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GTECH UK LIMITED

Report and Financial Statements

31 December 2007

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COMPANIES HOUSE

GTECH UK LIMITED

Registered No 2796326

Directors

J Patel
D Sweitzer
D Harkin

Secretary

Clifford Chance Secretaries Limited

Auditors

Ernst & Young LLP
400 Capability Green
Luton
Beds
LU1 3LU

Registered office

Link House
19 Radlett Road
Watford
Hertfordshire
WD24 4JL

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends

The profit for the period, after taxation, amounted to £405,456 (period to 31 December 2006 £371,458)
Ordinary dividends of £300,000 (period to 31 December 2006 £400,000) were paid during the year

The directors do not recommend the payment of a final dividend

Principal activities and review of the business

The principal activity is the provision of lottery support services and the supply of lottery equipment
There was no change in the nature of the company's operations during the period

The company's key financial and other performance indicators during the year were as follows

	<i>Period from 1 Jan 07 to 31 Dec 07</i>	<i>Period from 26 Feb 06 to 31 Dec 06</i>	<i>Change %</i>
Turnover	6,376,654	4,265,717	50%
Shareholders funds	777,836	636,872	22%
Current Assets as % of Current Liabilities	134%	132%	
Average Number of employees	33	34	-3%

Group turnover increased by 50%, this is primarily due to the change in year end to 31 December, and previous year being a shortened period. There has also been increased activity in the business due to award of the Third Lottery Operating Licence

Shareholders funds increased by 22%, due to increased profit from higher project support activities

Average number of employees decreased by 3%, this is considered normal. There is an anticipated employee increase of 36% in 2008, due to support levels to Camelot increasing in relation to the new licence, which begins in February 2009

Principal risks and uncertainties

In August 2007 the National Lottery Commission has awarded the Third Lottery Operating Licence to Camelot plc. The new licence begins in February 2009 and is valid for ten years.
GTECH UK Ltd provides support services to Camelot on behalf of GTECH Corporation and GTECH UK Ltd is reliant upon this agreement

Directors

The directors who served the company during the period were as follows

J Patel
D Sweitzer

D Harkin was appointed as a director on 28 May 2008

There are no directors' interests requiring disclosure under the Companies Act 1985

Donations

During the period, the company made charitable donations totalling £677 (period to 31 December 2006 £5,488)

Directors' report

Disclosure Information to the Auditors

Each of the directors confirms that

- To the best of their knowledge, there is no information relevant to the preparation of their report of which the Company's auditors are not aware,
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the board



Clifford Chance Secretaries Limited
Secretary

21 OCTOBER

2008

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of GTECH UK LIMITED

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of GTECH UK LIMITED

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP, Registered auditor, Luton

22 October 2008

Ernst & Young LLP

Profit and loss account

for the period from 1 January 2007 to 31 December 2007

		<i>Period from 1 Jan 07 to 31 Dec 07</i>	<i>Period from 26 Feb 06 to 31 Dec 06</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
Turnover	2	6,376,654	4,265,717
Administrative expenses		5,894,758	3,961,678
Other operating income	3	114,450	87,427
Operating profit	4	<u>596,346</u>	<u>391,466</u>
Interest receivable	6	28,112	11,855
Profit on ordinary activities before taxation		<u>624,458</u>	<u>403,321</u>
Tax on profit on ordinary activities	7	219,002	31,863
Profit on ordinary activities after taxation		<u>405,456</u>	<u>371,458</u>

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £405,456 attributable to the shareholders for the year ended 31 December 2007 (period to 31 December 2006 - profit of £371,458)

Balance sheet

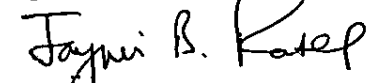
at 31 December 2007

	Notes	31 Dec 07 £	31 Dec 06 £
Fixed assets			
Tangible assets	9	81,282	62,699
Current assets			
Debtors	10	3,819,316	3,419,092
Cash at bank		420	94,582
		3,819,736	3,513,674
Current Liabilities			
Creditors amounts falling due within one year	11	2,853,786	2,661,708
Net current assets		965,950	851,966
Total assets less current liabilities		1,047,232	914,665
Provisions for liabilities	12	269,398	277,793
		777,834	636,872
Capital and reserves			
Called up share capital	15	200,000	200,000
Other reserves	16	27,166	27,166
Profit and loss account	16	550,668	409,706
Equity shareholders' funds	16	777,834	636,872

These financial statements were approved and authorised for issue by the board of directors on

21 OCTOBER 2008

Signed on behalf of the board of directors by


J Patel
Director

Notes to the financial statements

at 31 December 2007

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards

During the previous period the accounting reference date of the company was changed from 28 February to 31 December. The financial statements for the periods ended 31 December 2007 and 31 December 2006 cover 52 and 44 weeks respectively.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Leasehold property	- over 5 years
Plant & machinery	- over 5 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

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

All differences are taken to the profit and loss account.

