest receivable	0.7	0.9
Interest receivable and similar income	11.8	14.4
Interest payable on finance leases	(0.2)	(0.2)
Other interest payable	(0.2)	(0.7)
Interest payable and similar charges	(0.4)	(0.9)
Net interest receivable	11.4	13.5

During the year, an accrual for £3.4m, established over prior years for a potential interest liability relating to escrow arrangements, has been released as it is no longer required.

6 Tax on profit on ordinary activities

	2002 £m	2001 £m
a) UK Corporation Tax:		
Current tax on income for the period	14.5	21.7
Prior period adjustments	(0.1)	(1.1)
	14.4	20.6
Deferred tax charge/(credit) for the period	2.1	(6.3)
Prior period adjustments	–	1.1
	2.1	(5.2)
Tax on profit on ordinary activities	16.5	15.4

The tax charge is based on a corporation tax rate of 30% for the year ended 31 March 2002 (2001: 30%).

All timing differences have been recognised and are reflected in the deferred tax balance. Based on the current capital investment plans the Company expects the deferred tax asset to reverse by 31 March 2004.

Notes to the financial statements

For the year ended 31 March 2002
Continued

6 Tax on profit on ordinary activities (continued)

b) Deferred Taxation – profit and loss charge

	2002 £m	2001 £m
Timing differences between capital allowances and depreciation	3.2	(3.2)
Other timing differences	(1.1)	(2.0)
	2.1	(5.2)

Other timing differences mainly relate to amounts paid in respect of the escrow account (see note 16).

There was no deferred tax unprovided.

c) Reconciliation of current tax charge

	2002 £m	2001 £m
Profit on ordinary activities before taxation	57.8	49.1
Tax on profit on ordinary activities at the standard rate (30%)	17.3	14.7
Factors affecting charge:		
Depreciation on assets not qualifying for capital allowances and other (non taxable)/non-allowable items	(0.8)	0.7
Excess of capital allowances claimed over depreciation	(3.2)	3.2
Provisions and other short-term timing differences	1.1	2.0
Current tax charge	14.4	20.6

7 Dividends

	2002 £m	2001 £m
Interim dividends paid: 38.7p per ordinary share	–	15.0
Second interim dividend paid: 189.2p per ordinary class 'A' share	–	55.0
First interim dividend paid: £57.5m for aggregate ordinary class 'A' shares	57.5	–
Second interim dividend paid: £15.7m for aggregate ordinary class 'A' shares	15.7	–
Proposed final dividend: £25.6m for aggregate ordinary class 'A' and 'B' shares	25.6	–
	98.8	70.0

On 30 March 2001 the National Lottery Commission consented to relaxation of the Section 5 Licence condition enabling the distribution of £51.5m of profits accumulated over the first Section 5 Licence period, payable by way of dividend, and included within the second interim dividend payment for that year.

Under a deed of dividend waiver Fujitsu Services Limited (formerly International Computers Limited), irrevocably waived their entitlement, as holders of 'A' shares, to receive the sum of £2.7m from the proposed first dividend for the financial year ended 31 March 2001. As a result De La Rue Holdings plc, Thales Electronics plc and Cadbury Schweppes plc each received an additional £0.9m.

8 Tangible assets

	Assets under construction £m	Short leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2001	2.9	8.0	135.7	146.6
Additions	6.9	—	78.5	85.4
Disposals	—	—	(2.0)	(2.0)
Assets no longer in business use	—	—	(98.8)	(98.8)
At 31 March 2002	9.8	8.0	113.4	131.2
Accumulated depreciation				
At 1 April 2001	—	7.2	124.0	131.2
Charge for the period	—	0.8	16.9	17.7
Disposals	—	—	(1.2)	(1.2)
Assets no longer in business use	—	—	(98.8)	(98.8)
At 31 March 2002	—	8.0	40.9	48.9
Net book amount				
At 31 March 2002	9.8	—	72.5	82.3
At 31 March 2001	2.9	0.8	11.7	15.4

The net book value of plant and equipment held under finance leases is £2.6m (2001: £1.6m). Depreciation charged in the period in respect of these assets was £0.5m (2001: £0.5m). The net movement on disposals of £0.8m relates to the expiry of certain existing finance leases (note 13d).

Additions of £85.4m in the period relate primarily to lottery terminals, new central IT systems and assets under construction due to web site development (see accounting policies note 1).

9 Stocks

	2002 £m	2001 £m
Instant tickets	1.4	1.6
Playslips, terminal rolls and other consumables	1.4	0.9
	2.8	2.5

10 Debtors: amounts falling due within one year

	2002 £m	2001 £m
Trade debtors	57.5	64.5
Deferred tax (note 11)	2.0	—
Escrow deferred expense (note 16)	—	7.1
Corporation tax	4.6	—
Prepayments and accrued income	8.6	14.5
	72.7	86.1

Trade debtors represent amounts due from retailers.

Notes to the financial statements

For the year ended 31 March 2002
Continued

10 Debtors: amounts falling due after more than one year

	2002 £m	2001 £m
Other debtors	0.4	0.4
Deferred tax (note 11)	3.9	8.0
	4.3	8.4

11 Deferred taxation asset

	Capital allowances £m	Other £m	Total £m
At 1 April 2001	8.5	(0.5)	8.0
(Charge)/credit to the profit & loss account (note 6b)	(3.2)	1.1	(2.1)
At 31 March 2002	5.3	0.6	5.9

12 Trust accounts and cash at bank and in hand

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 to be paid for prizes and amounts received from players in respect of future draws from Camelot's own funds.

a) Amounts held in trust in respect of prizes

Operational Trust

Prizes payable in respect of sales made are placed into the Operational Trust Account and Camelot is reimbursed retrospectively from this account as prizes are paid. The balance of any interest arising on this account (after expenses of the trust) is for the benefit of The National Lottery Distribution Fund. The amount recoverable from the Operational Trust Account of £99.1m (2001: £98.8m) is shown as a current asset.

Trust Prize Reserve

Over the course of the year to 31 March 2002, amounts in respect of the outstanding prize liability commitment (see note 14) have been paid into the Trust Prize Reserve Account. The outstanding prize liability commitment is paid to The National Lottery Distribution Fund in July following the end of the financial year to which it relates. All interest income arising on this account is for the benefit of The National Lottery Distribution Fund. The balance on this account is also shown as a current asset.

Amounts held in trust accounts in respect of prizes

	2002 £m	2001 £m
Operational Trust	99.1	98.8
Trust Prize Reserve	23.1	65.3
	122.2	164.1

b) Amounts held in trust in respect of future draws

The Subscription Trust Account is maintained to safeguard monies received from players in respect of future draws, whether by subscription or by using the multidraw facility. The balance of any interest earned from the Subscriptions Trust Account up to 26 January 2002 was fully for Camelot's benefit. Interest earned from the Subscription Trust Account after 26 January 2002 is split 5% to Camelot and the remaining 95% for the benefit of The National Lottery Distribution Fund.

	2002 £m	2001 £m
Subscription Trust	21.8	–

In prior years the amount held in the Subscription Trust Account was classified as other trust bank accounts in cash at bank and in hand (see note 12d), as per the first Section 5 Licence.

c) Trust Reserve Account

The Trust Reserve Account balance at 31 March 2002 is £20.2m (2001: £16.7m). The purpose of this account is to provide 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. The amount is entirely recoverable after one year.

d) Cash at bank and in hand

Cash at bank and in hand comprises Camelot bank accounts and short term deposits and certain other trust accounts utilised. From time to time, guaranteed jackpot prizes (e.g. Superdraws) are also held in trust until the relevant draw is held and the actual prize liability established.

In the case of subscription and multidraw sales, Camelot is reimbursed after the draw to which the funds relate has taken place.

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

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 between Camelot accounts and other trust accounts as follows:

Cash at bank and in hand

	2002 £m	2001 £m
Camelot bank accounts and short term deposits	44.8	143.6
Subscription trust	–	21.4
	44.8	165.0