Notes to the financial statements

at 31 December 2007

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

Share based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions)

No expense is recognised for awards that do not ultimately vest, except those awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions. Number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

The Group has taken advantage of the transitional provisions of FRS20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006

For awards granted before 7 November 2002, the group recognises only the intrinsic value or cost of these potential awards as an expense. This is accrued over the performance period of each plan based on the intrinsic value of the equity settled awards

Notes to the financial statements

at 31 December 2007

2. Turnover

Turnover, which is stated net of value added tax, represents the amount invoiced for the supply of lottery support services and equipment, and all arose in the United Kingdom

3. Other operating income

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
Rent receivable	<u>114,450</u>	<u>87,427</u>

4. Operating profit

This is stated after charging/(crediting)

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
Auditors' remuneration - audit services	<u>19,000</u>	<u>17,100</u>
Depreciation of owned fixed assets	<u>22,945</u>	<u>94,263</u>
Operating lease rentals - land and buildings	<u>372,330</u>	<u>318,170</u>
- plant and machinery	<u>37,381</u>	<u>12,306</u>

Notes to the financial statements

at 31 December 2007

5. Staff costs

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
Wages and salaries	2,279,565	2,061,699
Social security costs	303,660	295,303
Other pension costs	148,572	128,446
Share Options (note 17)	35,506	30,719
	<u>2,767,303</u>	<u>2,516,167</u>

During the year the Company continued to implement FRS20 "Share Based Payments" The share based payments charge above is the FRS20 charge for options granted in 2006

The monthly average number of employees during the period was as follows

	<i>Period from 1 Jan 07 to 31 Dec 07 No</i>	<i>Period from 26 Feb 06 to 31 Dec 06 No</i>
Sales and Administration staff	<u>33</u>	<u>34</u>

None of the Directors received any remuneration for their services as directors to the company during the year (2006 £nil)

6. Interest receivable

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
Interest Receivable	<u>28,112</u>	<u>11,855</u>

Notes to the financial statements

at 31 December 2007

7. Tax

- (a) Tax on profit on ordinary activities
The tax charge is made up as follows

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
<i>Current tax</i>		
UK corporation tax	170,765	(74,438)
Tax over provided in previous periods	(1,092)	(23,494)
Total current tax (note 7(b))	<u>169,673</u>	<u>(97,932)</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	47,014	129,795
Adjustment in respect of previous periods	2,315	-
Tax on profit on ordinary activities	<u>219,002</u>	<u>31,863</u>

- (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period is lower than the standard rate of corporation tax in the UK of 30% (2006 – 30%) The differences are reconciled below

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
Profit on ordinary activities before taxation	<u>624,458</u>	<u>403,321</u>
Profit on ordinary activities by rate of tax	187,337	120,996
Adjustments in relation to previous periods	(1,092)	(23,494)
Expenses not deductible for tax purposes	11,097	7,546
Share Options exercised	10,652	(73,185)
Capital allowances for year in advance of depreciation	(38,321)	(129,795)
Total current tax (note 7(a))	<u>169,673</u>	<u>(97,932)</u>

- (c) Deferred tax

	<i>31 Dec 07 £</i>	<i>31 Dec 06 £</i>
Capital allowances in advance of depreciation	103,813	148,955
Other timing differences	3,763	7,950
Provision for deferred taxation	<u>107,576</u>	<u>156,905</u>

Notes to the financial statements

at 31 December 2007

7. Tax (continued)

	£
At 1 Jan 2007 @ 30%	156,905
Profit and loss account movement arising during the period	(49,329)
At 31 Dec 2007 @ 28%	<u>107,576</u>

8. Dividends

	<i>Period from 1 Jan 07 to 31 Dec 07 £</i>	<i>Period from 26 Feb 06 to 31 Dec 06 £</i>
Equity dividends on ordinary shares		
Interim paid	<u>300,000</u>	<u>400,000</u>

9. Tangible fixed assets

	<i>Leasehold Property £</i>	<i>Plant & Machinery £</i>	<i>Total £</i>
Cost			
At 31 December 2006	516,961	1,273,642	1,790,603
Additions	18,282	24,943	43,225
At 31 December 2007	<u>535,243</u>	<u>1,298,585</u>	<u>1,833,828</u>
Depreciation			
At 31 December 2006	507,777	1,220,128	1,727,905
Provided during the period	2,933	21,708	24,641
At 31 December 2007	<u>510,710</u>	<u>1,241,836</u>	<u>1,752,546</u>
Net book value			
At 31 December 2007	<u>24,533</u>	<u>56,749</u>	<u>81,282</u>
At 31 December 2006	<u>9,184</u>	<u>53,514</u>	<u>62,699</u>

10. Debtors

	<i>31 Dec 07 £</i>	<i>31 Dec 06 £</i>
Amounts owed by group undertakings	3,298,799	2,801,534
Corporation tax repayable	19,410	206,390
Other debtors	333,383	207,927
Prepayments and accrued income	60,148	46,336
Deferred taxation (note 7)	107,576	156,905
	<u>3,819,316</u>	<u>3,419,092</u>

Notes to the financial statements

at 31 December 2007

11. Creditors: amounts falling due within one year

	31 Dec 07 £	31 Dec 06 £
Bank overdraft	13,229	-
Trade creditors	170,626	55,225
Amounts owed to group undertakings	2,130,818	2,147,340
Other taxation and social security	202,241	207,053
Accruals and deferred income	336,872	252,090
	<u>2,853,786</u>	<u>2,661,708</u>

12. Provisions for liabilities

	Other provisions £
At 31 December 2006	277,793
Utilised	8,395
At 31 December 2007	<u>269,398</u>

The company has an onerous lease provision for the property costs of their current premises to the end of the lease in 2011. These costs are stated net of any income that is expected to be received from subletting the unused portion.