Notes to the financial statements

For the year ended 31 March 2002
Continued

13 Notes to the cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 £m	2001 £m
Operating profit	46.4	35.6
Depreciation	17.7	24.8
Loss on disposal of fixed assets	–	0.2
Reclassification of subscription trust account (see note 12b)	(21.8)	–
Movement in working capital		
(Increase) in stocks	(0.3)	(0.2)
Decrease/(increase) in debtors	21.1	(24.8)
Decrease in amount held in trusts in respect of prizes	41.9	8.5
(Increase) in amount held in trust reserve account	(3.5)	–
(Decrease)/increase in creditors	(58.1)	29.0
Net cash inflow from operating activities	43.4	73.1

b) Analysis of changes in cash and liquid resources during the year

Cash	2002 £m	2001 £m
At 1 April	21.5	20.6
(Decrease)/increase in year	(23.5)	0.9
At 31 March	(2.0)	21.5
Liquid resources		
At 1 April	143.5	158.3
Decrease in year	(96.7)	(14.8)
At 31 March	46.8	143.5
Total cash at bank and in hand	44.8	165.0

c) Analysis of net funds

	At 1 April 2001 £m	Cash flow £m	At 31 March 2002 £m
Cash at bank and in hand	21.5	(23.5)	(2.0)
Overdrafts	(0.6)	(3.1)	(3.7)
		(26.6)	
Finance leases	(1.6)	(1.0)	(2.6)
Liquid resources	143.5	(96.7)	46.8
Net Funds	162.8	(124.3)	38.5

d) Reconciliation of net cash flow to movement in net funds

	2002 £m	2001 £m
(Decrease)/increase in cash in the year	(26.6)	1.0
Cash outflow from decrease in debt and lease financing	0.7	0.6
Cash inflow from decrease in liquid resources	(96.7)	(14.8)
Change in net funds resulting from cash flows	(122.6)	(13.2)
Expiry of existing finance leases	0.8	0.1
New finance leases	(2.5)	–
Movement in net funds in the year	(124.3)	(13.1)
Net funds at 1 April	162.8	175.9
Net funds at 31 March	38.5	162.8

14 Creditors:

a) amounts falling due within one year

	2002 £m	2001 £m
Bank loans and overdrafts	3.7	0.6
Trade creditors	16.3	17.9
Obligations under finance leases	1.0	1.2
Fixed asset creditors	–	2.0
Taxation and Social Security	3.8	0.3
Lottery duty	52.5	52.9
Amounts payable to The National Lottery Distribution Fund	32.1	29.4
Prize liability	104.6	114.4
Outstanding prize liability commitment	31.8	77.2
Accruals and deferred income	23.0	31.1
Advance receipts for future draws	22.0	21.9
Proposed dividends	25.6	–
	316.4	348.9

Advance receipts for future draws represent the multidraw and subscription payments relating to future draws. The prize liability represents unclaimed prizes and at 31 March 2002 Camelot had transferred £99.1m into the Operational Trust to meet these liabilities (2001: £98.8m).

The outstanding prize liability commitment represents the difference between the target prize payout commitment specified in the first and interim Section 5 Licence and the actual payout arising. Any amounts not utilised for the payment of prizes are for the benefit of The National Lottery Distribution Fund and will be paid over to The National Lottery Distribution Fund. Of the total balance of £31.8m (2001: £77.2m) the amount to be transferred to The National Lottery Distribution Fund in May 2002 calculated under the terms of the Section 5 Licence is £23.1m (2001: £68.6m).

Notes to the financial statements

For the year ended 31 March 2002
(Continued)

14 Creditors: (continued)

b) Amounts falling due after more than one year

	2002 £m	2001 £m
Obligations under finance leases payable within five years	1.6	0.4
Accruals and deferred income	1.7	0.4
	3.3	0.8

At 31 March 2002 the Company had an undrawn revolving credit facility of £50.0m (2001: £50.0m) and an undrawn money market facility of £10.0m (2001: £10.0m) both secured by a floating charge. There is an additional undrawn overdraft facility of £26.3m (2001: £29.4m) available to the Company. The £50.0m revolving credit facility commenced on 6 March 2001 and reduces to £30.0m on 31 January 2004, the facility expires on 31 January 2005. The money market and overdraft facilities are subject to annual renewal.

15 Provisions for liabilities and charges

	Dilapidations £m	Other £m	Total £m
At 1 April 2001	–	1.0	1.0
Increase/(decrease) in provisions	1.4	(1.0)	0.4
At 31 March 2002	1.4	–	1.4

The directors anticipate the provision for dilapidations to be utilised over the next seven years.

16 Escrow account

The first Section 5 Licence provided for Camelot to make a payment to an escrow account based on a percentage of 2.5% applied to previous financial years' sales levels for annual sales up to £5,685m, less £40m. Where sales exceeded £5,685m, the payment was limited to £97.1m. The balance held in this account was for the benefit of The National Lottery Distribution Fund. During the first Section 5 Licence sales did not exceed £5,685m in any financial year and hence no further payment was due.

As stated in the accounting policies note, amounts payable to the escrow account were allocated to the profit and loss account over the period of the first Section 5 Licence, commencing from the first day of ticket sales. The first Section 5 Licence terminated on 30 September 2001, and £7.1m was charged to the profit and loss account in the current financial year (2001: £14.2m). The first payment to the escrow account of £90.4m was made on 12 April 1996 and a second payment of £6.7m was made on 14 April 1998.

17 Share capital

	£m
Authorised	
At 1 April 2001	
100,000,000 ordinary shares of £1 each, divided into	
'A' shares 29,062,500	29.1
'B' shares 70,937,500	70.9
At 31 March 2002	100.0
Allotted, called up and fully paid	
At 1 April 2001	
38,750,000 ordinary shares in issue of £1 each, divided into	
'A' shares 29,062,500	29.1
'B' shares 9,687,500	9.7
At 31 March 2002	38.8

Analysis of shareholding at 31 March 2002

	Number of 'A' shares	Number of 'B' shares	Percentage Holding
Cadbury Schweppes plc	7,750,000	–	20
De La Rue Holdings plc	7,750,000	–	20
Fujitsu Services Limited (formerly International Computers Limited)	5,812,500	1,937,500	20
Consignia Enterprises Limited	–	7,750,000	20
Thales Electronics plc	7,750,000	–	20
	29,062,500	9,687,500	100

Notes to the financial statements

For the year ended 31 March 2002
Continued

17 Share capital (continued)

Rights and Obligations

As regards income:

a) The holders of the 'A' shares shall be entitled as a class to the relevant profit for the first licence period and the period of the interim licence, (defined as:

i) the Company's profits available for distribution calculated in respect of all periods ending on or before 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).

b) and, subject to the above, income shall belong to and be distributed amongst the holders of all the 'A' and 'B' Ordinary Shares (pari passu as if the same constituted one class of share).

As regards 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) first 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) second, 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 (pari passu as if the same constituted one class of share).

As regards 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).

As regards 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.

18 Reserves

	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 April 2001	11.2	57.5	68.7
Retained loss for the year	—	(57.5)	(57.5)
At 31 March 2002	11.2	—	11.2

19 Reconciliation of movements in equity shareholders' funds

	2002 £m	2001 £m
Profit for the year	41.3	33.7
Dividends	(98.8)	(70.0)
Movement in equity shareholders' funds	(57.5)	(36.3)
Balance at 1 April	107.5	143.8
Balance at 31 March	50.0	107.5

20 Financial commitments

Capital expenditure contracted for in the year but not yet incurred amounts to £14.7m (2001: £70.1m) and is all expected to be incurred within one year.

21 Contingent liabilities

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

22 Operating leases

	2002 Land and buildings	2002 Plant and equipment	2001 Land and buildings	2001 Plant and equipment
Payments to be made in the following year relating to annual operating lease commitments expiring:				
Within one year	0.1	—	1.8	0.6
Between two and five years	1.9	—	0.2	—
Greater than five years	0.7	—	—	—

23 Pension arrangements

The Company operates a defined contribution 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 profit and loss account as they fall due. The total amount charged in respect of pensions to the profit and loss account in 2002 was £1.2m (2001: £3.2m).

24 Contingent loan notes

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.

Notes to the financial statements

For the year ended 31 March 2002
Continued

25 Related party transactions

Camelot has a number of contracts with its shareholders, their parent and/or their subsidiary companies. The main services provided during the year were:

Fujitsu Services Limited (formerly International Computers Limited)	Terminal maintenance Retailer training Installation of Isys terminals Storage of old (Spiiffany) terminals
Consignia Enterprises Limited	National Lottery retailer Distribution of instant tickets and consumables
Cadbury Schweppes plc	Retailer promotions

The amounts included in the financial statements for the financial year ended 31 March 2002 (and 31 March 2001) excluding VAT are given below:

	Year ended 31 March 2002		Year ended 31 March 2001	
	Purchases of revenue items and stock	Amount due to related party	Purchases of revenue items and stock	Amount due to related party
Fujitsu Services Limited (formerly International Computers Limited)	10.6	(0.4)	7.5	(0.1)
Cadbury Schweppes plc	0.1	—	0.1	—
Consignia Enterprises Limited	6.1	(0.9)	5.7	(0.6)

Consignia Enterprises Limited in its capacity as the largest National Lottery retailer also earned sales and prize commissions of £42.0m (2001: £41.4m).