13. Commitments under operating leases

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below

	31 Dec 07		31 Dec 06	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire				
Within one year	54,160	34,146	-	7,350
In two to five years	318,170	3,235	318,170	4,956
	<u>372,330</u>	<u>37,381</u>	<u>318,170</u>	<u>12,306</u>

14. Related party transactions

The company has taken advantage of the exemption in FRS8 and not disclosed transactions with group undertakings

Notes to the financial statements

at 31 December 2007

15. Share capital

	31 Dec 07	Authorised 31 Dec 06
	£	£
Ordinary shares of £1 each	15,000,000	15,000,000

	No	31 Dec 07 £	Allotted, called up and fully paid 31 Dec 06 No	£
Ordinary shares of £1 each	200,000	200,000	200,000	200,000

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Capital redemption reserve £	Profit and loss account £	Total share- holders' funds £
At 25 February 2006	200,000	27,166	407,529	634,695
Profit for the period	-	-	371,458	371,458
Share based payments	-	-	30,719	30,719
Dividends	-	-	(400,000)	(400,000)
At 31 December 2006	200,000	27,166	409,706	636,872
Profit for the period	-	-	405,456	405,456
Share based payments	-	-	35,506	35,506
Dividends	-	-	(300,000)	(300,000)
At 31 December 2007	200,000	27,166	550,668	777,834

17. Share based payments

Employees of GTECH UK Ltd, are eligible for the Group share based payment plans. The group has three types of equity settled share based payment plans for employees

Stock Option Plans

Stock Options are granted to certain directors, executives and other key employees of the group as approved by the group Board of Directors. The exercise price of the options is generally equal to the average prices of the Group's ordinary shares 30 days prior to the grant date. The options vest subject to the satisfaction of performance conditions relating to the Groups EBITDA over a three year period, and to the employees remaining in service to the Group. If performance conditions are not met, the options are forfeited. The contractual life of the options range from two to eight years (depending on the plan) and there are no cash settlement alternatives.

Restricted Stock Plans

Performance based awards

The group has a performance based share award plan, whereby restricted stock is granted to certain employees of the Group as approved by the Group Board of Directors. Recipients of performance based share awards do not pay the Group any cash consideration for the awards. The awards vest subject to the satisfaction of performance conditions relating to the Groups EBITDA over a three year period and to employees remaining in service to the Group. If the performance conditions are not met, the awards are

Notes to the financial statements

at 31 December 2007

cancelled. The contractual life of the award is three years and they may be settled in cash at the Groups option. The Group does not have a past practice of cash settlement and does not plan to cash settle awards in the future.

Time based awards

The Group has a time based share award plan, whereby restricted stock is granted to certain employees of the Group as approved by the Group Board of Directors. Recipients of time based share awards do not pay the Group any cash consideration for the awards. The awards vest over a five year period and are subject to the employees remaining in service to the group. The contractual life of the awards is five years and may they be settled in cash at the Groups option. The Group does not have a past practice of cash settlement and does not plan to cash settle awards in the future.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the period.

	31 Dec 07	31 Dec 07	31 Dec 06	31 Dec 06
	No	WAEP	No	WAEP
Shares outstanding at beginning of period	9,415	€24.01	10,318	£12.30
Granted during period	15,199	€30.40	9,415	€29.76
Exercised during period	-	-	-10,318	£12.30
Shares outstanding at end of period	24,614	€27.89	9,415	€24.01
Exercisable at end of period	0		0	

All options granted during the period were stock of Lottomatica shares.

The fair value of share options is calculated using a binomial option pricing model. The fair value of non qualified stock option granted to GTECH employees during the year to 31 December 2007 under the Lottomatica Plan was €6.01 per share (2006: €6.00 per share).

The table below lists the inputs to the binomial model used for both periods.

	31 Dec 07	31 Dec 06
Expected dividend yield (%)	2.66	2.60
Expected volatility (%)	20.63	20.64
Risk-free interest rate	4.01	4.00
Expected life of options (in years)	4.38	4.38
Weighted-average exercise price (\$)	€31.74	€30.53

18. Ultimate parent company

The ultimate parent undertaking and the parent undertaking of the smallest and largest groups for which consolidated financial statements are prepared and of which this company is a member is Lottomatica SpA, a company incorporated in Italy. Copies of the group accounts may be obtained from Lottomatica SpA, Viale del Campo Boario, Rome, Italy.