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

	2002 £m	2001 £m
Cadbury Schweppes plc	5.1	8.2
De La Rue Holdings plc	1.6	4.6
Fujitsu Services Limited (formerly International Computers Limited)	4.1	6.2
Thales Electronics plc	3.8	1.5
	14.6	20.5

26 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 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 have not been consolidated.

Performance standards

Matter	Standard	Achievement in 2001/02 (period ended 31 March 2002) (%)	Related volumes where appropriate
Payments to Secretary of State			
Payments to Secretary of State	100% on time	100	129
Computer systems			
Terminals available to sell tickets	99.50% availability	99.98	
Terminals available to validate tickets	99% availability	99.82	
Retailer matters			
Initial response to retailer selection request	95% in 10 working days	100	1,979
Response to retailer correspondence	95% in 10 working days	100	1,539
Player Service			
Response to correspondence to National Lottery Line (NLL)	95% in five working days	99.66	13,093
General complaints by players	90% resolved in 10 working days	99.53	3,590
Access to NLL Voice Response System (VRS) on draw nights:			
Wednesday 8pm – 11pm	90% will get through to VRS	100	327,399
Saturday 8pm – 11pm	85% will get through to VRS	99.94	385,120
Access to NLL VRS at all other times	97% will get through to VRS	99.99	2,516,048
Access to NLL representative on draw nights:			
Wednesday 8pm – 11pm	90% will be answered in five seconds	92.97	16,544
Saturday 8pm – 11pm	80% will be answered in five seconds	79.30	21,852
Access to NLL representative at all other times	90% will be answered in five seconds	91.51	198,713
Failure to Opt (FTO)	Less than 8% of callers will fail to OPT	5.91	190,926
Prize payment			
Normal claims:			
Prize claims made in person	90% in one hour	97.37	2,740
Prize claims made by post	90% in five working days	99.65	20,262
Claims requiring investigation			
National Lottery on-line games:			
Cancelled tickets	90% in 20 working days	95.92	49
Missing Exchange	90% in 20 working days	87.18	312
Damaged tickets	90% in 20 working days	97.39	153
Previously validated	90% in 20 working days	95.73	1,382
National Lottery Instant:			
Damaged tickets	90% in 20 working days	97.91	478
Stolen tickets/packs	90% in 20 working days	98.05	6,210
Previously validated tickets	90% in 20 working days	98.05	564
Any other claims investigations	90% in 20 working days	93.60	7,094

The National Lottery distribution bodies

Good Causes information line
0845 275 0000

Good Causes website
www.lotterygoodcauses.org.uk

Arts
The Arts Council of England
14 Great Peter Street
London
SW1P 3NQ
020 7333 0100

The Scottish Arts Council
12 Manor Place
Edinburgh
EH3 7DD
0131 226 6051

**The Arts Council of
Northern Ireland**
MacNeice House
77 Malone Road
Belfast
BT9 6AQ
028 9038 5200

The Arts Council of Wales
9 Museum Place
Cardiff
CF10 3NX
029 2037 6500

Film Council
10 Little Portland Street
London
W1W 7JG
020 7861 7861

Scottish Screen
249 West George Street
Glasgow
G2 4QE
0141 302 1700

Charities
The Community Fund
St Vincent House
16 Suffolk Street
London
SW1Y 4NL
020 7747 5300

Heritage
Heritage Lottery Fund
7 Holbein Place
London
SW1W 8NR
020 7591 6000

Millennium
The Millennium Commission
Portland House
Stag Place
London
SW1E 5EZ
020 7880 2001

New opportunities
New Opportunities Fund
1 Plough Place
London
EC4A 1DE
020 7211 1800

Sports
UK Sport
40 Bernard Street
London
WC1N 1ST
020 7841 9500

Sport England
16 Upper Woburn Place
London
WC1H 0QP
020 7273 1500

sportscotland
Caledonia House
No 1 Redheughs Rigg
South Gyle
Edinburgh
EH12 9DQ
0131 317 7200

**The Sports Council for
Northern Ireland**
House of Sport
2a Upper Malone Road
Belfast
BT9 5LA
028 9038 1222

The Sports Council of Wales
Sophia Gardens
Cardiff
South Glamorgan
CF11 9SW
029 2030 0500

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

**National Lottery Line
& telesales**

Units 2A & 2B
Olympic Way
Sefton Business Park
Aintree
Liverpool
L30 1RD
0151 478 5000

Regional centres**Belfast**

Lombard House
10-20 Lombard Street
Belfast
BT1 1RD
028 9023 9063

Birmingham

2 Friars Gate
1011 Stratford Road
Shirley
Solihull
West Midlands
B90 4EB
0121 744 0648

Cardiff

Willow Court
The Orchards
Ty-glas Avenue
Llanishen
Cardiff
CF14 5DZ
029 2068 9625

Exeter

Estuary House
Peninsula Park
Rydon Lane
Exeter
Devon
EX2 7XB
01392 445615

Glasgow

Locard House
Linnnet Way
Strathclyde Business Park
Bellshill
North Lanarkshire
ML4 3RA
01698 845666

Leeds

Unit 8
Centre 27 Business Park
Birstall
Batley
WF17 9TB
01924 423031

Liverpool

Suite 415
4th Floor Royal Liver Buildings
Pier Head
Liverpool
L3 1JH
0151 236 1796

London

20 Cockspur Street
London
SW1Y 5BL
020 7839 6051

Reigate

Ground Floor
Bancroft Place
10 Bancroft Road
Reigate
Surrey
RH2 7RP
01737 246596

Sunderland

Teleport House
4 Grayling Court
Doxford International
Business Park
Sunderland
Tyne & Wear
SR3 3XD
0191 520 2538

Retailer enquiries

Retailer Hotline
0800 0649 649

Telesales

**(Retailer Instant
Ordering Line)**
0845 9666 768

Player enquiries

National Lottery Line
0845 910 0000
0845 910 0045 Minicom facility

National Lottery Subscriptions

0845 125 0000

Under 16s Sales Prevention

Hotline 0870 160 0016

Social Report feedback**Clare Griffin**

Social Responsibility Manager
Camelot Group plc
Tolpits Lane
Watford
WD18 9RN
01923 425000

Other addresses**The Camelot Foundation**

11-13 Lower Grosvenor Place
London
SW1W 0EX
020 7828 6085
www.camelotfoundation.org.uk

National Lottery Commission

101 Wigmore Street
London
W1U 1QU
020 7016 3401
www.natlotcomm.gov.uk

**Department for Culture,
Media & Sport**

The National Lottery Division
2/4 Cockspur Street
London
SW1Y 5DH
020 7211 6535
www.culture.gov.uk

Registered office:

Tolpits Lane
Watford
WD18 9RN

**Registered in England
and Wales**

No 2822203

Auditors

PricewaterhouseCoopers

Bankers

The Royal Bank of Scotland

Financial advisors

SBC Warburg
A division of
Swiss Bank Corporation

Camelot Group plc
Magdalen House
Tolpits Lane
Watford
WD18 9RN
www.camelotgroup.co.uk
www.national-lottery.co.uk



£11.3 billion raised for Good Causes

**1,322
millionaires
created**

**107,500 individual
grants received
lottery funding**

**£17.6 billion
paid in prizes**

**£4.5 billion paid
in lottery duty
to government**

The Millennium Stadium, Cardiff
A grant of £45 million from the Millennium Commission allowed the building of a new 75,000 seater stadium at Cardiff Arms Park, with a retractable roof and all-year weather capacity.



Grand Theatre, Blackpool
£681,000 from the Arts Council of England has helped towards the extension and refurbishment of The Grand Theatre in Blackpool. The Grand, which opened in 1894, hosts a variety of plays and programmes to attract young people.







So what's new?

Capital investment
of £73 million

25,000 replacement
terminals installed

£72 million to be
invested in marketing
in 2002/3

Billy Connolly in the
Don't Live a Little, Live a Lotto
television advertising

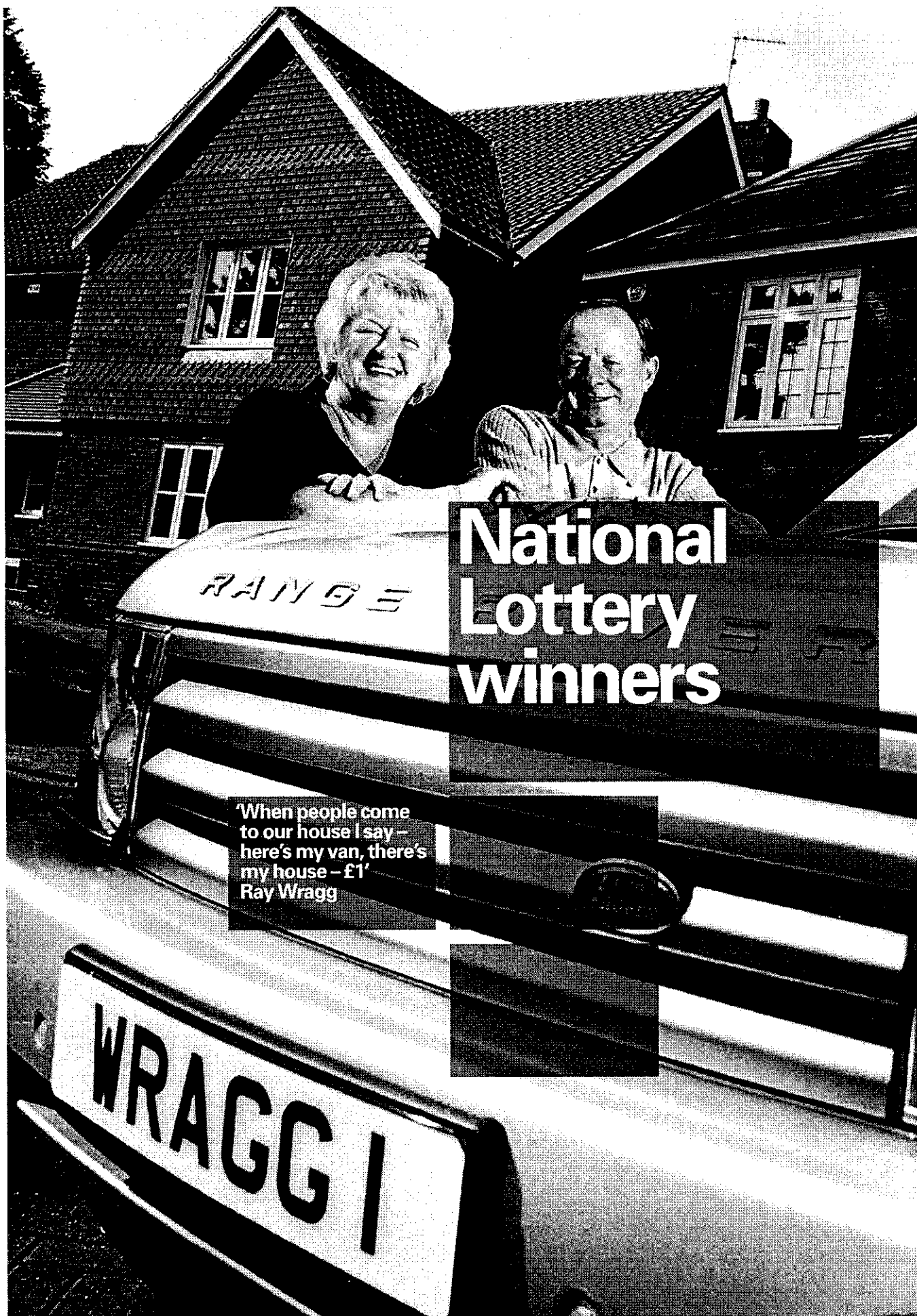


The Good Causes

£1.3 billion to Good Causes this year

89% of grants made this year were for less than £100,000

£3.2 million campaign to raise awareness of lottery funding



National Lottery winners

'When people come
to our house I say –
here's my van, there's
my house – £1'
Ray Wragg

WRAGGI

